

PRIVATE ENTERPRISE IN AMERICAN EDUCATION



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SPECIAL REPORT 7

Focus on For-Profits in K-12 Education Misses the Real Divide

Alex Hernandez | November 2012

Foreword

For decades, for-profit educational provision has been merely tolerated, often grudgingly. In the world of charter schooling, for-profit providers are lambasted and sometimes prohibited. In higher education, for-profit institutions have grown rapidly, enrolling millions of nontraditional students and earning enmity, suspicion, and now investigative and regulatory actions from the federal government. When it comes to student lending, teacher quality, and school turnarounds, there is a profound preference for nonprofit or public alternatives. All of this is so familiar as to be unremarkable.

The problem is that K–12 and higher education are desperately in need of the innovative thinking and nimble adaptation that for-profits can provide in a landscape characterized by healthy markets and well-designed incentives. As critics have noted, for-profits do indeed have incentives to cut corners, aggressively pursue customers, and seek profits. But these traits are the flip side of valuable characteristics: the inclination to grow rapidly, readily tap capital and talent, maximize cost effectiveness, and accommodate customer needs. Alongside nonprofit and public providers, for-profits have a crucial role to play in meeting America’s 21st-century educational challenges cost-effectively and at scale.

However, we rarely address for-profit provision in this fashion. Most statutory and regulatory discussion focuses on how to rein in for-profit providers, largely ignoring what it would take to harness the potential of such providers while establishing the incentives and accountability measures to ensure a level, dynamic, and performance-oriented playing field.

AEI’s Private Enterprise in American Education series is designed to pivot away from the tendency to reflexively demonize or celebrate for-profits and instead understand what it takes for for-profits to promote quality and cost effectiveness at scale. In the seventh installment of the series, Alex Hernandez of the Charter School Growth Fund urges parents, educators, and policymakers to listen critically when arguments are levied against education companies merely on the basis of tax status. Hernandez instead reframes the debate as one between incumbent organizations such as teachers unions and school districts, and new entrants with the potential to disrupt the traditional structure of the American education system.

In an era of reform where performance is quickly eclipsing compliance as the metric used to measure student success, incumbent education providers will struggle to maintain their position of power for two reasons. First, America’s educational institutions were designed not to be nimble, but to instead entrench bureaucratic policies into the long-term structure. Second, the rise of technology in K–12 education allows new entrants to modify instruction to fit individual students’ needs. Parents and students whose public schools do not offer individualized attention may quickly turn to new providers for help.

While the K–12 education system’s current institutional structure “seems immutable,” writes Hernandez, “tectonic shifts driven by new technologies and a renewed focus on student performance will fray the bonds between incumbents, creating an opportunity for new providers—nonprofit and for-profit alike—to build a better public school system for America’s children.” I am confident that you will find Hernandez’s piece as eye-opening and informative as I have. For further information on the paper, Alex Hernandez can be reached at ahernandez@charterschoolgrowthfund.org. For other AEI working papers in this series, please visit www.aei.org/policy/education/private-enterprise/. For additional information on the activities of AEI’s education policy program, please visit www.aei.org/hess or contact Lauren Aronson at lauren.aronson@aei.org.

—FREDERICK M. HESS
 Director of Education Policy Studies
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Executive Summary

The for-profit, nonprofit divide is taking new prominence in American public schools as traditional K–12 institutions—besieged by dwindling budgets and greater pressure to improve student outcomes—face growing competition from new education providers such as Khan Academy, the Knowledge is Power Program (KIPP), and Teach For America. Efforts by these new providers to bring fresh ideas and approaches to public education are met with cries of “privatization,” ominous warnings about “corporate” reform, and accusations of insidious profit-making schemes. These attacks are leveled indiscriminately against both nonprofits and for-profits that pose a potential threat to K–12 incumbents—primarily school districts, teachers unions, schools of education, and education publishers. The fault line between for-profits and nonprofits serves as a distractor as incumbents fiercely protect their own interests.

The incumbent versus nonincumbent frame explains many of the logical inconsistencies that arise in the current debate. Teachers unions have not coordinated attacks against the \$19 billion K–12 publishing industry, even though publishers exert their “corporate” influence by courting state officials, hosting dinners for district employees, and sponsoring international trips for school leaders. This is the case because publishers have carved out a role as system insiders, and as such present no threat to existing institutional arrangements. Conversely, nonprofit charter management organizations are accused of privatizing education and placing public schools in the “hands of businessmen” when they provide students a public school option in addition to their assigned district school.

The Role of New Providers in Public Education.

Much of the controversy in K–12 is centered on whether one can support the idea of public education while simultaneously challenging the system of institutions that dominate the sector in its current form. The tangled web of institutional interests that currently controls K–12

public schooling has largely emerged over the last 40 years. And while supporters argue that the K–12 system is the one-best system for delivering public education, it is instead just the most recent system, a system in which incumbent interests are strongly protected through public policy. The quandary in K–12 is that existing institutions either control or disproportionately influence decisions to allow new entrants into the sector. In other critically important sectors like health care and higher education, new providers play a key role in delivering services and driving new innovations. But institutional resistance to new providers has made K–12 one of the least innovative sectors in the US economy, even though it receives \$596 billion per year in public funds.

Incumbents Fight Back. New providers are forced to negotiate with incumbent institutions to operate and scale, creating perverse situations where the most successful upstarts, regardless of their tax status, face the most aggressive resistance. This paper explores the opposition experienced by successful new providers, using examples from charter schools, teacher preparation programs, and education technology.

The Fraying of the Coalition. K–12’s current institutional structure seems immutable, but tectonic shifts driven by new technologies and a renewed focus on student performance will fray the bonds between incumbents, creating an opportunity for new providers—nonprofit and for-profit alike—to build a better public school system for America’s children.

