

# Outsourcing education: The rise of virtual schools

## Part 1—Virtual charters spreading across the US

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30 August 2011

There are a growing number of American young people for whom “going to school” is now logging in at the family computer.

Virtual schools—those conducting all lessons via the Internet, as opposed to “brick and mortar” traditional schools—are now entrusted with the education of children as young as kindergarten and pre-kindergarten. An estimated 1.5 million American youth participate in online education today.

While a slash-and-burn campaign is destroying public education, the Internet revolution has been seized upon to force children to teach themselves—sometimes partially and sometimes entirely.

These initiatives have been given a green light by the Obama Administration’s Race To The Top, which rewards those districts which embrace charter schools, virtual schools, online learning, merit pay and destruction of teacher rights. All of these elements are, in fact, tied together. The 2012 federal budget has specially allocated \$26.8 billion for such “reform-oriented competitive initiatives” including \$372 million for charters.

These “reforms” take place as the administration spearheads unprecedented cuts to federal, state and local funding for education. Twenty-three states have enacted draconian changes in state funding this year alone. For example: Illinois is cutting overall aid to schools 11 percent, Kansas 6 percent, New York 6.1 percent, Ohio 7.5 percent, Pennsylvania 7.3 percent and Wisconsin 8 percent. [1]

Obama’s Education Secretary Arne Duncan has made no secret of the relationship between cuts and “reforms,” urging school districts to “do more with less.” [2]

In a speech last November 2010 Duncan hailed the example of virtual school Utah Open High School. He stated, “Technology can play a huge role in increasing educational productivity,” adding, “the military calls it a force multiplier.” Urging “better use of online learning, virtual schools, and other smart uses of technology,” he said that educational success requires schools to reduce “wasted time, energy, and money.”

Doing more with less—at least the latter is true. A survey on 20 virtual charters in 14 states indicates the cost of online learning is “roughly half that of traditional public schools” or about \$4300, according to a Brookings Institute study. [3]

There is less social interaction, less collective learning, less peer engagement and less individual attention and certainly less teachers—and teachers with less benefits, less job security and less resources. But there is more profit for the education industry. In fact, simple math would indicate a \$4300 per child cost would translate into \$2,000 or more per student profit, depending on the state’s allocation from taxpayer funds. Without the hard costs of buildings, maintenance or transportation, virtual schools clearly can entice districts facing extreme budgetary pressures.

Some virtual charters require a parent or adult to sign a contract as an “education coach,” some employ “facilitators,” and some house groups of certified teachers in cubicles who respond to questions and check homework. To the producers of the Brookings report, this kind of warehouse teaching means “virtual charter schools offer the promise of increasing the productivity of the education system.” Clearly the potential increase in the ratio of students to teachers dramatically impacts what is considered productivity.

While not all online students attend full-fledged virtual schools, many of those part-timers take a significant segment of their coursework—including core classes—in computers labs, doing packaged programs while the teacher/facilitator functions as a room monitor.

There is no doubt that the Internet and the information revolution represent a huge educational and communications advance for society and should be thoroughly incorporated within education. These initiatives, however, are motivated not from the standpoint of expanding education, but from restricting it. The technology has become another vehicle to justify the shuttering of schools and programs and starve the public education system of funds.

Since most virtual schools are run by for-profit charters, the operating funds come from taxpayer coffers and are then funneled into various corporations. The fact is that virtual and online education is becoming a new source of huge profits.

The nation's largest single provider of virtual schools is K12, a for-profit Education Management Organization founded and substantially owned by Michael R. Milken, the notorious “junk-bond king” and securities fraud felon (initially sentenced to 10 years, serving 22 months), together with former Goldman Sachs banker Ron Packard. This publicly traded firm now has about 81,000 students in 27 states, earning \$1.5 million in profits last year. As of this year, its stock valuation has doubled. Three-quarters of K12 schools failed to show sufficient progress, according to a December 2010 study of companies running for-profit charter schools by researchers at the University of Colorado at Boulder and Western Michigan University in Kalamazoo. This number compared with 45 percent of the physical charter schools in the study. [4]

The biggest beneficiaries of this process, however, appear to be the investment firms behind the scenes. For example, in July of this year Providence Equity Partners purchased Blackboard, Inc. Blackboard, well known to parents and students across the country, is a learning management software company, through which thousands of students, teachers and parents communicate and download educational content. The company, only founded in 1997, was sold for \$1.64 billion to Wall Street investors at substantially above its stock valuation, indicating confidence in future profits.

Wireless Generation, a testing and software online education program, was purchased for \$2.3 billion in November 2010 by Rupert Murdoch's News Corp., currently embroiled in the cell phone hacking scandal.

Last April, Pearson, the owner of the *Financial Times* and book publisher Penguin, purchased SchoolNet, another software content and management firm, for \$230 million. Pearson stated as motivation for the investment, “Barack Obama's administration has allocated about \$17bn to states and districts to support school improvement, through programmes such as Race to the Top, to use data and technology to help prepare students for college.”

Connections Academies is a private for-profit with virtual schools in 18 states. It is primarily owned by Apollo Global Management LLC, a private equity investment firm founded in 1990 by Leon Black (#310 in Forbes billionaire list, son of Eli Black of United Brands who committed suicide after being caught bribing the president of Honduras.) The firm is one of the world's largest private equity firms controlling over \$70 billion in investments.

#### Notes:

- <http://www.cbpp.org/cms/index.cfm?fa=view&id=3550>
- <http://www.ed.gov/news/speeches/new-normal-doing-more-less-secretary-arne-duncans-remarks-american-enterprise-institut>

- Charter Schools: A Report on Rethinking the Federal Role in Education, Brookings Brown Center Task Group on Charter Schools, December 2010
- “Education According to Mike Milken,” Bloomberg Businessweek, June 2, 2011



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