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Privatization

LaVon Nohre Jalonack

This starred paper submitted by LaVon Nohre Jalonack in partial fulfillment of the requirements for the Degree of Master of Science at St. Cloud State University is hereby approved by the final evaluation committee.

Chairperson

Dennis Nunes

Dean
School of Graduate and Continuing Studies

PRIVATIZATION

by

LaVon Nohre Jalonack

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INTRODUCTION

When I began my research I tried looking under the term contracting out and then more specifically, contracting out in education only to find the correct term to use was privatization. Just what exactly does this mean? There are many and varied definitions to be found. Some of the confusion over the meaning of privatization is due to the newness of the concept (Florestano, 1991). Bailey (1987) feels that a good part of this confusion is caused by the fact that privatization has become a "political weapon." A range of definitions given by some of the leading scholars and practitioners in the area can be found in The Privatization of Schooling: Problems and Possibilities (Murphy, 1996):

> Privatization is the shifting of a function, either in whole or in part, from the public sector to the private sector. (Butler, 1991, p. 17)
>
> Privatization refers to a shift from publicly to privately produced goods and services. (Starr, 1987, p. 125)
>
> At its lowest common denominator, it meant having done in the private sector that which previously had been done in the public sector. (Pirie, 1988, p. 9)
>
> The term privatization is typically used to describe the transfer of activities from the public sector to the private sector and includes contracting out as well as reducing or discontinuing the provision of some goods and services by government. More accurately, privatization entails a move toward private property and from not only government and common ownership but also from government regulations that limit individual rights to the use of resources. (DeAlessi, 1987, p. 24)

As you see, the definitions are many, and these are only an example of a few to be found. For the purpose of this paper I will define privatization as contracting out any service that has been previously done by the public sector to the private sector. This definition may seem simplistic; however, it is applicable to the examination of the issue in this paper.

HISTORY OF PRIVATIZATION

Just how early can it be said privatization began? "Private organizations have been involved in public undertakings throughout history" (Donahue, 1989, p. 34). Privatization is quite old. One need only think of the Hessians to see an example of contracting out from about two hundred years ago. Mercenaries were also a veritable private industry in the time of classical Greece, and contract management of cities was a fact of life in Renaissance Italy (Florestano, 1991). "And let us remember that it was a private contractor, engaged by Spanish monarchs, who set foot in the New World in 1492 (Savas, 1987, p. 69). In the United States, at the federal level, the government "has been contracting out services and selling assets since the early years of the Republic" (Starr, 1991, p. 26).

> Privatization ... can be traced to the first Bank of the United States that served as the federal government's fiscal agency and principal depository of the treasury and was owned by private shareholders. When the federal government wanted to deliver mail to its citizens west of the Mississippi, it contracted with 80 horseback riders and spawned the Pony Express. The Homestead Act gave settlers government-owned land for a small fee if they would cultivate soil for a fixed period. (Miller & Tufts, 1991, p. 99)

Prior to the nineteenth century even such essential activities of government as the collection of taxes and the organization of military units were often performed by profit-seeking organizations (Niskanen, 1971).

It is important to understand the early beginnings of privatization in education in the United States. In the book Risky Business, Rima Shore provides us with a review of this period in the history of privatization. The argument was made in the first years of nationhood that the public had a stake in the education of its citizens. Thomas Jefferson advocated three years of compulsory public education. The Working Men's parties founded in the early 19th century had public education as a key element in their programs. As early as the 1820s labor leaders were calling for free, equal, and universal education (Sawicky, Shore, & Richards, 1996).

Public schools continued to meet resistance as was acknowledged by Horace Mann at a school convention in 1836, "many are unwilling to send their children to the public schools

because they are subject so much to the town" (cited in Sawicky et al., 1996, p. 24). In echoing Jefferson's views, Mann made the case for public education, as it would be the social glue that was needed to hold the nation together. He was also instrumental in the enactment in 1852 of the nations' first compulsory attendance statute by the Massachusetts legislature. Resistance to public education remained strong, and compulsory schooling was not universal nationwide until a 1918 mandate by Mississippi.

As compulsory public schooling took hold in the early years of the 20th century an enrollment boom posed organizational, logistical and financial challenges. This shook the public confidence in public education and a reform movement demanded more efficient governance and management of public schools. Frederick W. Taylor's views of "scientific management" stirred critics to argue that schools were inefficient and in need of the kinds of economic tools used by well-run businesses. At the 1913 national convention of the National Education Association, Frank Spaulding, superintendent of the Hewton Mass. public schools, described his successful introduction of scientific management to the Newton schools (Sawicky et al., 1996).

The scientific management movement took hold over the next several years. Superintendents bowed to demands by businessmen on school boards and tax rolls to boost efficiency. Among innovations brought about by scientific management was the introduction of efficiency experts. They won high-priced consulting contracts to revamp school management. This was an early instance of "contracting out" (Sawicky et al., 1996).

Some educators welcomed professional managers believing they would bring more efficient administration to public education. Dewey and other educators in the left wing of the Progressive movement warned against the influence of corporate leaders on education. In 1915 Dewey observed that "... there is danger that the concentrated interests of business men and their influential activity in public matters will segregate training for industry to the damage of both democracy and education ..." (Dewey & Dewey, 1915; cited in Sawicky et al., 1996, p. 25). Inefficiency, he argued, was far less perilous for a democratic society and far less injurious to

children, than inequality and social fragmentation. Like Horace Mann, he saw public schooling as social glue, a source of coherence and community. He viewed school reform as nothing less than an effort to repair a social and moral fabric frayed by the divisive force of capitalist industrialism (Sawicky et al., 1996).

