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## A Competitive Vision for American Education

*Theodore J. Forstmann*

*Senior Partner, Forstmann Little & Company  
Cochairman and CEO, Children's Scholarship Fund*



**THEODORE J. FORSTMANN**, a graduate of Yale University and Columbia University School of Law, is cofounder and senior partner of the private investment firm Forstmann Little & Company, which has invested nearly \$15 billion since 1978. In addition to his success on Wall Street, he is an active board member and major contributor to a number of organizations and causes, including the International Rescue Committee (providing medical care for Bosnian children), Nelson Mandela's Children's Fund, New York's Inner City Scholarship Fund, the Boggy Creek Gang Camp, the Silver Lining Ranch, Freedom House, and the Cato Institute. Most recently, as chairman and CEO of the Children's Scholarship Fund, Mr. Forstmann led the effort to create equal educational opportunity through a competitive educational environment by providing \$170 million in scholarships enabling 40,000 low-income children to attend the school of their choice.

*When the Children's Scholarship Fund awarded 40,000 private scholarships last spring, it did more than change the lives of low-income children—it changed the education debate forever. The tidal wave of applications for these scholarships gave irrefutable proof of the huge demand for choice in education, especially in inner-city communities.*

*This month, Imprimis features a speech by entrepreneur Theodore J. Forstmann—the man who launched the Children's Scholarship Fund and brought it to the national stage. His remarks were delivered last May, on the heels of his unprecedented National Scholarship Lottery, at Hillsdale College's Shavano Institute for National Leadership seminar, "Education in America: Schools and Strategies that Work," in Cleveland, Ohio.*

**T**he 13th-century Italian poet Dante observed, "A great flame follows a little spark." For me, the spark was ignited by my involvement, beginning many years ago, with the Inner City Scholarship Fund, which is run by the Archdiocese of New York.

I was so impressed with their success in helping to educate children at half of what it costs the public schools to *fail* to educate the same children that I thought, why not start a similar enterprise to help low-income families seek a good education wherever it can be found? I got together with John Walton, one of the directors of Wal-Mart Stores, Inc., and we offered 1,000 scholarships to low-income students in Washington, D.C. After a few months, with virtually no media coverage and no advertising, we had received nearly 8,000 applications. This huge demand persuaded us to go national. In June 1998 we donated \$100 million

Also in this issue:

**Virginia Gilder  
& Fritz Steiger**

toward funding 40,000 scholarships, and the Children's Scholarship Fund (CSF) was born.

We had never done anything like this before, and we were learning as we went along. Throwing a lifeline to kids trapped in the worst schools seemed like a good idea, but would others be willing to brave the inevitable controversy and support our cause? We soon found out. Those who stepped forward to join the CSF board included civil rights leaders such as former U.N. Ambassador Andrew Young, Southern Christian Leadership Conference President Martin Luther King III, and the YWCA's Center for Racial Justice founder Dorothy Height; national leaders such as General Colin Powell, former White House Chief of Staff Erskine Bowles, former First Lady Barbara Bush, Senate Majority Leader Trent Lott, and Senate Minority Leader Tom Daschle; sports and entertainment figures such as baseball legend Sammy Sosa, actor Will Smith, former Walt Disney President Michael Ovitz, Black Entertainment Television founder Bob Johnson, and MTV President Tom Freston; and business leaders such as Mattel Chairman and CEO Jill Barad and America Online founder Jim Kimsey.

The board's diversity has been a source of strength and personal pride. But as we were lining up the members, I remarked to my partner, "The way things are going, you and I are going to end up being practically the only Republicans on CSF's board." John replied, "Ted, I think there's something I'd better tell you. I'm not a Republican."

## A Turning Point in American Education

**IN TRUTH**, Republicans and Democrats from all walks of life were generous, not just with their time and effort but also with their money. Soon we had raised \$70 million to add to our investment of \$100 million, and on September 28, 1998, we announced programs in 40 cities and three states. As telephone calls, faxes, e-mails, and letters poured in, we thought, why limit our scholarships to these areas? We worked through the logistics, and on *Oprah* on February 2, 1999, we declared that we were making scholarships potentially available to *every single low-income family in the United States of America*.

Nothing, not even our earlier experience in Washington, D.C., could prepare us for the explosive demand for scholarships. By the March 31, 1999 deadline, we had applicants from 22,000 cities and towns in all 50 states. In many cities, huge blocs of the eligible population applied: 26 percent in Chicago; 29 percent in New York; 33

percent in Washington, D.C.; and a whopping 44 percent in Baltimore.

In total, over a six-month period the Children's Scholarship Fund received *1.25 million private scholarship applications*. Such an overwhelming response was almost inconceivable, especially since it came only from the relatively small segment of the population that had *heard* of our program.