The question is: do we trade up for a better system that replaces the factory model of schooling, a model that now seems to have run its course? Or do we merely swap one suboptimal system for another? The battle will be fierce, but, for the first time in years, there are glimmers of hope that we will see dramatic improvements in K–12 in our lifetimes.

Focus on For-Profits in K–12 Education Misses the Real Divide

Alex Hernandez

Introduction

Tensions between for-profit and nonprofit interests in public education often play out in America’s national discourse. For decades, cash-strapped school districts have flirted with selling advertising on sports fields, buses, and even lockers. This has raised concerns among parents and watchdog groups about advertising’s impact on children, leading to inevitable discussions about for-profit interests interfering in public schooling.¹ But the for-profit, nonprofit divide is taking new prominence as traditional K–12 institutions—besieged by dwindling budgets and greater pressure to improve student outcomes—face growing competition from a new set of education providers.

Cries of “privatization” and ominous warnings about “corporate” education reform are becoming reliable talking points for advocates of existing K–12 institutions. These labels are applied to both nonprofit and for-profit education providers across diverse areas ranging from charter schools to education technology to teacher education. The vast majority of these providers were founded in the last couple decades and created to solve specific problems in the public K–12 arena such as failing schools or inadequate teacher preparation. Prominent organizations like Teach For America (TFA), the Knowledge is Power Program (KIPP), and Edison Schools led the first wave of efforts to bring new ideas and approaches to K–12 education. These organizations were followed by new generations of education start-ups such as Relay Graduate School of Education, Rocketship Education, and Revolution Foods.

As the education reform debate reaches a fever pitch, battle lines are not being drawn between for-profits and nonprofits, but between incumbent institutions—primarily school districts, teachers unions, schools of education, and education publishers—and new education providers. Most incumbents have gone unchallenged for decades.

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Before public charter schools, school districts and teachers unions, which are governmental and nonprofit organizations, enjoyed complete monopolies in their markets. Education publishing is concentrated in the hands of a few large companies—notably all for-profit—and states reinforce the oligopoly by dictating what materials school districts can buy. Teacher education is the least concentrated market, but economic interests are strong—colleges and universities invest little in schools of education, while students generate significant tuition revenue.

The incumbent versus nonincumbent frame explains many of the logical inconsistencies that arise in the current debate. Teachers unions have not coordinated attacks against the \$19 billion K–12 publishing industry, even though publishers exert their “corporate” influence by courting state officials, hosting dinners for district employees, and sponsoring international trips for school leaders.² This is because publishers have carved out a role as system insiders, and as such present no threat to existing institutional arrangements.³ Conversely, nonprofit charter management organizations (CMOs) are accused of privatizing education and placing public schools in the “hands of businessmen” when they provide students another public-school option in addition to their assigned district school. Achievement First, a high-performing nonprofit CMO, experienced significant opposition from incumbent interests as it attempted to open schools in Rhode Island, for example. One vocal critic accused them of “[making] a great deal of money” in one breath while conceding that they “make no profit” in the next.⁴

While the current education reform debate is often framed as for-profit interests trying to corrupt a nonprofit, governmental system, the real battles wage between incumbent institutions and new entrants, regardless of tax status. This paper explores the tensions between the current set of K–12 incumbents, whose interests are strongly protected through laws and regulations, and new public education providers who are vying to provide better services to a growing share of students and educators. The tangled web of institutional interests that currently controls K–12 public schooling has largely

emerged over the last 40 years. And while supporters argue that the K–12 system is the one-best system for delivering public education, it is instead just the most recent system, a system that is fiercely fighting back incursions by upstart providers. K–12’s current institutional structure seems immutable, but tectonic shifts driven by new technologies and a renewed focus on student performance will fray the bonds between incumbents, creating an opportunity for new providers—nonprofit and for-profit alike—to build a better public-school system for America’s children.

Public Education versus the One-Best System

“[Privatization] strikes at the very heart of public education.”
—Diane Ravitch

“There has to be recognition of the difference between public education and the systems that deliver public education. They are not the same.”
—Howard Fuller

Much of the controversy in K–12 is centered on whether one can support the idea of public education while simultaneously challenging the institutions that dominate the sector in its current form. The right to a free, public education is a deeply held ideal shared by Americans across the political spectrum. Stakeholders who work in existing K–12 institutions argue that their institutions are synonymous with public education. To go against their interests and institutions, they assert, is to attack a core ideal in our democracy. They employ this logic in a variety of ways:

- School districts serve all the students in public education, so we should work to improve public education from within the system, rather than seek other solutions.
- Charter schools are harming public education by taking the school districts’ students.
- Criticizing teachers unions is an attack on all public school teachers.
- Teacher education is in need of an overhaul, but we should not give up on schools of education.

Most Americans would likely agree with one or more of these statements. Such attitudes extend the benefit of the doubt to incumbent institutions and create a sense of inevitability about the continued existence of the current system, even though it emerged relatively recently.

