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THE MONEY ISSUE

How Many Billionaires Does It Take to Fix a School System?

For as long as wealthy Americans have given their money away, education has been a leading recipient of their largess. Andrew Carnegie, Henry Ford, John D. Rockefeller: the biggest philanthropists of the 20th century all gave significant portions of their fortunes to schools, teachers and libraries. Today, according to the Foundation Center, about a quarter of all foundation giving goes to education; overall, only religious organizations receive more charitable donations.

Since the turn of the millennium, education philanthropy has been undergoing a major transition, as a new generation of donors has emerged. The most prominent giver is the [Bill and Melinda Gates Foundation](#), which made its first education donations in 2000 and now directs more than \$350 million a year to schools. But Gates is not alone, and the philanthropists who have followed often arrive armed with controversial ideas about education and some very different approaches to giving their money away. Last month, The New York Times Magazine invited five interested parties to lunch to discuss the new world of educational philanthropy. What follows is an edited transcript of the conversation.

Participants

Steve Barr is the founder and C.E.O. of Green Dot Public Schools, a charter-school operator based in Los Angeles. **Frederick Hess** is the director of education-policy studies at the American Enterprise Institute.

Vanessa Kirsch is the founder and president of New Profit, Inc., a venture philanthropy fund based in Boston. **Joel I. Klein** has been the chancellor of the New York City school system since 2002. **Tom Vander Ark** is the president of the X Prize Foundation. Until 2007, he was the executive director for education at the Bill and Melinda Gates Foundation. **Paul Tough** is an editor of this magazine. His book about the Harlem Childrens Zone, “Whatever It Takes,” will be published in September.

I. Investing in a Disruptive Force

Paul Tough: Here’s our scenario: We’ve been brought together today by a high-tech entrepreneur whose company just went public, netting him \$4 billion. He has decided to give half of his fortune away, and he wants to give it to education — specifically to primary and secondary education in the United States. But this is not a field he knows. He has been working hard for the last decade, and he hasn’t thought much about philanthropy. So he has assembled this panel of experts to give him advice. Rick, let me start by asking you: What kind of impact will this gift have? Is \$2 billion suddenly being injected into the realm of K-12 education a big deal?

Frederick Hess: Not on its face; it’s just a ripple. Each year, nationwide, about \$500 billion is spent on K-12 education, and almost all of it comes from taxpayers. By that measure, this gift is a fraction of 1 percent of total expenditures. But in terms of existing philanthropy, yes, \$2 billion actually would be a huge deal. No

one has exact figures, but the best estimates are that K-12 educational philanthropy in the United States totals nearly \$4 billion a year. So if our billionaire decides to spend the entire \$2 billion just in fiscal '08, that would be a big portion of the national total.

Tom Vander Ark: But if he does what most philanthropists do — puts it in the bank and only spends 5 percent each year — then it's a relatively small portion.

Hess: That's true.

Vander Ark: Which is why many newer donors are opting for a quicker spend-down. If that's the case with our billionaire, here's one question for him to consider: Do you think you can spend that much, that rapidly, in a high-leverage, high-impact fashion? The answer to that question is probably no. It's a challenge trying to spend even 5 percent of that in a highly leveraged and effective way.

Joel I. Klein: Tom, just send that money in my direction! If you can't spend it fast enough, I'll show you how to do it.

Vanessa Kirsch: I think the amount of money is not necessarily the primary decision for our billionaire. He should really be thinking about the strategic influence he can have. Because if you are strategic about it, you can have an incredibly powerful impact with less money. Philanthropy can help invent and develop new programs and projects that work. And then it can help to scale those programs, so that they can be demonstration models that can really change an entrenched system.

Tough: Joel, you run the country's biggest school system. What if this money was simply added to New York City's regular education budget for next year? Would you be able to make a difference with it?