Many teachers had become alienated by scientific management by 1920, but most were not protected by tenure; only in cities where teachers unions had already formed were they able to fight successfully against this trend. By 1930, a reaction set in against scientific management, and the movement lost its hold on American education. Scientific management had left its mark. School organizations had been recast in the industrial mold, leaving teachers with burdensome clerical tasks, and creating a demand for school leaders who were bottom-line-oriented managers rather than inspiring scholars or curriculum developers (Sawicky et al., 1996).

This account of public schooling suggests that the controversy over privatization today reflects a tension that can be found in the history of American education. The public has been and continues to be divided over the rationale for public schooling, the goals of public education, and the role of the private sector in educating its future workforce (Shore, 1996).

The 1950s saw an expansion of government into the field of education. It is important to look at why this came about and how the experiment worked. The landmark 1954 Supreme Court ruling Brown v. Board of Education of Topeka and the launch of Sputnik were two major events in the 1950s that catalyzed the expansion of the federal government's role in education. One event challenged the autonomy of state and local authorities bringing discrimination, poverty and ineffective schools to the national agenda, and the other caused Congress to pass the National Defense Education Act that provided federal assistance to schools (Shore, 1996).

In the 1960s education became a key element in the War on Poverty. Legislation resulted in the following programs: Elementary and Secondary Education Act (ESEA), Title 1, the Job Corps, and Head Start. Though these had an impact on student achievement and access to higher education, funding was cut for the Vietnam conflict. This conflict also saw the emergence

of performance contracting in the Department of Defense as a way of gaining greater control of skyrocketed military production costs. Performance contracting also had its champions in the Office of Education. Associate Commissioner of Education Leon Lessinger wrote in a 1969 issue of the Phi Delta Kappan "Contracts and federal funds, whenever possible, should be performance contracts" (cited in Ascher, Berne, & Fruchter, 1996, p. 24). With the expanded federal role came accountability demands. Havighurst has written: "In the old days a teacher's responsibility was limited to maintaining an orderly classroom in which pupils could concentrate on their schoolwork and 'recite' what they had learned ... The teacher was accountable for teaching and the pupil was accountable for learning" (cited in Sawicky et al., 1996, p. 27). In 1970, Lessinger wrote, "A growing number of people are becoming convinced that we can hold a school—as we hold other agencies of government—to account for the results of their activity" (Shore, 1996; cited in Sawicky et al, 1996, p. 27). The new demands for accountability led to performance contracting.

In the late 1960s three officials left the U.S. Department of Defense and formed the Institute for Politics and Planning (IPP). They were Arthur Barber, Frank Sloan, and Charles L. Blaschke. IPP was determined to apply state-of-the-art planning and management technologies, developed for the military, to public policy, and public schools became the prime focus of their efforts—despite the fact that they had no formal training in educational policy or administration. They were aware of the work of education researchers, like James Coleman, who were applying analytic method to education policy and planning and of the accountability movement in education. They were also skeptical about the education establishment. Barber recalls, "We were operating on a separate track. I don't ever remember going to a professional education meeting" (cited in Sawicky et al., 1996, p. 28). Their views on public education were shaped in the Pentagon, where McNamara's "whiz kids" were refining the management tools that he had introduced so successfully at Ford Motor Co. Barber recalls discussions, several initiated by McNamara, about why the military was so much more effective in training young people than the

public schools. Barber understands that similar conversations took place between Secretary McNamara and President Kennedy (Kershaw & McKean, 1959).

IPP's idea, Barber says, "was to do some thinking about [education] policy and then go and do it. We didn't want to just write papers" (cited in Sawicky et al., 1996, p. 28). They had been involved in contracting out in the Pentagon and were convinced that the same reliance on industry would yield results in education. They introduced into the educational sphere the concept of "performance contracting"—the process of issuing a request for proposals (RFP) and getting private, for-profit companies to say how they would raise achievement and for what cost. They looked for funding and found that the Model Cities Agency was willing, in principle, to use antipoverty funds to support their initiative, particularly if potential dropouts could be targeted for services. IPP went looking for a district that would try it out. Initially there were few takers. A small number of districts, mostly in the South, expressed some interest (Sawicky et al., 1996).

Through the influence of Lessinger and others in Washington, performance contracting in education got its first chance in a small town on the Arkansas/Texas border. ESEA was authorizing money for dropout prevention, and the Texarkana School District secured funds from the U.S. Office of Education for the 1969-70 school year. Dorsett Educational Systems, Inc., a small firm producing audiovisual equipment in Norman, Oklahoma was hired to instruct approximately 350 students identified as being two years or more behind grade level. The contract called for the students to gain one grade level in both reading and math after 80 hours of instruction, for which the company would earn a base payment. The company would earn extra payment for accomplishing the goal in fewer than 80 hours. Dorsett Rapid Learning Centers were carpeted, air conditioned trailers parked adjacent to the schools and were staffed with one teacher and one paraprofessional. Students left their class for two hours every day and most received one hour of both reading and math. They sat in front of teaching machines that used filmstrips synchronized with sound, answering questions by pushing buttons. If the students answered correctly they moved on. Since they proceeded at their own rate, the program was said

to offer individualized instruction. Rewards were offered to increase the student's motivation (Ascher, Berne, & Fruchter, 1996).

Dorsett's contract with the district had cut out tasks written into the ESEA proposal for funding, including developing study habits and improving speech and grooming. Dorsett was also not offering instruction in science and social studies, as it had initially promised the district. Since fees hinged on reading and math scores, the company concentrated on them. At the end of the year, Rapid Learning students tested above those of a control group in some areas. However, their scores proved to be invalid because, as it was later found, the students had been exposed to most of the test questions. The district was now concerned about how to pay Dorsett. There had been no guidelines for admissible practice regarding the similarities between the questions asked on exercises and on tests. The Educational Testing Service was called in to provide guidelines for subsequent contracts (Ascher et al., 1996).