But public attitudes toward K–12 are more complex than the political discourse might suggest. Americans strongly prefer choice in the public school system even though most school districts were not designed with choice in mind. In the *2011 Phi Delta Kappa/Gallup Poll* on public schools, respondents overwhelmingly favored letting families choose which public schools to attend, regardless of where they lived.⁵ However, only 44 percent supported the idea of publicly funded private-school vouchers.⁶

School vouchers earn relatively weak public support, as they raise strong concerns over the role of private and parochial schools in public K–12. But these attitudes lie in stark contrast to public views on higher education where the federal government contributes \$140 billion a year to institutions of all types to increase access.⁷ No one opposes using public funds to pay for tuition at private institutions like Stanford University or Harvard University, even though federal grants are essentially private-school vouchers. Only two of the top twenty-five national universities are public institutions, but one would be hard-pressed to find concerns that private, postsecondary institutions are destroying state-run universities.⁸

Similarly, publicly funded Medicare payments can be used with a variety of health care providers, both public and private, nonprofit and for-profit. Medicare suffers from the opposite problem of K–12 education in that fewer people are aware of the public’s role in providing basic access to health care. This led to a comically tragic circumstance in 2009 when an angry voter told his congressman, “Keep your government hands off my Medicare!”⁹

Perhaps the closest analog lies in early childhood education. The federal government invests \$7 billion a year in Head Start, an initiative that provides early childhood education and other related services to low-income families across the country.¹⁰ There is a preponderance of evidence that quality prekindergarten preparation positively impacts future academic achievement. Even in this important realm, the federal government contracts with nonprofit and for-profit organizations alike to deliver Head Start services. Because families get to choose their Head Start provider, these government subsidies effectively serve as vouchers.

Societies offer critical services like education and

health care using a variety of provider structures, and there is plenty of room for new providers to make important contributions. But we are creatures of habit. The public is comfortable with nonincumbents providing education so long as it occurs before kindergarten or after high-school graduation.

Public opinion tends to follow institutional interests. Existing institutions smartly resort to populist attacks against “corporate,” “for-profit” interests in education, because they believe such attacks garner public sympathy. Nevermind the fact that nonprofits are just as frequently accused of insidious “corporate reform” agendas as for-profits. However, public frustration with existing institutions can build support for new providers. Upstart K–12 providers can bring energy and ideas to seemingly intractable problems, opening up new avenues for innovation and attracting more talent into the sector.

The Role of New Providers

Institutional resistance to new providers has resulted in public K–12 education becoming one of the least innovative sectors in the US economy, even though it receives \$596 billion a year in public funds.¹¹ Since 1970, K–12 funding has more than doubled in real dollars while the number of students per school-based staff has declined by over 40 percent.¹² But the scores of 17-year-olds on the National Assessment for Educational Progress (NAEP) are flat, meaning that productivity actually declined during the last 40 years for students exiting the system.¹³

In other sectors, new providers play a key role in improving product and service quality. The retail industry has seen multiple waves of innovation in recent years brought about by new organizations. Spanish clothing retailer Zara figured out how to launch new fashions every two to three weeks instead of the customary schedule of twice a year. Zara uses this approach to get new fashions out to customers more quickly and, at the same time, minimize excess inventory. Apple, which previously lacked a retail presence, got into the retail innovation game with the Apple Store. Apple Stores focus on customer service and product presentation to drive some of the highest sales per square foot in the industry. Online retailers like Amazon and Zappos redefined the retail experience by eliminating physical shopping locations altogether.

Even highly regulated industries such as air travel have seen new providers positively impact the market by challenging powerful incumbents. In 2011, the much-

maligned airline industry had its best customer service ratings in decades, the fourth straight year of gains.¹⁴ The new set of low-cost carriers handily beat incumbents when it came to on-time departures, customer complaints, and mishandled bags.

The quandary in K–12 is that existing institutions either control or disproportionately influence decisions to allow new entrants into the sector. The challenge is how to create the space for new providers as entrenched institutions hunker down for a long and bitter fight.

The Hardening of Public Education

The tangled web of institutional interests that currently controls public education has largely emerged since 1970. What many people call the “one-best system” is instead just “the most recent system,” albeit a system where incumbent interests are strongly protected through laws and regulations.

Districts currently serve 97 percent of all public school students. Between 1930 and 1970, a mass consolidation of districts occurred, reducing the number of school systems from over 130,000 to 16,000.¹⁵ Today, just 900 districts enroll 53 percent of all students, including many of the low-income students living in large urban areas across the country. Because of the consolidation, efforts to improve academic outcomes for some of America’s most underserved students occur within the context of large, monolithic districts. Harvard Sociologist Charles Payne studied one such district, Chicago Public Schools, in his book *So Much Reform, So Little Change: The Persistence of Failure in Urban Schools* (Harvard Education Press, 2008), carefully documenting the “unstable,” “dysfunctional,” and sometimes “corrupt” nature of large district bureaucracies.

Teachers unions came to power in the 1960s after the school district consolidation was well underway. In 1959, Wisconsin passed the first legislation allowing government workers to bargain collectively and, in the next decade, nearly every state outside of the American South followed suit. Pay and working conditions for the predominantly female teacher force lagged terribly for years, and the teachers unions used their newfound powers to advocate on a wide array of issues, ranging from compensation to school staffing rules. By 1980, the unions succeeded in negotiating contracts with nearly all the eligible districts and became one of the most powerful forces in public education. Although teachers unions are often criticized for contract provisions that can be at odds with

student interests, it is easy to forget that districts bargained many of these powers away (for example, control over staffing) in lieu of raises or other compensation.

Schools of education acquired significant power as states adopted teacher and administrator certification laws. Their influence grew as they trained and placed most of the leaders in the K–12 sector, such as district superintendents and state education officials. Their relationships with districts and unions were cemented through pay scales that increased compensation for educators solely based on years of experience and credits earned in schools of education. Many states offer pay bumps for master’s degrees and doctorates even though research demonstrates that educators holding advanced degrees are no more effective than their peers whose highest attainment is a four-year degree.¹⁶

The powers of school districts, teachers unions, and higher education were all “hardened” through legislation, during a time when states were expanding their control over public schools. States assumed a larger role in areas such as educator certification, curriculum, and district oversight. They also created new funding streams called “categoricals,” which were offered in addition to base state funding and narrowly targeted toward specific legislative interests such as teacher professional development or discrete educational programs like International Baccalaureate.