Klein: Well, I agree with Vanessa that philanthropists should think strategically, and what you're suggesting would be about as nonstrategic an investment as you could make. Which is not to say that I wouldn't like an additional billion dollars next year. But I think our billionaire should think about this entirely differently. There are two things that I would do with this money. One, I would try to set up a national institute for educational policy that does serious research. This is an industry in which there are so many myths, and that's because there are such large gaps in our knowledge right now. And second, I would make bets on a few selected individuals. Look, we have lots of wonderful examples in America of educational success. The work Steve is doing with Green Dot is a terrific example. But what we don't have is an entire urban school district — one that's predominantly made up of minority kids, with lots of English-language learners and lots of poverty — that really works, that works in a way that people say, "O.K., I want to replicate that district." To get there, you're going to need a combination of circumstance and individuals. I would look for the most promising individuals and make heavy investments in them. Let's say you choose Michelle Rhee, the new schools chancellor in D.C. That school system has long been one of the worst-performing in the country, and Michelle wants to really overhaul it. I think our philanthropist could make an eight-year bet on her. It's the same kind of thing I would have wanted to have happen to us when we started six years ago in New York. To start, I'd give her a couple of million to do some planning. Then I'd ask her to sit down and show me what strategic investments she thinks a philanthropist could make in D.C. that the system itself, for whatever reason, is not going to make. And I would try to make three or four of these strategic bets around the country, on individuals who I thought had the talent, the longevity and the political support to make significant

change feasible.

Tough: And are those individuals all superintendents of school systems?

Klein: Yes, superintendents with firm support from the mayor. What you need to create — and what, despite our progress, we haven't achieved yet in New York — is a school district that people from other cities can come to and say: "This works. All we've got to do is replicate this."

Tough: Steve, Eli Broad, who is one of the biggest philanthropists in the education world, recently decided that he wanted to make an impact on the Los Angeles school system. But rather than doing what Joel is suggesting and making a bet on the superintendent, he made that bet on you and some other charter-school managers. Why?

Steve Barr: Because I'm a disruptive force. And he's betting on that force gaining enough momentum that it will ultimately change the system, not just in L.A. but elsewhere, too, in a way that really realigns the education debate. The problem right now in education reform is that there is a tribal mentality. We have nonunion charters spitting out studies saying how good they are versus the unions doing the opposite. If you can find the common ground between those two groups, then you can start to move past that gridlock. In the fall, Green Dot is going to open a new charter school in the South Bronx, and it has the support not only of the mayor and the chancellor but also of the president of the biggest teachers' union local in the country. That's what change looks like, and that's the kind of innovation that I would advise somebody to invest in. I think that's why people invest in Green Dot. I like that we get good numbers and our test scores and graduation rates are fantastic, but people really invest in us because we're a disruptive force. Our philanthropist should go out and find 100 people who are where I was a decade ago or where Mike Feinberg of the KIPP network of charter schools was a decade ago and invest in them.

Tough: So is this the choice we're giving our philanthropist? You can either put your money behind three or four great superintendents or you can invest in 100 disruptive outsiders?

Klein: I don't see it as either/or. In New York, I've used philanthropic dollars to try to attract outsiders to the city, charter operators like Steve Barr or Dacia Toll of Achievement First. The Gates Foundation has invested more than \$100 million in New York City since 2002, and a huge chunk of that has gone to these intermediaries. That has been critical. In fact, we've now developed several of those intermediaries into what we call school-support organizations, and we're directly collaborating with them. But I'm skeptical whether disruptive forces are the right thing for our philanthropist to look for. I would rather look for people who can work the system from the inside, like Michelle Rhee.

Barr: Well, there are different kinds of disruptive forces. The reason I came to New York is because of the disruptive force that arrived here a few years ago named Michael Bloomberg. But the system, when you first look at it, needs a huge shaking.

Klein: Absolutely.

Barr: And either it comes from the top, like you did in New York, or it comes from the bottom, like we're doing in L.A.