During this first year of operation there were problems other than the testing. The incentive system was one. It had been touted as one of the program's revolutionary features—offering students green stamps, transistor radios, and a portable television, and teachers stock options in the firm. The incentive system became bogged down in management difficulties and was never carried out to any great extent (Shore, 1996).

Based on early reports suggesting astonishing gains of 59 students tested after only five months of instruction which were reported in the Wall Street Journal early in 1970, the Office of Economic Opportunity (OEO), headed by Donald Rumsfeld, decided to expand the experiment. "The idea that the OEO had was a very simplistic one," says Paul Hill, who worked of OEO at the time. "You just give people cash incentives for student performance and they will deliver" (cited in Sawicky et al., 1996). Thomas K. Glennan Jr., who was director of research at OEO at the time, recalls that OEO was attempting to position itself as the analytic arm of the federal government what would test new, programmatic, social interventions. They decided to create a good experimental design and to test this intervention. Determined to get performance contracting up

and running at multiple sites by the time schools opened in September, OEO rushed headlong into the planning and bidding processes. OEO's rapid action was, in part, politically motivated. Nixon was in office and White House staffers were eager to put a Republican spin on poverty and education programs. Peter Briggs recalls that the point man for performance contraction in the White House was Chester Finn, an aid to White House Counsel Daniel Patrick Moynihan (Shore, 1996, cited in Sawicky et al., 1996).

In 1970-71, with funds from the OEO, Texarkana continued its experiment in performance contracting with a larger company, Educational Developmental Laboratories, Inc. (EDL), a division of McGraw-Hill. This contract included a bonus based on students' performance and a substantial fixed charge, half of which was to be paid up front. EDL used Dorsett's trailers. EDL's programmed instruction relied on reading machines and other hardware, but no external motivators were offered. At the end of this second year, students' tests—designed this time by the Educational Testing Service—yielded disappointing results (Ascher, Berne, & Fruchter, 1996).

Texarkana proceeded with a third year of performance contracting, once more with EDL. This time EDL teachers were under less pressure to cover a set program, and EDL's curriculum was supplemented with other materials. The third year was less a demonstration of a specific instructional program than of the value of privatizing learning. The third year's objectives were to decrease the dropout rates, to increase attendance, and to raise achievement. At the end of the year, the dropout rate increased from 5.4% to 6.8%, attendance declined, 38% of the students made one grade-level gain in reading comprehension, and 28% of the students gained in mathematics (Ascher et al., 1996).

Despite these meager results shool boards enthusiasm for performance contracting quickly spread. A 1970 national survey showed two out of three school board members in favor of the practice (Campbell & Lorion, 1970), although half of those favoring the idea expressed some reservations. Respondents gave two major reasons for their support: a drop in their confidence in teachers (who seemed more interested in negotiating better deals for themselves

than in accepting responsibility for outcomes) and growing awareness that boards were being held accountable for student achievement. Opponents said that performance contracting would dehumanize schools and argued that the notion that learning could be "guaranteed" was naive (Webb, 1970). Only two performance contracts had been let out in 1969-70 and there were 60 during the 1970-71 school year. They were worth in excess of ten million dollars (Campbell & Lorion, 1970). Eighteen were supported by the OEO as a one-year experiment to ascertain whether private educational firms could teach disadvantaged students to read and write better and more cheaply than local public schools (Richards, Sawicky, & Shore, 1996). States and individual districts, often using money from various federal programs, sponsored more than forty contracts (Ascher et al., 1996).

By the 1971-72 school year, more than 150 performance contracts, most of which were based on technology-driven instruction, were authorized by public school districts around the country (Levine, 1972). The major national teachers' organizations reacted with concern for their financial security, faced with the prospect that salaries were to be based on student performance or that they might have to compete with private firms. However, other powerful groups rapidly accepted performance contracting (Ascher et al., 1996).

One of the most important and best documented case studies of performance contracting is of an elementary school in Gary, Indiana. The value of the Bannecker Elementary School experience lies in its comprehensiveness, giving it a consistency unattainable by the OEO experiment. In 1970, performance contracting at Bannecker was set up to run for three years. Behavioral Research Laboratories (BRL) was given responsibility for running the entire school, including every aspect of staffing and instruction (Ascher et a., 1996). This model, which literature of the time referred to as "total prime contracting," was a departure from most performance contracts of the early 1970s, which involved "limited subcontracting," that is, they provided a limited array of services to a specific population within a school or school system Richards, Sawicky, & Shore, 1996). Unlike other performance contracts, this one did not select

students. The hope in Gary was that with an incentive-based contract a private firm would raise student performance, and if it failed be fired. Gary stood at the forefront of urban problems: it had a decaying business district, air pollution, growing crime, a shriveling tax base, a high degree of residential segregation, and racial tension. Three-fourths of Gary's public school population of 47,000 students attended inner-city schools, and approximately 60% of the total were African-American. Nearly all of Bannecker's 850 students and most of its teachers were African-American, as was its principal. The school was located amidst well-cared-for, single-family homes and served an inner-city neighborhood. Bannecker ranked thirty-first on reading and math scores out of 33 public elementary schools in Gary (Ascher et al., 1996).

Behavioral Research Laboratories was ten years old. The company had made its reputation and profits from programmed reading and math materials that were originally created for the military by the linguist William Sullivan. The materials followed a behaviorist, stimulus-response model of learning. They were printed on newsprint, were cheap to reproduce, and easy to give away as rewards. Students were allowed to take completed lessons home. Title 1 compensatory education grants had provided BRL with the chance to enter the public school market. Its pitch was its willingness to work with "students that nobody else wants" (Ascher et al., 1996).