Incumbent interests were written into legislation, making policy a key strategy for acquiring power. For example, states like California compel district teachers to pay union dues, which are automatically deducted from paychecks, regardless of whether the teachers want to join their local union affiliate. The unions, in turn, take the funds from mandatory pay deductions to lobby states and districts for additional concessions, a vicious cycle in which public funds are used by unions to gain control of more public funds.

The incumbents’ “power-through-policy” approach is plainly observed in the K–12 textbook industry. Roughly half the US states have textbook adoption processes that result in lists of approved textbooks for districts to purchase. Because of their size and influence, three states—California, Texas, and Florida—have historically set the textbook standards for the rest of the country. The vast majority of the state-adopted textbooks come from three large publishers who enjoy a market share of over 80 percent. These companies have developed sophisticated sales and lobbying operations as they attempt to thrive in the world of government procurement. Textbook critics believe the quality of educational materials is diminished by publishers trying to please state

bureaucracies during the highly politicized adoption process, especially with billions of dollars of future sales at stake.¹⁷

The “one-best system” was created 40 years ago as districts, unions, schools of education, and textbook publishers wound their interests together and hardened their positions through public policy. Many of the troubles in public K–12 stem from problems with the current industry structure, but attempts to improve the current system are fiercely resisted by powerful incumbents. It is easy to frame this resistance as a moral stand against selfish for-profit interests, when, in many instances, incumbents are more concerned with trying to protect dominant market positions from new providers.

Incumbents Take on the New Providers

New providers are forced to negotiate with incumbent institutions to operate and scale, creating perverse situations where the most successful upstarts, regardless of their tax status, face the most aggressive resistance.

The New Math. Support of the \$19 billion-a-year for-profit publishing industry exposes incumbents’ selective moral outrage about tax status. One finds similar selectivity—albeit in the opposite direction—when examining incumbent opinions about the emerging online content industry. Mathematics instruction has provided fertile ground for online content providers to create rich, personalized experiences that enhance student learning. Three vendors—Dreambox Learning, ST Math, and Khan Academy—have all significantly increased their presence in K–12 and developed strong reputations.¹⁸

They also have dramatically different business models. Dreambox Learning is a for-profit company that sells to schools who are attracted to its adaptive learning model, in which each student travels a different path based on his or her individual needs. ST Math is a nonprofit that charges schools for its software in a similar manner to Dreambox, and requests that philanthropists help cover the costs of training and site licenses. Khan Academy is also a nonprofit, but chooses to offer its products for free.

None of these products are unimpeachable from a quality standpoint. The education technology market is still in a nascent phase, but these providers appear to be best in class of this generation of solutions. Ironically, Khan Academy—the only alternative that is both free and a nonprofit—receives the most criticism of the three.

Incumbents frequently cite the Bill & Melinda Gates Foundation's support of Khan Academy as a primary reason to disparage this nonprofit, because the Gates Foundation has supported a reform agenda of teacher effectiveness and accountability that is opposed by teachers unions. Khan's high media profile also explains much of the backlash, as K–12 is an industry that tends to cut “tall poppies” down to size. For better or worse, Khan is currently the poster child for education technology and its potential to disrupt K–12.

True to Clay Christensen's disruption theory, these providers began at the margins of the K–12 sector, building their positions without going head to head with incumbent content providers. Their modest market positions are nonthreatening and do not require them to navigate state content-adoption processes. Even the American Federation of Teachers and the National Education Association have made positive statements about digital learning so long as the new technologies do not change institutional arrangements or existing staffing structures.

Interestingly, this new generation of online math providers is dominated by nonincumbents, and for-profit companies account for a significant share of the new entrants. This early trend is reminiscent of how Pixar, Netflix, and other scrappy start-ups outmaneuvered larger, better-resourced conglomerates with dominant market positions.

The Districts Strike Back (against Nonprofits). Aspire Public Schools, a nonprofit CMO serving over 12,000 students across 34 schools, is among the leading public school systems in California. In 2010, McKinsey & Company recognized Aspire as one of the world's 20 most improved school systems—one of only three education organizations to earn this distinction in the United States. Aspire's state testing results made it the highest-performing school system in California serving a majority low-income population. Thousands of families sign up for Aspire schools, attracted by the organization's commitment to “College for Certain.”

In October 2007, the California School Boards Association (CSBA) sued the California State Board of Education over a “statewide benefit charter” granted to Aspire Public Schools.¹⁹ The charter allows the state to directly supervise Aspire and grant it additional charters, so long as Aspire provides a “statewide benefit.” At the time, Aspire successfully operated schools in three distinct California regions: the Bay Area, Los Angeles, and the Central Valley.

The parties of the lawsuit stacked up predictably through the framework of incumbents and nonincumbents.

CSBA represented Stockton Unified School District and the broader interests of other school districts that sought to protect district authority to authorize charters—and limit their growth. The California Teachers Association (CTA)—which has in the past aggressively fought the creation of new charter schools because these new schools are typically not unionized—also joined the lawsuit.

Upstart K–12 providers can bring energy and ideas to seemingly intractable problems, opening up new avenues for innovation and attracting more talent into the sector.

Incredibly, neither the CSBA, nor the CTA, nor the Stockton Unified School District disputed the strong academic performance of Aspire students. Everyone on both sides of the lawsuit agreed that Aspire's programs benefited California students, which Aspire had proven by opening successful schools in eight different cities.²⁰ In contrast, Stockton Unified District is one of the lowest-performing school districts in California, and, in 2010, it had the highest proportion of persistently low-performing schools of any district in the state.²¹ The lawsuit essentially argued that one of California's lowest-performing school districts should regulate California's highest-performing, low-income school system and restrict the expansion of a program that everyone agrees is great for the state's most underserved students.