Klein: But what you're trying to do is shake the system from outside the system. What I think is fascinating now is that in certain cities, the people who are the change agents, the disruptive forces, if you will, are the people who are trying to run the system. And that's a different strategy.

Kirsch: I think these two strategies go hand in hand. In Washington, Michelle Rhee has been able to use nonprofits to do things that she can't do herself. She's got Teach for America bringing young, dynamic teachers into the D.C. public schools. New Leaders for New Schools is helping her train and select a new generation of principals. And the social entrepreneurs who run those nonprofits can only succeed if they're backed up by philanthropy. They have very limited access to government dollars.

Vander Ark: This is the big debate in education philanthropy right now. There are two camps: the "fix the system" people and the "replace the system" people. There are philanthropists who only want to help the system get better, and they only invest through public-school districts. And then there is a group of philanthropists who don't believe the system can be fixed or should be fixed, and they only invest in alternatives to the system, like voucher programs or charter schools. There are a few, like the Gates Foundation, that attempt to be a bridge. When I was at Gates, our belief was that if your long-term goal is to provide quality schools for all kids, then you have to do both. One of our main educational initiatives was to start new small high schools. It was mostly an outsider approach, and it was pretty successful. Of the 1,200 new schools, 80 percent of them are going to be good to very good. That's a high rate of success. But we only reached, with those schools, 3 percent or 4 percent of American high-school students. You look at that and you say: "O.K., that was a good investment. It's going to stick; it has lots of sustainability — but it won't grow to scale fast enough." If you want to make a real impact, you have to work inside the system, too.

II. Infrastructure vs. Sexy Money

Hess: I think these two camps tend to make the same analytic mistake. Ten or 20 years ago, the dominant givers in education were trying to work through districts. There was the Kellogg Foundation, the Packard Foundation, the Ford Foundation, all working from the inside. The biggest example was the Annenberg Foundation. In 1993, former Ambassador Walter Annenberg went to the White House and announced a \$500 million gift to education. He said, essentially, "We need to drop a bomb on American urban education to shake things up." Local foundations made matching gifts, so Annenberg's \$500 million was leveraged into more than \$1 billion, invested in more than a dozen communities. And generally speaking, it was a substantial disappointment. There was very little change in an ongoing, meaningful way. You know, there's a reason that Univac wasn't able just to become [I.B.M.](#), and there's a reason I.B.M. couldn't just become [Microsoft](#) and Microsoft couldn't just become [Google](#). Organizations bake in the assumptions and the processes that made them successful. The way you hire your people, the way you reward your people, the internal practices you devise — they are all built around a certain set of assumptions and operations. When that larger world changes, it's tough to retool. So when these reform-minded superintendents come in, like Alan Bersin when he arrived in San Diego or Paul Vallas when he got to Philadelphia or Joel Klein here in New York, they face enormous challenges. A school system is not an agile, nimble organization where if you can just hire the right people and start the right programs, you can turn things around quickly. You've got to work your way around outdated staffing processes, inadequate and bulky information-technology systems, abysmal and poorly conceived data-management systems. Alan Bersin was five years into his tenure in San Diego before teachers stopped putting transfer requests into a wooden box.

Tough: O.K., that's the problem on the fix-the-system side. What is the mistake that the replace-the-system people make?

Hess: Those folks take the wrong lesson from successful programs like Green Dot and Achievement First and KIPP. They say, "Look, let's just create options, and more good alternatives will emerge." It's a little bit like the mistake we made in planning for the Iraq war in 2002 and 2003: if we create a vacuum, good stuff will happen. Well, you know, effective markets aren't created by vacuums. Markets are ways to channel human energy and ingenuity, but only when they're transparent, when they're structured, when you're building on human social capital, when you've got talent and investment capital. If we really want to think about new solutions, it's not just identifying the right people and the right programs; we need to create an environment where these people and solutions are able to thrive. So for me, if you're going to do a locale-based strategy — whether it's L.A. or New York or D.C. — the most important strategy is not putting money into the system and it's not funding the five best charter operators. It's attracting aggressive human-resource operations like New Leaders for New Schools or the New Teacher Project. It's providing the kind of legal and business support that those programs need in order to expand and grow. These are things that philanthropists tend not to invest in because they're not sexy but that are actually going to determine whether we're able to make reforms work or not.