Given the freedom to rearrange the school, BRL attempted to create joint leadership with Bannecker's principal. Teachers were transferred from the school to accommodate the staffing patterns introduced by the company, which caused the AFT to express severe reservations about the project (Richards, Sawicky, & Shore, 1996). Grade levels were eliminated, and students were grouped according to ability and were to be advanced as soon as their knowledge increased. Special education students were integrated into regular classes. The Sullivan approach was "materials oriented" and BRL substituted instructional materials and paraprofessionals for professional teachers. Most of BRL's resources focused on reading and mathematics. An observer entering the school after BRL was in operation two months saw only the two subjects

being taught. This was both because BRL did not manufacture materials in other areas and because its performance contract was based on reading and mathematics. For any student that did not achieve at the national norm in reading and math at the end of the three years, BRL was to refund all the fees paid by the city of Gary (Richards, Sawicky, & Shore, 1996).

The first year had problems both for the school and BRL. The teachers' union threatened to strike over the lack of licensed teachers and the large class sizes. In January, 1971 the Indiana General Education Commission removed Bannecker's accreditation—citing lack of state-adopted texts and insufficient time in subject areas like social studies and science. There were also conflicts between the duties of the principal and those of BRL's representative, the use of six unlicensed teachers, and higher than permissible pupil-teacher ratios. The report also noted that, despite BRL's emphasis on reading, library records suggested students were reading less on their own initiative. By March, after changes were made in staffing and curriculum added, BRL's legal problems were rectified and the school was re-accredited (Ascher, Berne, & Fruchter, 1996). Student attendance was the same or higher during the first half of the term, but during the third quarter it dropped below Bannecker's and Gary's average, and it slipped further in the fourth quarter. By the end of the 1970-71 year, 40% of all students had made a year's gain in reading and two-thirds of the students gained a year in math, and the company was on its way of having to give a substantial refund to the city. Equally interesting, the pressure to maximize profits had influenced more subtle aspects of teaching. In an analysis of first-year test scores it is suggested that teachers ignored students at the extreme ends of the achievement continuum and concentrated on those in the middle. Compared with a national sample of students, middle-range Bannecker students improved more, while high-or-low-performing students improved less (Gramlich & Koshel, 1975).

Several changes occurred at Bannecker during the 1971-72 school year: enrollment dropped from 800 to 700 students, a new principal was hired, they returned to a more traditional elementary school setup, and all the teachers were retained (leading to a lower student teacher

ratio than in the previous year). Although instruction continued to rely heavily on the Sullivan materials in reading and math, a number of Bannecker teachers had worked over the summer on activities and learning objectives in language arts. The resources were being piloted at Bannecker and at the same time being marketed nationally by BRL. To resolve the apparent conflict over BRL's profiting from techniques developed in part at Bannecker, the Gary school district was to receive 2% of the royalties. The contract between Gary and BRL was canceled prematurely, in the fall of 1972. In 1978, after accusations that the BRL had given kickbacks to a public official in order to secure a multimillion-dollar sale of reading materials to the Ocean Hill-Brownsville district in Brooklyn, BRL went bankrupt (Ascher, Berne, & Fruchter, 1996).

Performance contracting seemed to end in 1972 with a negative program evaluation that found "very little evidence that performance incentive contracting ... had a beneficial effect on the reading and mathematics achievement of students participating in the experiment" (Battelle Columbus Laboratories, 1972, pp. 88-89). Other factors suggested were the Texarkana testing scandal (as these were embarrassing revelations that were especially unwelcome when the Nixon administration was struggling with Watergate damage control), and OEO's possible intrusion into territory controlled by the Department of Health, Education and Welfare, thus making performance contracting a political liability. With federal support withdrawn, performance contracting became history. As Alex Molnar of the University of Wisconsin comments, "It disappeared without a blip on the radar screen" (cited in Jost, 1994, p. 276).

RESURGENCE OF INTEREST IN PRIVATIZATION

Privatization has returned, but why this resurgence of interest in privatization? Richard C. Leone (1996), in the forward to Hard Lessons, offers these reasons:

> The severity of the problems that plague the nation's most densely populated and poorest communities, combined with the difficulty of persuading voters to support expenditures for social programs, has created a new willingness among public officials, parents, and citizens in general to consider departures from established educational practices.

> While there is undeniable evidence that highly targeted and very large additions to current education expenditures would enhance the education of poor children, the political realities of the 1990s make such a remedy a nonstarter. Innovations involving organizational and management changes seem especially attractive since, by contrast, they usually are described as involving lower, or even no, increases in spending. Thus, advocates of such ideas as vouchers, choice, privatization, charter schools and a variety of other current proposals for changes in public education have found an interested audience all across the political spectrum.
>
> One of these ideas, privatization, has the great advantage of conforming to the overwhelming popular belief that markets invariably produce better results than do governmental entities. This popular support for the concept of privatization has been a major factor underlying the willingness of local officials to consider making changes involving dismantling or superseding existing public education structures. (p. v)

Rist (1991) describes the recent interest as a POWERFUL IDEA gaining currency in public education these days—indeed, in the public sector in general. This idea is called "privatization," which is the process of opening public schools (as well as other areas of the public sector) to competitive bidding by private firms. And depending on your viewpoint, privatization promises to be a remedy for inefficiency and failure—or a nostrum with potentially dangerous side effects.

Public schooling must swim in the powerful current of history. Recent history has dictated a surge toward privatization, observes Arnold Fege, director of government relations for the National Parent Teachers Association (PTA). "After 10 years of [the Reagan Administration's] free-market, laissez-faire thinking, [and] after the Soviet Union and Eastern Europe finding capitalism," Fege says, "it was inevitable that privatization would step to center stage in the public education debate" (cited in Rist, 1991, p. 26).

The privatization bandwagon is on a roll. Those who are pushing it argue that letting private companies gain a stake in public education increases competition and will produce a better product. Privatization, they say, also eliminates the quasi-monopoly the public schools have held over education for the last 200 years (Clark, 1995).