School districts suffer from multiple conflicts of interests when it comes to charter-school authorizing. First and foremost, taxpayer dollars follow students so districts have a strong financial interest in keeping new charters from opening. California tried to guard against this behavior by legislating that districts could not deny charters because of negative impact on district finances. But it is a common occurrence for school board members to raise the issue of financial impact when reviewing a charter petition only to be reminded by their attorneys that financial impact is not a legal basis for denial. Democratic Assemblyman Tony Mendoza has twice tried to pass a union-backed bill (AB 1172) that would allow districts to deny charters based on “negative fiscal impact” to

the district; by definition, every new charter petition could be denied on that basis if the state legislature ruled that students belong to districts.

Beyond financial concerns, it is not in the California district's interests for a new education provider to demonstrate that much-higher academic results are possible when serving the same district students. The California Charter School Association recently reported that the impact of family income on student performance at charter schools was four times less than the impact of family income on student performance in noncharters.²² This severely undercuts the argument made by existing institutions that poverty needs to be addressed before school districts can be reasonably expected to make any academic gains.

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In the summer of 2010, the California 1st District Court of Appeal overturned a lower court ruling and concluded that the state board failed to make the necessary findings of fact needed to approve a “statewide benefit charter” for *Aspire*. A few weeks later, California reported that *Aspire*'s first two statewide-benefit charter schools in Stockton and Los Angeles were ranked among the best low-income schools in the entire state. The matter is still being litigated five years later, even though the number of students affected account for only several thousand of California's more than six million students. Thus, school districts and unions are vigorously defending their interests by attacking a new nonprofit provider that is succeeding in educating public-school students.

The Battle over Teacher Preparation. Traditional college-based teacher education programs have steadily lost market share over the last 30 years as new teacher preparation providers—dubbed “alternative teacher education

programs”—offered other avenues into teaching. Before 1980, traditional college-based programs accounted for over 97 percent of teacher preparation. Now, as more prospective teachers pursue alternative routes, the National Center for Education Information reports that that number could be as low as 74 percent.²³

Of the new providers, TFA draws the most attention and controversy. TFA is a highly selective, nonprofit organization that places recent college graduates as teachers in low-income public schools across the country. Still a small fraction of all teachers prepared nationally, TFA grew from 500 teachers in 1990 to 5,800 teachers in 2011, aided in part by districts' desire to ameliorate staffing problems in their lowest-performing schools.

Although most TFA corps members work in district schools, one education professor called TFA “a crucial link in the chain to privatize public schools.”²⁴ Reputable news organizations like Reuters question whether TFA “betrayed” its mission by placing corps members in public charter schools, calling them “shock troops” to privatize education.²⁵ In contrast, existing college and university teacher preparation programs—including those that have inadequately prepared teachers for years—earn little to no criticism from incumbents or the media.

TFA and the unions shared an uneasy alliance until districts began laying off teachers in 2009. The National Educators Association passed a resolution in 2011 opposing TFA's efforts, and tensions peaked in Seattle when the local union called for Seattle Public Schools to revoke its contract with TFA, even though Seattle's TFA corps consisted of all of six teachers.²⁶

Professors from schools of education such as Stanford University's Linda Darling-Hammond and Education Historian Diane Ravitch seize on the limited preparation TFA corps members receive—which amounts to a five-week summer preparation program as well as ongoing professional development—and bemoan the lack of evidence that TFA corps members are any more effective than traditionally prepared teachers. But the heated rhetoric misses the point. Teacher preparation programs that have existed for over 75 years are unable to demonstrate that their graduates can outperform TFA corps members with far less “professional” preparation.

Even though schools of education have suffered heavy criticism since their inception, there is a dearth of research about how formal teacher preparation impacts student learning. In 2006, Arthur Levine, former president of the highly respected Columbia Teachers College, soberly observed that schools of education at colleges and universities were “ill-equipped to prepare current and



future teachers” for an era in which schools are expected to increase student achievement.²⁷

As incumbent schools of education have struggled to connect their programs to the real work of teachers, Relay Graduate School of Education—another nonprofit—created a new teacher preparation program that prioritizes hands-on practice and application over education theory. Relay began as Teacher U, a teacher preparation program developed by a consortium of high-performing CMOs—Achievement First, Uncommon Schools, and KIPP New York—in partnership with Hunter College. As high-performing CMOs emerged in New York City, they demanded better teacher preparation than the incumbents provided.

Relay teaches effective instructional practices that are commonly found in high-performing charter schools across the country. The program uses teacher observations, student work, and student achievement data to prepare its teachers for future success. The preparation at Relay is tightly linked to real-world practice: teachers learn advanced pedagogical methods that they can use the next day in their classrooms.

In 2011, the state of New York granted Relay Graduate School of Education a charter to operate as a nontraditional teacher preparation program that offered “clinically rich” experiences to its students—essentially a “charter school” for teacher preparation. Relay’s charter was opposed by a majority of the incumbent programs operated by New York colleges and universities. In their view, Relay “[dumbs]-down teaching” and diminishes the value of graduate education by emphasizing teaching practices that increase student achievement over research and pedagogical theory.²⁸ Ironically, many of the effective instructional practices taught at Relay were not documented by schools of education, but by Doug Lemov, a CMO leader who researched these teaching practices—outside of the auspices of traditional graduate schools—and documented them in his book *Teach Like a Champion: 49 Techniques that Put Students on the Path to College* (Jossey-Bass, 2010).