Klein: It's the hardest money to raise. When I go to a lot of businesses looking for donations, they say, "Well, I'll build a new school library," or, "I'll build a gym." And that's cool. I mean, we need all the libraries and gyms they can build for us. But it's not strategic. We've got lots of schools with great gyms and libraries that are not doing anything for their kids. I mean, maybe they're playing basketball. But smart philanthropists will invest in just the kind of things that Rick is talking about. In order to make real change, you have to understand human resources, you have to understand technology and the transparency of data and the ability to actually reward people for things other than showing up. These are fundamental game-changing strategies. And you need money from philanthropists to get that off the ground.

Hess: It's not sexy money.

Klein: It's not. But it's exactly where philanthropy has been very effective in New York. The Broad Foundation and the Gates Foundation and the Tiger Foundation gave us money to totally retool our H.R. system. If I had tried to get that money from the existing budget for that kind of overhaul, it would have been next to impossible. But outside money is much more flexible than government money. So with philanthropic support, we were able to create a pilot program, get it off the ground, tinker with it, prove it worked — and only then expand it with city funds.

III. Inputs vs. Outcomes

Tough: Vanessa, is it hard to get potential philanthropists to think about these more systemic investments? Do they all start off wanting to donate gymnasiums and libraries?

Kirsch: In the past, I think that was true. But we're seeing a new kind of philanthropist. They don't want to put their name on a gym; they don't want to put their name on a building. They want to see change. My company is a venture-philanthropy firm. We work with about 50 wealthy donors, and we bundle their money and invest it strategically in a variety of nonprofits. And when these donors are starting out, I tell each of

them that as they turn to philanthropy, it is important for them to keep their business hat on. They should spend their money the way they made their money, which means investing in great people, testing out new ideas, being tough-minded in evaluating what's working and what isn't.

Tough: Your approach sounds a little different from what Joel was describing. Instead of creating a single national strategy where all the parts fit together, you're looking to support lots of different people who have a variety of different ideas.

Kirsch: I think those two approaches can reinforce each other. One of the things that makes America great is its entrepreneurial system. We have entrepreneurs in every corner of the private sector, and we have capital markets to support them. If you're a Silicon Valley entrepreneur with a brilliant idea, there is a whole system in place to help you turn that into a successful enterprise: angel investors, consultants, seed capital, incubators. There are many talented entrepreneurs in the social sector too, but for those social entrepreneurs, there are no organized capital markets or support systems to give them the help they need to be the disruptions and innovators — and, just as important, to get their innovations to scale.

Vander Ark: Getting to scale is critical for two reasons. The first is straightforward: you want to take good organizations to scale so low-income kids have more access to good schools. The second reason is to reinvent the sector. And it's terribly difficult to scale nonprofits today.

Kirsch: You're right. The average grant from foundations to nonprofits is \$50,000. Which means that if you're running a nonprofit, you're constantly living hand to mouth, year to year. The advice I'd give a philanthropist who wanted to support social entrepreneurs is to invest in the long haul. Take the things that work and double down on them and triple down on them and stick with them, because without that kind of support, growth is really difficult for a nonprofit. I mean, it's hard to grow any business. But growing a social enterprise is incredibly hard.