As persuasive as the argument for privatization might be, not everyone buys into the notion. Some observers, including the National PTA's Arnold Fege, worry that school boards—under pressure to "do something to improve public education and do it with fewer

dollars"—will rush into contractual agreements without considering the full implications of such a change. Down the line, Fege predicts, "proprietary instruction is going to get us in trouble" (cited in Rist, 1991, pp. 27-28).

Fege sees good reason to exercise caution. "Businesses try to compete by providing the least expensive product at the cheapest price," he argues. When the airline industry was deregulated, for example, fares were cut, but the flying public has paid for the initial savings in a fleet that is older, less clean, and less well maintained, Fege says. "The market doesn't care about providing public services," says Fege. "It cares about making money" (cited in Rist, 1991, p. 28).

IS PRIVATIZATION NECESSARY

Is privatization necessary today? The problem may not be how much money is spent but how it is spent. Beales and O'Leary in the Reason Foundation in its Policy Study No. 169, November 1993 state that public education is undergoing a transformation, and ideas dismissed as radical just a few years ago are now helping public-school officials better serve their students, as American educators are changing the way they deliver educational services. It is their findings that pressure to improve academic performance has prompted many administrators to explore new administrative approaches. The problem is not how much money is spent on education but how well that money is spent. Inefficient allocation of resources plagues public schools, and too much expenditure fails to reach the classroom. Consider the following:

> Only about half of all public-school employees are teachers. Out of 4.5 million school staff employed in 1990 by the nation's public schools, just 2.4 million were teachers.
>
> Public schools operate with five times more non-instructional personnel per student than parochial schools.
>
> Between 1960 and 1984, the number of non-classroom instructional personnel in America's public-school system grew by 400%, nearly seven times the rate of growth of classroom teachers.
>
> Non-instructional and support activities total 42 percent of public-education spending. (Beales & O'Leary, 1993, p. 1)

CONTRACTING OUT FOR A SERVICE

An example of a rich marketplace in public education is the transportation of pupils. The public sector has entered into numerous and varied contracts in this area with varied results.

The cost of non-instructional activities, such as administration, clerical support, maintenance, transportation, food services, and some capital outlay, totals 42% of public-school expenditures. In 1989-90, public schools spent over 78.4 billion for non-instructional services. Many school districts already make some use of contracting for support services. As fiscal constraints tighten, more districts can be expected to do so. A survey of school districts in Southern California found that the number one reason for contracting out was cost-effectiveness, followed by the availability of specialized expertise (Beales & O'Leary, 1993).

Public education for years has served as a rich marketplace for companies selling everything from textbooks to playground equipment. Think of the relationship this way: The private sector owns or manufactures the information and tools of schooling—books, hardware, software, desks, lockers, and so forth-while the public sector controls the buildings, the labor force, and the delivery mechanisms (McLaughlin, 1995).

Beales and O'Leary in the Reason Foundation in its Policy Study No. 169, November 1993 state that public-school pupil transportation represents an enormous transportation enterprise, with $8.3 billion spent in 1990. Over 22 million students are transported in more than 350,000 yellow school buses traveling over 3.4 billion miles each year. School buses make more than double the number of passenger trips made by all the mass transit buses in the country, and about 70% of all pupil transportation is provided by public providers. The previous figures show that there is an enormous amount of money to be made in pupil transportation. A top priority of transportation administrators is pupil safety. Fortunately, school buses, whether operated by contractors or school districts, are an extremely safe form of transportation. In California, for example, where roughly a third of all school bus service is provided by private contractors, school buses traveled almost one billion miles between 1990 and 1992 with only one pupil-passenger

fatality. Public operators, contractors and private schools have very similar-and very good-safety records (Beales & O'Leary, 1993).

The scarcity of cost comparison data is partly caused by the fact that many districts tend to significantly underestimate the true, total cost of in-house pupil-transportation costs. This problem is so endemic that an entire literature exists to assist public officials in assessing the true cost of district bus operation. The report cites a 1993 study by KPMG Peat Marwick which was prepared on behalf of the Oregon School Transportation Association to review the experience of school districts in the states of Oregon and Washington that have converted from district-operated to contractor-operated pupil transportation programs since 1980. The study was unable to draw any conclusions regarding the relative cost of public and contracted operation because they considered the cost data available from districts to be unreliable and incomplete. The report stated that when analyzing "districts' costs, the quality, accuracy and comparability of the data was highly questionable (Beales & O'Leary, 1993).

According to the Indiana Code, effective July 1, 1993, Indiana became the first state in the nation to adopt legislation requiring school districts to consider privatizing their pupil transportation services. The law does not mandate private contracting. However, in order to receive their portion of state pupil-transportation funds, school districts must show that they are making "reasonable effort to provide, or to contract with a provider that will provide transportation services at a competitive cost" (cited in Beales & O'Leary, 1993, p. 10). For the first time, districts that operate inefficiently will be required to explore privatization or risk losing state funding (Beales & O'Leary, 1993).

Without privatization there are steps a district can take to reduce transportation costs. According to Beales and O'Leary in the Reason Foundation Report, Policy Study No. 169 (1993) the following steps can be taken: auditing current bus operations in terms of labor utilization, training staff, doing preventive vehicle maintenance, staggering school starting times, and

streamlining school-bus routes using computerized routing. Humphries and Vincent (1981) offer five tips for cutting transportation costs:

1. Find out if it is possible to cut back on the amount of busing required by a desegregation plan.
2. Find out if you're obtaining the most state aid possible and if you can eliminate low-mileage, non-mandated, non-aided routes.
3. Find out which is more efficient and economical: contracting for or owning and operating vehicles.
4. Study bus routes and schedules to see if they're drawn as efficiently and as economically as possible.
5. Find out if joint transportation programs with neighboring school systems can lower costs. (p. 25)

In comparing costs of public and private ownership of buses it is important to keep in mind three factors that can lead to cost differences between operating your own buses and contracting for bus service:

1. Public schools might have a financial advantage over private companies because they can borrow money more easily and use taxes to pay for merchandise.
2. Private contractors often compensate school districts if their buses are late or have other problems in service; your school system, of course, would not compensate itself.
3. Private contractors must allow for overhead to pay taxes the school system doesn't have to pay, such as property taxes. School districts must allow for these discrepancies in their cost comparison. (Morgan & Ziskie, 1982, p. 36)

Besides yearly cost comparisons, districts should also consider long-range issues that might dramatically alter the way they look at the relative costs of operating buses or contracting for bus service. Districts should consider the condition of maintenance and storage facilities. If the districts own school buses, they should take a close look at their future building needs and determine if using a private contractor might relieve a problem of overcrowding or help them avoid the costs of constructing more maintenance and storage facilities. If the decision is made to contract for the school bus service, districts might be able to use those maintenance and storage buildings for another purpose. On the other hand, if districts now contract for bus service and if they are considering operating your own bus system, they need to figure into their comparison the costs of the maintenance and storage buildings they'll need. Need for flexibility in levels of service should also be considered. Using private contractors can allow districts to easily alter the

extent of service they provide without having to buy (or retire) extra buses, to train (or fire) drivers, or to build (or close) facilities. School systems with sharp fluctuations in enrollments would profit most from this flexibility. Protection from disruptions in service should be considered as well. If service comes from only one contractor, the district is more vulnerable to such interruptions as strikes. Consequently, structuring the bidding to allow for two or more contractors presents a distinct advantage—and it can encourage healthy competition. Another consideration is the control over service quality. It is usually easier to control staff working directly for your schools than staff working for an independent contractor. If you decide to contract bus service, make sure you know the quality of service you can expect and stipulate in the contract that this level of service must be maintained (Morgan & Ziskie, 1982).

When contracting with an outside firm for student transportation, school districts need to be careful about writing the transportation contract. To avoid buying trouble along with transportation, districts need to know what to include in a transportation contract and how to find qualified bidders. Here are a few guidelines to help make sure students aren't left standing at the bus stop:

1. Write careful contract specifications, and accept bids only from qualified bidders.
2. Build reasonable flexibility into your contract.
3. Carefully examine any bid that is greatly below all others to learn the reason for the difference.
4. Have your experts write the contract, not contractors or their attorneys.
5. Request resumes of the top company personnel who will be operating the system for your school.
6. Look for a qualified bidder; once you have one, renegotiate from year to year. (Renolds, 1983, pp. 40-42)

According to industry estimates, school districts own nearly 70% of the half-million school buses that ply the roads each year, versus 30% for private contractors. Moreover, despite the push toward privatization in many arenas the ratio of school-owned versus contractor-owned buses has remained virtually constant for the last several years. One of the main reasons for keeping all or part of their operations in-house is better control. In Minneapolis, Kroll, director of transportation for the Minneapolis Public schools and president of the National Association of

Pupil Transportation, agrees: "A contractor might be good, but even then you have another layer of supervision to deal with" (cited in Doyle, 1994, p. 129). He goes on to say, "The feeling on the part of the school district, the school board, and administrators is that district employees can provide service of a higher level and a higher quality" than contractors can. Notes Ed Donn, director of transportation for the Washington County Schools in Hagerstown, MD: "If you operate a public operation for cost versus a private operation for profit, common sense says that if you have good management both places, you should be able to do it cheaper as a public entity" (cited in Hensley, 1991, p. 41). Often, though, Donn points out, school systems do not hire a business-wise transportation director. In short, good long and short-term business planning is critical. Minneapolis, for example, modernized its bus fleet and cut its operating costs in the process. A multi-route system and three-tier pickup and take-home schedule allows the Minneapolis schools to achieve the same economies of scale a private contractor might boast. Although the hourly rate the school district pays its drivers is higher than the salary private companies in the area offer (the school district's drivers are members of the Teamsters union), the overall operation can still compete on the balance sheet, says Kroll (cited in Harrington-Lueker, 1990). In 1993 the Cobb County Board of Education asked the central administration to complete a study of the possible advantages and disadvantages of bus privatization. At the same time the accounting firm of Peat Marwick was in the process of analyzing the efficiency of their transportation services as part of its system-wide audit. The study revealed that an intensive self-analysis leads to changes in efficiency, which usually result in cost savings. This was confirmed by Peat Marwick's operational audit conducted concurrently with the administration study. The outside audit did provide a number of suggestions for improved efficiencies in their busing operations that would lead to savings. These were contained in the report to the board of education, which recommended the school system not privatize its transportation department. The final administration report to the school board also recommended that the district not pursue private contracting. The final administration report to the school board also recommended that the district not pursue private

contracting. The report asked the district to continue to look internally for areas of improvement and ways to be more efficient and effective. The school board voted 6-0 to discontinue its consideration of privatization for the Cobb County pupil transportation system (Pitts & Pullen, 1995).

In a comparison of two Tennessee school districts, Chattanooga and Bradley County, Davis and Page (1994) found that the district with the in-house service, Chattanooga, spent less on pupil transportation than the district that contracted for the service. They state that on the basis of their examination of these two districts, they concluded that the cost difference could be attributed primarily to the contractors' profit motive. They go on to state that regardless of what they believe, the bottom line in this case was that transportation costs were higher in the district with the contractors.

Cowan (1991) looks at the ownership question in the privatization of transportation. He states that many public school systems are realizing benefits from owning the buses that transport their students. Some of those benefits are control over equipment, flexibility, competition, and inexpensive financing. He finds that all of the benefits of district ownership do not accrue to the district. The contract operator also enjoys substantial advantages: lower investment, fewer equipment disputes, and lower operating costs. He feels there are three significant items that must be addressed if a school district is to be comfortable with an "outsider" (the contract operator) operating the district's buses: liability, maintenance, and resale value of the buses. He concludes that if the district has decided to contract out pupil transportation operations, there are substantial advantages to the district's owning the equipment. These advantages are not limited to economics or to the district.