Please remember that this was no "free lunch." We were offering partial scholarships for low-income students. Their parents earned an average annual income of less than \$22,000 and had to contribute, on average, \$1,000 per year toward tuition. If all 1.25 million families who applied for our private scholarships contributed \$1,000 every year for four years, it would add up to \$5 billion. Five billion dollars from families that had very little but were willing to make great sacrifices in order to escape the system to which their children had been relegated.

In anybody's book this has to be an amazing demonstration of widespread dissatisfaction with the present education system—and of widespread demand for alternatives. That is why April 21, 1999—CSF's "National Lottery Day"—will be long remembered as a turning point in the history of American education.

The parents of 1.25 million children put an end to the debate over whether low-income families *want* choice in education: They passionately, desperately, unequivocally do. Now it is up to the defenders of the status quo to tell them, and the millions they represent, why they cannot have it.

We have heard the public education establishment's arguments before. But as pressure for educational choice grows, as now it must, we are bound to hear them with increasing frequency and exaggeration. They tend to fall into four categories: (1) the policy argument, (2) the historical argument, (3) the civic argument, and (4) the legal argument. Like all arguments designed to deny freedom, they ultimately reveal a hollow core.

## The Policy Argument

**THE POLICY** argument against choice in education runs something like this: since 90 percent of American children are in the public education system, we must devote all our energies to "fixing" that system. We must also fight educational choice, because choice brings competition, and competition will "destroy" the public schools.

It is certainly true that 90 percent of American children currently receive education from the government delivery system, or what we euphemistically call

the “public education system.” But this is precisely why we must embrace choice rather than reject it. A system that can command, indeed, enforce a 90 percent market share is a monopoly. And as everyone knows, monopolies produce bad products at high prices.

Why? When there is no competition, customers have no alternatives. And when there are no alternatives, customers have to accept whatever a monopoly decides to produce and pay whatever a monopoly decides to charge.

This is exactly the dismal record of the government’s longstanding monopoly in education. In the past forty years alone, public schools have almost quadrupled per-student spending while reducing the student/teacher ratio by nearly 40 percent. Yet overall student achievement has not improved, while areas as fundamental as basic literacy and school safety have worsened. Take just one example: Inner-city public schools in New York spend the hefty sum of \$8,000 a year on each student. Yet half the students don’t make it to graduation.

Parochial schools in the same neighborhoods spend about \$3,500 per student. Nearly all the students graduate and most go on to college or professional school. Is this because parochial schools and other private institutions steal the “best” students from the public schools? Certainly not. They accept all kinds of students, including the learning impaired and the physically disabled, the undisciplined and the underachieving.

In the face of the shabby performance of public schools, not just in New York but across the nation, we are told that if we just keep plugging away at the same old failed solutions—if we spend more money, hire more teachers and administrators, create more government commissions and regulations—we will get different results.

In the meantime, what happens to the child? To the defenders of the status quo this is not the primary concern. The primary concern is not what happens to the *child* if he is forced to stay, but rather what happens to the *system* if he is free to leave. By this reasoning, no matter how bad the situation gets, *we must not help the child to leave*, lest in leaving he makes a bad situation worse. Does this make any



sense at all? Does the child exist to serve the system, or does the system exist to serve the child?

Even if the policy argument were not morally bankrupt, it runs counter to settled economic truths. Long before the Sherman Anti-trust Act (a flawed but popular piece of legislation) was passed in 1890, Americans recognized

that monopolies stifle innovation and defraud the customer. The solution has never been to *increase* the power of the monopoly. The only remedy, one that has worked time and time again in American experience, is to encourage competition.

## The Historical Argument

**COMPETITION MAY** be deeply ingrained in our nation, but according to opponents of choice so, too, is public education. This is the historical argument against choice, which alleges that America was founded upon a system in which government was given the primary responsibility for educating citizens. In other words, the public schools constitute the very underpinnings of our democracy, and they reflect our founding fathers’ deepest aspirations and ideals.

The problem with this argument is that it is false. The government delivery system we have come to know as public education wasn’t established until nearly 100 years after the American founding. The system it forcibly replaced—the system of education our country *was* founded upon—was characterized above all by diversity, competition, and choice. Parents could choose from different options, while competition spurred innovation and expanded services. This approach wasn’t perfect, but it worked well, and it was improving steadily. Not only did it produce some of the greatest Americans in history, but it also produced a well-educated, highly literate citizenry.

## The Civic Argument

**SUCH REVELATIONS** don’t seem to faze the antichoice crowd. Its members simply “step over”

history and move on to the civic argument against choice. They admit that the free market approach to education may have worked in a more homogeneous society, but they add that in today's "diverse culture" we need public schools to promote social harmony and teach civic values.