Unlike the Aspire statewide-benefit charter example, the state of New York retained the authority to grant Relay its charter and ruled over the objections of incumbents. Relay would have faced far more opposition if an incumbent college or university like Columbia Teachers College was responsible for its authorization.

Nothing To See Here . . . In spite of all the fear-mongering about for-profit privatization in education, no one seems particularly concerned about the Scholastic Book Club.

Scholastic Book Club is a “childhood tradition” in public elementary schools across the United States. Public school teachers distribute book catalogs on behalf of a \$2 billion for-profit, publicly traded company directly to millions of elementary children between the ages of five and ten. Children are expected to go home and persuade their families to give them money to buy from the Scholastic corporation, then return the money to the school so the teachers can direct the money back to the corporation. When the books arrive, school employees sort the orders and distribute the books to children. Scholastic rewards teachers for sales with “points” that they can redeem for classroom books. Tens of thousands of paid government employees are complicit in this profit-making scheme that has existed for over 60 years.

Scholastic does not attract the ire of self-appointed defenders of public education because they do not threaten the existing industry structure, and, like other incumbents, Scholastic has carved out a monopoly position in the K–12 market. They use this trusted position to distribute Justin Bieber music, cobrand promotions with companies like McDonalds and Sunny Delight, and sell Nintendo DS accessories.

In each of these examples, incumbent institutions attacked new providers that challenged existing institutional arrangements, even though many of these upstarts were nonprofits that provided services in the public sphere, and ignored incumbents that truly were “privatizing” education but did not endanger the status quo. The fault line between for-profits and nonprofits serves as a distractor as incumbents protect their own interests. So far, the incumbents have largely succeeded in defending their positions, but there are reasons to believe that their tangled web of interests will begin to weaken and fray.

The Fraying of the Coalition

Over the next decade, two significant trends are likely to fray the coalition of K–12 incumbents, a coalition that has held strong for over 40 years: first, a focus on performance-based outcomes, and, second, the expansion of technology. Since *A Nation at Risk: The Imperative for Educational Reform* was published in 1983, US public education has moved steadily from a system focused on process to one focused on performance. This shift is putting tremendous pressure on all institutions to demonstrate their performance through measurable outcomes that can strain normally rock-solid coalitions. The second change is the growing importance of technology and its

potential to disrupt K–12 education just like every other sector in the global economy. K–12 observers wonder if technology could impact education the same way Craigslist has impacted newspapers, Netflix has impacted Blockbuster, and Apple has impacted mobile communications. The current incumbents were not designed for either performance or innovation, which makes it likely that the growing pressure and strain on the one-best system will build until a realignment occurs.

The Shift from Compliance to Performance. Redefining public-school success in terms of student outcomes shook the entire K–12 system to the core. Before the No Child Left Behind Act (NCLB), districts focused on inputs and processes. Were teachers certified? Were schools accredited? Were schools implementing district curricula? In each of these cases, districts relied on other incumbent institutions (for example, schools of education, accreditation bodies, and education publishers) to help them accomplish these objectives, which created symbiotic relationships based on compliance, not performance.

School districts had very little data on student achievement before NCLB required all states to administer standards-based tests. And when districts wanted to increase their instructional leadership, a thin research base led to vigorous yet uninformed debates about the best ways to improve learning. Few district leaders or principals had any track record of leading sustained academic growth in their schools. These same leaders rated well over 90 percent of their teachers as having satisfactory job performance based on what teachers—not students—were doing in class.

Teachers unions ensured that compensation increases were based almost entirely on years of service and emphasized job security through tenure and cumbersome grievance processes. Schools of education had virtually no information on how their preparation programs helped teachers drive student achievement. States did not study whether instructional materials were effective in increasing student achievement before adopting them. Even school-board elections were void of informed debates about student outcomes. Imagine working for an organization that for decades never asked whether its service benefited its customers.

NCLB changed all that. It became impossible to ignore the massive achievement gaps between different student populations. Researchers began to identify persistently failing high schools with staggering dropout rates and under-prepared graduates. More and more cities across America began to report that less than 10 percent of African-American and Hispanic ninth graders from

urban schools would graduate from a four-year college within ten years. The dismal data emboldened policymakers who favored increased accountability for schools.

Tensions reached a boiling point when school systems that were not designed to increase student achievement failed to succeed in NCLB's performance-based environment. Incumbents became defensive and questioned the accuracy and legitimacy of standardized tests as a basis for evaluating schools and staff. Teachers unions argued that teaching is an “art” that defies measurement and that the increased focus on standardized tests squeezes nontested subjects out of the curriculum. Unions suggested that much more learning will occur if teachers are treated as professionals and are allowed to use their expert judgment. The remedy offered by teachers unions perfectly describes the pre-NCLB era, when teachers locked their doors and faced little interference from administrators or the district. The only problem was that academic outcomes were great for some students and abysmal for many others, a “let-a-thousand-flowers-bloom approach” that led to wide variations in teaching quality and academic rigor.

The focus on performance creates a quandary for incumbents. None of the existing institutions were designed for a world focused on student outcomes. Should they shift and try to adapt to the new world, or should they bear down and fight with the hope that the world will return to the pre-NCLB era? And can existing institutions adapt even if they want to? It is rare to find examples of industries that completely reinvent themselves without significant pressure from new providers. Consider cable companies that were once notorious for poor customer service—they did not improve until they experienced pressure from satellite and telephone providers. And even then, new providers like Tivo, Boxee, Apple, Google, and Netflix have done the most to improve the television experience for consumers in recent years.