CONTRACTING OUT IN ADMINISTRATION AND INSTRUCTION

Privatization or contracting out by public education also occurs in the areas of administration and instruction. A discussion of some of the reasons private interests have

ventured into this area, some of the tensions involved, and how successful it has been follows. One of the first examples, in recent history, of private companies trying to enter the areas of administration and instruction is examined.

McLaughlin, Associate Professor of Educational Administration at St. Cloud State University, feels few issues create greater debate these days than the growing role the private sector is playing or wants to play in the delivery of public education. The private management of public schools is the most dramatic of the new relationships forming between public education and private enterprise. For some, this private-sector involvement is welcomed while others regard it as public enemy No.1 (McLaughlin, 1995).

Although efforts to privately manage public schools have existed since the 1950s, the present push in this direction has its origins in the mid-1980s. Beyond A Nation at Risk and the growth of school-business partnerships, two events fueled the increasing involvement of private investment in managing public schools during the last decade. First, the Reagan administration set the tone for encouraging private companies to contract for services traditionally provided by the public sector. Second, the enormous wealth created by the rising stock market and boom industries of health care and technology led to an explosion of venture capital available to new arenas such as public education (McLaughlin, 1995).

This shared ownership by government and free enterprise has evolved over decades. Only recently, as private interests have ventured into teaching and administration, has this relationship become strained. In light of these tensions, how wise are the investors backing companies that want to manage schools and deliver parts of the curriculum? Either these investors see the future and are leading others to it or they are tinhorns with little understanding of the harsh realities of public schooling (McLaughlin, 1995).

The enormousness of the public education market has many investors salivating. They see public schools as a $300 billion-a-year industry, with 40 million students, divided among some 15,000 districts and 83,000 schools. One frequently hears the rationale in the investors' circle

that "If we can just capture ½ of 1% of the market, we'll do a billion and half dollars of business a year" (McLaughlin, 1995).

But the salivating stops when it becomes apparent how tough a market education is to crack. With most money committed to salaries, debt maintenance, and facilities, few dollars are left for discretionary use. No matter how wonderful a product or service a company may offer a cash-strapped school district cannot afford it. And any service that threatens to displace existing workers, particularly teachers, is going to be accused of union busting (McLaughlin, 1995).

Perhaps the single most important event that launched the interest of private companies came in May 1991 when Christopher Whittle boldly proclaimed that his Edison Project was going to reinvent schooling in America. His hiring of talented, high profile individuals from education and business to direct the project signaled the seriousness of his intent. Within two years the Edison Project had backed away from its original idea of creating a national network of for-profit schools and turned instead to managing public schools (McLaughlin, 1995).

Whittle set out to build the new American school with a core team of seven people. Four are specialists in management or mass media; one is a Chicago inner-city principal; one, a former Brookings Institution fellow; and one, a former professor. To preside over the core team, Whittle hired Benno Schmidt, former president of Yale University—a move that sent mild shock waves through some education circles (Brodinsky, 1993).

The focus of the Edison Project is the creation of "efficient schools" driven by technology and the marketplace, whose students will generate high test scores and will become proficient workers so that this nation can challenge the productive capacity of Japan, Germany, and South Korea. Such objectives can best be achieved by a private, for-profit company" with a public agenda," says Whittle (cited in Brodinsky, 1993, p. 540).

Whittle has been called one of America's great salesmen (and also a man who is dangerous to public education because of his salesmanship skills). Whittle showed his salesmanship skills early in life when, as a student at the University of Tennessee in 1970, he

launched a company that provided freshmen with condensations of textbooks. The success of this venture led Whittle to produce other school materials, including books, wall charts and magazines, which today can be found on 300 college campuses and in thousands of elementary and secondary schools. His personal fortune is said to be around $40 million. Because of his wealth and showy lifestyle, he has been called the playboy of the education world (Brodinsky, 1993).

Channel One

Here is Whittle's own recounting of its history from a speech by Whittle to the National Governors' association, Princeton, NJ, 4 August 1992:

> Three years ago we developed a national television show for America's teenagers that we wanted to beam directly into high schools. What we discovered shocked us. America's schools couldn't receive Channel One. The typical American high school classroom did not have a television set, much less a satellite dish t receive the program. So, not only did we have to produce the news show, we had to build an electronic infrastructure. Which we did–in 24 months.
>
> We laid 6,000 miles of cable down the hallways of America's schools; we installed 10,000 satellite dishes; we bought and installed over 300,000 television sets, quadrupling the number that were in use in our high schools. And so today, 40% of America's schools have an electronic infrastructure they did not have two years ago. (cited in Brodinsky, 1993, pp. 540-541)

Whittle says that this effort cost him over $200 million. To underwrite this expense, he decided to sell two minutes of commercials a day–and thereby started a firestorm in the education establishment (Brodinsky, 1993).

There was much criticism of Channel One. Whittle dismissed the criticism and pointed to the fact that 12,000 schools have contracted for Channel One. It was expected that Channel One is due for a phenomenal expansion–and private estimates were that during 1993 Whittle would earn up to three-quarters of a million dollars a day in advertising fees (Brodinsky, 1993).