Vander Ark: Whether our philanthropist chooses one big coordinated strategy or a series of smaller entrepreneurial bets, I would suggest organizing most of this giving around a specific geography — a city or a region — so that we can tie it to a set of student outcomes. Particularly if this is a new investor in education. One reason that people are drawn to education philanthropy is that they want to give back to kids, right? They want to make a connection with young people and feel that they're helping the next generation. And if you invest in a specific place, you can go visit schools and have a tangible, visceral, personal sense that you're making a difference for these kids and the kids that will follow them. That's not unimportant for an investor whom we're asking to sustain this energy and investment for a decade or more.

Kirsch: Well, if you look at our 50 investors, there are certainly some who would like the idea of a place-based, integrated, synthesized solution in a single city. But philanthropy is very personal, and each donor is different. We have other investors, more often venture capitalists and people who are used to investing in great entrepreneurs, who just want to know what the next five best inventions are out there and what needs to happen in order to expand them and take them across America. That makes sense to them because that's what they've done with their companies. Every philanthropist has their own motivation, and what they give to has to be tied to that motivation or they're not going to stay in it. Because the reality is, it's hard work to give away money. Most of our investors discover it's harder to give it away than it was to make it.

Klein: In the last few years, there has been a paradigm shift in the philanthropic community. Increasingly, what matters to donors is outcomes. When Tom was with the Gates Foundation, the first big plan we developed together was a project to take large high schools that weren't working and break them up into a series of small schools under a single roof. And from our very first meeting, Tom wanted to know about outcomes. He said, O.K., how many more kids will these new schools graduate, compared with the schools they are replacing? And that is a very different approach than you would have seen 10 years ago, when most of the philanthropy that went to education was about inputs.

Tough: What do you mean by inputs?

Kirsch: Historically, when philanthropists would give money to a nonprofit or a school system, they would say, "I want to fund this many kids." And the next year they could ask the organization they had funded, "Well, did you reach that number?" And if you funded that many kids, the grant was considered a success.

Klein: Donations were measured by how many kids they reached, not by what effect they had on those kids. And, in fact, a lot of the money that goes into education still goes into inputs. I recently had a discussion with a major philanthropy that wanted to invest in some programs in the city, and I asked them, "What are the results you expect this to produce for your investment?" And they had no clue. But increasingly, that's a rarity. There's been a shift. I'm sure Steve sees it, too. If he doesn't produce results, even though everybody loves him, his funders are not going to continue to fund him.

Barr: Listen, you're only loved if you get results. Every dollar we get is tied to numbers. The bottom line for my funders is that I tell them that when we take over a high school in L.A., we will achieve a 200-point jump in scores on California's Academic Performance Index, which is measured from 1 to 1,000. If we go under that, funding stops, growth stops. But I like the challenge. I think it's actually a great thing. Personality will only get you so far. Results are what really matters.

Kirsch: But now that philanthropists are focused on outcomes, things are more complicated for both the givers and the recipients. A lot of programs actually take a few years to have an effect, and sometimes you need to tweak the methods along the way. And so as a philanthropist, you need to look deeper into the operations of an organization. It's a much more complex process to be a good philanthropist if you're investing in long-term, system-changing outcomes. But it's also far more rewarding.

Klein: And when people start to focus on the outputs, it will change the discussion in public education. Right now, any place you go, any city in the country, if there's a debate about education, the main question is: "How much do you spend on this? How much do you spend on the arts; how much do you spend on science? How much do you spend on class size?" But you cannot get a meaningful public debate going about a more important question: What is the return on your investment? This philanthropic movement that Vanessa is describing is kind of a wedge movement into the way we think about education more generally. If we can shift that discussion, then we may actually start to develop more rational resource allocations. That would be a major change.

Hess: This is a relatively new phenomenon, this notion of the social enterprise as something with defined objectives. Historically, one of the biggest philanthropic projects was Andrew Carnegie's library initiative in the late 1800s. It was phenomenally successful. It put libraries in about 1,400 communities. But in fact, these

were bookless libraries, because Carnegie said: “It’s the community’s job to buy the books. I just want to create the capacity.” There’s a big advantage to that kind of philanthropy: once you give the money, you’re done. You’ve accomplished your goal. You don’t get into all of these complex questions about what kind of impact your money is having. And most of the foundations that were dominant in education until 8 or 10 years ago were attuned to that model.