Many incumbents resisted NCLB from the outset. Some states avoided federal accountability provisions by lowering cut scores for proficiency on state tests or adopting easier standards, which masked poor student achievement. For example, Mississippi appears to have one of the lowest achievement gaps in the nation in reading because nearly every student passes the state test.²⁹ However, on the NAEP reading assessment, fourth grade African-American students in Mississippi score more than two grade levels below their white counterparts.

As more and more schools faced sanctions for not meeting academic targets, districts often chose the least onerous options for “restructuring” or “transforming” schools under federal guidelines. Districts rarely chose to

convert failing schools into charter schools or replace staff through reconstitution, instead opting for less-invasive strategies that left existing institutional arrangements intact. Pursuing watered-down improvement strategies such as assigning schools “improvement” coaches kept districts eligible for federal funds while maintaining the peace with unions and other stakeholders.³⁰

But in the last few years, cracks began emerging in the relationships between incumbents, particularly between districts and unions. The New York City Department of Education embarked on an aggressive plan to close failing district schools and replace them with high-performing charter schools operated by new providers like Success Charter Academies and Uncommon Schools. The school closures continue to be fiercely resisted by the United Federation of Teachers and other allied organizations.

DC Public Schools defied the status quo by bargaining for teacher merit pay partially based on student achievement (in other words, performance), which led to Randi Weingarten—president of the American Federation of Teachers—directly inserting herself into negotiations. Post-Hurricane Katrina, the state of Louisiana converted New Orleans into an effectively all-charter district, where approximately 75 percent of public-school students are served by charter schools and the incumbent Orleans Parish School Board operates just a handful of selective public schools. The shift to a performance mindset rapidly put the incumbents in these cities at odds with one another, upsetting the historical power structures in the one-best system.

Using the incumbent lens, the Common Core State Standards adoption in 2014 should emerge as a battleground that pits publishers against teachers unions and districts, which would break a longstanding peace. Incumbent content providers will maneuver to win large statewide contracts that support new accountability systems that are opposed by unions and some districts. For the first time, publishers will experience sustained attacks against their “profit-driven,” “corporate” agendas.

In spite of steadfast opposition to a performance-based education system, the new emphasis on student learning appears secure. The implementation of the Common Core is generating new focus and energy regarding how to measure learning. Race to the Top is encouraging states to consider student achievement as part of the evaluation of school and educator performance. Even parents use internet sites such as GreatSchools.net or SchoolDigger.com to research student achievement in neighboring schools.

Sharp disagreement remains about how to best measure student learning, and there is certainly much more

that can be done to provide frequent, meaningful student feedback. More and more educators are recognizing the limitations of the first generation of standards-based assessments. But it is difficult to imagine going back to an era with little information about student achievement, which means relationships among incumbents will only continue to fray. In fact, the rise of education technology means that families will have more information about learning than ever before.

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The Rise of K–12 Education Technology. The second trend, a shift to personalized online learning, also has serious implications for K–12 incumbents. Districts will face empowered families—armed with tens of thousands of data points about their children’s academic achievement—and a tech-savvy generation of students. Publishers will face pressure from customers who expect that learning materials are interactive, engaging, and effective, a sharp contrast to most textbooks offered to today’s students. Districts and unions will grapple with a world in which parents ask what value educators will provide beyond what students can already access in the cloud.

This is not to suggest that technology will replace teachers and schools on a wholesale basis. Nurturing relationships, school culture, real-world experiences, interdisciplinary projects, Socratic discussions, and more will continue to be important parts of student learning and child development. But families will know more than ever about their children’s academic needs and, unless public-school districts adapt, schools may be in the strange position of struggling to figure out what they should know from families. This changing dynamic is reminiscent of the health care industry where patients leave the doctor’s office and immediately go online to better understand their condition and treatment options.

Technology has almost limitless potential to upset K–12 institutional structures. Public-school districts are designed to move large cohorts of similarly aged students through a set of common, grade-based standards. But when students are empowered with personalized resources, they can rapidly progress in their learning. Consider the five-year-old who masters kindergarten math standards in the summer before starting school and spends the next five months mastering first-grade standards. In these personalized environments, a skill range of four or five grade levels can emerge in groups of students only six years of age.

Even the most successful schools struggle to differentiate and personalize across such a wide range of ability levels. It is much easier to place students in two groups: one group that is “doing fine” and one group that needs support to get to the next proficiency level. But the more we personalize and learn about our children, the more families will expect their children to receive the instruction they need, when they need it.

In the fall of 2011, the first set of children who had been playing with touch-screen interfaces since they were 18-months-old showed up in kindergarten classrooms across the country. Around the same time, a YouTube video of a two-year-old skillfully using an iPad made national news. The child, Bridger, could not yet speak in sentences but could effortlessly navigate multiple iPad applications.³¹ There will certainly be vigorous discussion about the impact of technology on child development, but, like it or not, these students are showing up in classrooms and have to be educated. As touch interfaces are joined by increasingly sophisticated motion-based interfaces like Xbox Kinect and voice-based interfaces like Siri, schools will have to reconcile the experience inside of school with the child’s life outside of school. In the words of a Princeton University student, this generation wants “life, liberty, and blazing broadband.”³²

Dramatic tensions will emerge as families and students begin to expect the same types of personalization in school that they experience in other parts of life. Districts will decide whether to swim against these currents and preserve the existing system at all costs, or find ways to embrace a personalized, connected, and on-demand world.