Whittle now turned his attention to the Edison Project, another of his ventures. In August 1992 he came to Princeton, New Jersey, to address the annual meeting of the National Governors' Association. He was to explain how he would create the new American school, using the Edison Project as the take-off point. Whittle again used his salesmanship. He explained to

the governors that when Thomas Edison invented the light bulb he did not simply hot-wire a candle. "You can't make a light bulb out of a candle and interestingly, a light bulb is now cheaper than a candle" (cited in Brodinsky, 1993, p. 542). He went on to explain, "The Edison Project is of a similar mind about education." He described what he wanted to do, "to redesign pre-kindergarten through 12th grade from scratch" (cited in Brodinsky, 1993, p. 542). His goal for the Edison Project was to invent, develop, and operate a thousand new schools. In May 1992 Whittle announced that Benno Schmidt, president of Yale University, would head the Edison Project at a salary purported to be between $800,000 and $1 million a year. A few days after his appointment as Edison Project chieftain, Genno Schmidt received a dinnertime telephone call at his home. It came from Air Force One, and the caller was then-President George Bush. According to a reporter for the New York Times, Bush said, "Benno I just want you to know that I think what you're doing is truly wonderful. We desperately need innovation in this country. We're very proud of what you've done at Yale, but this is more fundamental" (cited in Brodinsky, 1993, p. 547). Whittle also had common interests with Lamar Alexander, Bush's secretary of education.

When Bill Clinton was elected President, this alliance went dead. The first lady, Hillary Clinton, who shares her husband's views on the matter, had several occasions to say, "If we let the public school system be turned over to market forces, we'd be signing the death warrant for most public schools" (cited in Brodinsky, 1993, p. 547). The Edison Project would go ahead, but those who opposed the incursion of business and profit motive into public education gave the prediction that the election of Clinton may postpone movements toward privatization-but will not end them (Brodinsky, 1993).

BEFORE SIGNING THE CONTRACT

In looking at the issues of busing and the Edison project we have seen two recent examples of contracting out or privatization. If public education does decide to contract out for a service, Clark provides us with several things to consider before the contract is signed. Should

your school district hitch its schools to the privatization wagon? Before you do, Clark suggests you consider the following five questions:

1. Will privatization save the school district and the taxpayers money?
2, Does privatization lessen bureaucracy?
3. Does privatization lead to higher test scores or other objective measures of improvement?
4. Is the proposal free of bias? Most current proposals target poor-performing schools, many of which enroll a high percentage of minority students from poor families. And that tendency should raise a question: If privatized programs are so good, why aren't we taking them into our white, upper-middle-class schools?
5. Do the privatized schools have to follow the same rules as everyone else? Other policy issues, too, need to be sorted out. What is the impact of privatization on the school district's employee retirement system? What are the implications for collective bargaining? Are school officials prepared to open their stock portfolios to monitoring by the Securities and Exchange Commission (SEC) for possible insider trading? (Clark, 1995, p. 32)

CONCLUSION

In looking at privatization or contracting out we have found that it is not a new concept [Columbus and Whittle]. We can also note that there are certain elements that seem to be present each time there is resurgence in interest. One element is the perception of the public that the public schools are doing an ineffective job [Sputnik and a Nation at Risk]. Another comparison is that of government's entrance into public education [the compulsory attendance laws and Brown vs. Brown]. Another is the political interest in contracting [the Defense Department contracting during the Vietnam War and now the political interest by the recent Republican administrations]. We can also see the interest caused by technology [the teaching machines of the past vs. the technology of today]. The recent wealth created by the stock market and the boom industries of health care and technology have also created the venture capital needed to create interest in the large education market. The debates as to the purpose of public education and the ethics of contracting out remain [Mann and Dewy vs. many observers of today]. The intrusion of business into the public education is another element [creation of education in the industrial mold vs. business can do it better and at less cost].

Despite the differences between current realities and the 1970's, there are some obvious conclusions to be drawn regarding contracting out. Whatever the difficulties of testing, neither the Texarkana nor the Edison experiments resulted in significant student gains in the areas of reading and math. These experiments raise questions concerning the instructional methods [individualized, only reading and math, teaching to those who will show the most gain]. Staffing [interns and paraprofessionals vs. teachers] and governance [suspension of federal, state and district mandates] need to be addressed as well. Testing [teaching to and fairness of] and costs [more per pupil, and who reaps the profits], as well as the wisdom of turning schools over the private companies, are other important questions the privatization debate needs to address. Other important factors remain in the privatization or contracting out debate. The alienation of public education personnel and the strength of their unions must be dealt with. The important question of who the contract services—only 'poor' schools is another to be dealt with. The question of whether or not contracting out can be a cost-effective venture seems to be unanswered.

Political activity and economic considerations seem to be at the forefront of privatization or contracting out. On the political side it seems it is easier to hire a private company with their 'new quick fix' program to come in than to deal with the true realities of the social and economic factors that are the underlying causes of the problems privatization is supposed to fix. On the economic side there is a lot of venture capital around and education is a multi billion dollar industry from which the venture capitalists hope to make money.

Much has been learned by the private sector about investing in the public school market. Just three years ago private firms were bragging pretentiously how they would get immediate results, quickly turn around teachers and students, streamline decision making and cut the fat and the deadwood out of the school system by applying the strategies of the business world (McLaughlin, 1995).

Today, the braggadocio is all but gone, and respect for public schools, administrators, and teachers is rising in these circles. The private companies have learned how difficult it can be just to run schools in their present form, much less change their structure, objectives, and measures of success (McLaughlin, 1995).

My concerns for the future of privatization are many. I would like to address two from my personal experience with privatization. My school system contracted with Sylvan Learning systems to provide services within our public schools. Through the insistence of the teachers' union, Sylvan's contract was a departure from their usual and they agreed to train and utilize district teachers. Sylvan was hired through the insistence of our superintendent. Our superintendent is now leaving to become regional vice president with Sylvan Learning Systems (Gardner & Tosto, 1988). My question is, for whose benefit was the contract with Sylvan written? My other concern is that individual schools within our district are acting as their own contractors. These schools, under pressure by the district to find the magic potent to raise test scores, have been acting as their own contractor and spending large amounts of tax dollars on programs believed in by only a few influential people within the school. As concerned citizens we need to keep a watchful eye on the privatization debate, remain informed and work to uphold the goals we feel important.

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