Klein: But there have been major new entrants into this philanthropic space recently. The Gates Foundation came along less than a decade ago. Eli Broad started investing in education only a half-dozen years ago, and he’s going to continue to invest heavily in it. You’ve got the Dell Foundation, which is reasonably new. Ten years ago, who was in education? Rockefeller, Ford and Carnegie all did some good work. But now the list of the biggest funders is completely different. And these new people are highly entrepreneurial. They haven’t become ossified. I think it’s enormously exciting that the richest people in America are taking significant chunks of their fortune and putting it into K-12 philanthropy.

IV. Politics

Vander Ark: There’s one other arena that I’d recommend that our philanthropist invest in, and that is public policy. By law, a charitable foundation can’t lobby for specific legislation. But you can hire people to inform legislators and build public awareness and build alliances, and all that is critical. Those investments will protect and support the investments that you’re making in urban areas, and they will also create the future where the small demonstration models you’re funding can be taken to scale through good public policy. This part of the work is difficult. It is long-term, and the returns are indirect. But if it’s done well, it can be super-high-leverage.

Hess: The school-choice community has done this very effectively. In Wisconsin, the Bradley Foundation and the Olin Foundation were instrumental in getting the Milwaukee Parental Choice Program passed — the first real voucher model in the country. They were then instrumental in providing political air cover for the program. They found and supported researchers to document it, and they helped promote it nationally. The Walton Foundation has done the same thing with charter schools. Walton has not only directly supported an enormous number of charter schools, but they have also given money to document what’s going on in charter schooling and to support the political constituencies that are advocating for charter schools in states and nationally.

Barr: Philanthropists need to take some time to really learn and understand how the policy world works. If they’re interested in disruption, they need to understand that their disruptions won’t ever really take root unless the whole political ecosystem embraces them. In Los Angeles, we’re trying to figure out how to create political will around the idea that every high school in the city should look like a Green Dot school — not that they should all be charter schools but that they all should be run according to the same kind of principles and they should all achieve the same good outcomes. We decided to create a parents’ union. Everybody’s got a union, right? Everybody but the parents. So we got a group of parents together, some affluent and some nonaffluent, all of whom want the schools to change. And the group has now grown to 4,000 people. There are 15 chapters. If we can get a parent revolt going in Los Angeles, that is the kind of political change that can really move the game.

Klein: But I wonder how much appetite there actually is among philanthropists for this kind of political advocacy. New entrants into the field don't usually want disruptive strategies. Building new schools and closing old ones, like Gates did in New York, was to some degree controversial. To do a massive 10-year reform piece, which I assure you will be noisy, you don't do that without a political cost.

Vander Ark: When Bill and Melinda Gates began investing in education in 2000, they were very reluctant to devote any money to policy-related efforts. We did almost none of that for the first two years. But each year thereafter, they became more deeply invested in and sophisticated about public-policy efforts. And by February 2005, Bill was on the stage at the National Governors Association conference, and 35 states signed up for a program to make sure that high schools were preparing students for college and work. That was a big political coalition, and that had a good deal to do with Bill being there. It was an important political moment in the life of the Gates Foundation, but it took us five or six years to build up the confidence in our ability and our sense that it was the appropriate thing to do. And that was only half-controversial, right? Taking on some of these other issues — working conditions, teacher pay, school choice — these are enormously controversial. And people new to education philanthropy are typically going to be very reluctant to step onto the third rail with their very first step.

Hess: But the reality is that these things won't change without philanthropy. The problems are too complicated and the politics are too dogmatic at this point. We can't solve it without outside intervention. We'll need smart people to invest in solutions that can help illuminate the path forward. At its best, that's what philanthropy can do.

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