To date, most of the technological “innovations” adopted by districts and unions do not require any changes to existing institutional structures—they strongly resemble today’s classrooms and operate within the confines of existing labor agreements. But a handful of charter schools, private schools, and community-based organizations are pursuing more flexible, competency-based models that challenge the conventional definition of schooling that

puts teachers “in a box” all day with 25 to 30 students. In these new models, students are free to go at their own pace, receive copious feedback from both teachers and online resources, and spend more time being taught by teachers in small groups instead of large, impersonal classrooms. The current incumbent institutions are ill-prepared for such a world in which families demand a shift to personalized learning environments. Given the prominent role of for-profits in education technology, incumbents will need for-profits to transition to the future.

Change is Hard

While many different provider structures are possible in public K–12 education, change can be wrenching. The US Postal Service (USPS) is an interesting analog to public schools because it was once a monopoly, it occupies a special place in the hearts of Americans dating back to the country’s founding, and is one of the nation’s largest employers. The agency lost over \$5 billion in Fiscal Year 2011 as Americans sent more emails and competitors such as FedEx dominated the overnight delivery market.³³ Worse still, USPS expects to incur large losses in the future with scant hope of recovery. Society will soon make a painful choice: bill taxpayers for the losses of a broken institution or dramatically shrink an American icon that employs over 550,000 people. The dilemma is reminiscent of the situation school districts face when deciding the fate of a chronically failing school. In any case, society suffers when critical institutions falter.

New providers also have a spotty history of delivering quality. Stanford University’s Center for Research on Education Outcomes (CREDO) Institute famously reported in 2009 that charter schools perform no better on average than traditional public schools.³⁴ But, as in most education debates, there is more to the story. In California, for example, charter-school performance is U-shaped, meaning charters are more likely to be high performers but also more likely to be low performers, with few schools falling in between. In 2009 schools operated by CMOs were four times more likely to be in the top 10 percent of schools in the state that dramatically outperformed their predicted performance. On the other hand, single-site charters, district-run charters, and loosely affiliated networks of charters were disproportionately represented at the bottom of the distribution.³⁵

In spite of this chasm in performance, successful California CMOs like Aspire Public Schools face some of the strongest political opposition in the state as incumbents

attempt to defend their positions. This strongly calls into question the wisdom of allowing incumbents to authorize new providers. There is a strong incentive to authorize low-quality providers that do not intend to grow—especially those with local political support—and battle back high performers with ambitious expansion plans.

In December 2010, San Francisco Unified School District voted to renew the charter of Leadership High School, a school that had performed so poorly on state tests that the California Charter Schools Association (CCSA), a procharter advocacy group, actually became the strongest voice for closing the school. In a perplexing turn of events, school board member Jill Wynn publicly stated that CCSA's opposition to the charter was a motivating factor for keeping the school, even though the San Francisco board is anticharter.³⁶

Incumbents have consistently authorized low-performing providers in the charter school, virtual school, and alternative teacher-certification spaces. For high-performing organizations and their supporters, this behavior creates an urgency to find ways to scale the operations of the best providers, regardless of tax status. Although policymakers cannot lead innovation, they can create the conditions for great entrepreneurs to rethink K–12.

Positioning New Providers for Success

As more education leaders conclude that new providers will play a critical role in K–12's evolution, at least two key strategies are emerging to promote innovation.

First, more geographies will follow the lead of New Orleans and Tennessee where traditional school districts “relinquish” monopoly control over the public-school system and new providers expand their impact. Nearly a decade after Hurricane Katrina, over 75 percent of New Orleans students now attend charter schools that are part of a Recovery School District (RSD), a new entity created by the state to dramatically improve outcomes. There is lots of early evidence to suggest that New Orleans students are better off in the RSD. CREDO reported that RSD students in charter schools outperform their traditional public-school peers and that the effects are particularly pronounced for African-American and Hispanic students. Even more encouraging, the positive impact for charter-school students continues to increase over time.³⁷

Similarly, states can remove barriers to new providers in other parts of the K–12 sector such as publishing and teacher education. Because incumbent institutions typically entrench their positions in public policy, “relinquishment”

strategies typically require bold, far-reaching policy maneuvers by state officials.

Second, states that create the space for innovation need to support high-quality providers. This means having the data systems in place to identify and recognize success when it happens. Evaluating the performance of providers can be challenging for states and districts because authorizing departments are often focused on inputs and compliance, not outcomes.

The uneven performance of district schools, charter schools, virtual schools, schools of education, and alternative teacher-preparation programs alike underscores the difficulty that public authorizers have in leading sustained quality across K–12 education. Accreditation bodies (another incumbent) have provided little to no help in maintaining school quality considering the high number of failing schools that are fully accredited.

Districts such as Denver Public Schools and the New York City Department of Education have displayed significant courage in shutting down failing programs and creating opportunities for new providers. But relying on political will alone seems naive, particularly given the perverse incentives incumbents have to reject successful new providers. Some leading thinkers argue that authorizing decisions should rely mostly on performance considerations, minimizing the discretion afforded to political bodies. Another strategy is to create third-party portfolio managers that are accountable to the public for the performance of the education providers they oversee, shielding politicians from the costs of making difficult decisions.

If history is any guide, the one-best system will eventually give way to a new set of institutional arrangements, one in which new providers, both for-profit and non-profit, play significant roles. The question is, do we trade up for a better system that replaces the factory model of schooling, a model that now seems to have run its course? Or do we merely swap one suboptimal system for another? The battle will be fierce, but, for the first time in years, there are glimmers of hope that we will see dramatic improvements in K–12 in our lifetimes.

Notes

Please note that Charter School Growth Fund (CSGF) is a nonprofit that has an equity stake in Dreambox Learning. I was also an area superintendent for Aspire Public Schools when the statewide charter lawsuit was filed. CSGF is also a philanthropic supporter of Aspire, Rocketship Education, Success Charter Academies, Uncommon Schools, Achievement First, and certain KIPP regions.

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