At least this argument is a more honest echo of the sentiments first voiced by public education's early pioneers. While Horace Mann and his followers did believe in the efficiency of a government model, there was also something else at work in the mid-19th century. Huge waves of immigration prompted many Americans to fear foreigners. Education reformers simultaneously played upon these fears to demand assimilation and to raise doubts about the ability of immigrant parents—confronted by language barriers as well as differences in religion, culture, and customs—to make proper decisions about the best education for their children. The solution they proposed was to "filter" immigrant children through a standardized public system.

Conflict began immediately. After the creation of uniform public institutions, families that had peacefully coexisted in all kinds of different schools (nondenominational, Catholic, Quaker, Lutheran, etc.) and in different curricular programs (emphasizing classical, technical, or vocational learning) now found themselves at odds with one another. Parents were faced with an unwelcome dilemma: either accept that others' values would be imposed on their children or try to impose their own values by taking control of the system.

The particular issues sparking conflict are always changing, but the dynamic remains the same. Look at the most recent battles over creationism, censorship, sex education, school prayer, values clarification, and the "rainbow curriculum."

By claiming to deliver what families *need*, rather than giving them the power to pursue what they *want*, the public education system needlessly tramples individual rights and creates unnecessary conflict.

## The Legal Argument

**WHY NOT** enable parents to pursue the education they want for their children? According to the final argument against choice, it is against the law.

Parents are caught in a "Catch-22" situation. The same people in the public schools, the teachers unions, the media, and the courts who insist that the First Amendment prevents children from exercising their faith *within* the public education system, argue that it also prevents them from using a fraction of their tax dollars in order to leave it.

Since some children might flee to parochial and other religious schools, we are told that this would represent an unconstitutional establishment of state religion. This argument holds true if, and only if, you take one thing out of the picture: parents. In a competitive system, parents would receive the money and do the choosing. It is almost as if advocates of the government's monopoly in education have so long discounted the customers—parents—that they have forgotten that they even exist.

The irony is that while the current monopoly continues to shut out competition, nonprofit religious schools will be the only option many families are able to afford. This is a ridiculous situation. A truly open, competitive system would encourage all kinds of new suppliers to enter the market and to provide quality services. If I can persuade you, the reader, to look beyond the status quo for just one moment, perhaps you can begin to see the vibrant possibilities dancing on the horizon of a not-too-distant tomorrow. Who knows where the best schools will come from—Microsoft, IBM, the National Geographic Association, the New York Museum of Fine Arts, or maybe even you.

To refuse to let such potential suppliers compete with a government monopoly is not only senseless, it is wrong. We have seen the wretched products and services state-sponsored monopolies have produced in the former Soviet Union. There has never been an industry, business, or product that competition has not improved. And here, the product is vital because it is our children.

## Freedom Is What Matters

**THE LAST** weapons in the public education monopoly's arsenal are fear and prejudice disguised as concern for the welfare of the disadvantaged. Thus its leaders insinuate (in politically correct terms, of course) that poor and minority parents won't make good decisions when it comes to their children's education. This argument not only underestimates America's struggling families but it also undermines the central value that makes this country great. In America, we must place our faith in freedom and in the ability of ordinary, often humble people to make the best decisions, by their own lights, for themselves and for their families.

The families of our 1.25 million Children's Scholarship Fund applicants have lit the path to freedom, and they are leading the way. ▲

Copies of this issue are available by calling:

**1-800-437-2268**





## Want Better Public Education? Support Private Vouchers

*Virginia Gilder*  
Chairman, Empire Foundation  
for Policy Research

**VIRGINIA GILDER** is an investor, political activist, and philanthropist with a long-standing interest in educational innovation, the visual arts, and historic preservation. A graduate of Columbia University, she is also chairman of the Empire Foundation for Policy Research and founder and trustee of the Hickory Foundation.

*A lively panel session during the February 1999 Shavano Institute seminar in Atlanta, Georgia, focused on many aspects of the educational choice movement, including the advantages and disadvantages of public vouchers. (Hillsdale College opposes them on the grounds that the government will inevitably use them to control private schools; Ms. Gilder and Mr. Steiger support them and contend that there are sufficient safeguards to prevent this.) Space does not permit a full consideration of the debate here. Instead, we present edited excerpts from a portion of the session that was devoted to something we can all agree upon: the great benefit of private vouchers.*

**O**ver the last ten years, I have read a great deal about the educational choice movement, and I have been particularly inspired by the successes of two individuals.\*

The first is Wisconsin Democrat A. Polly Williams. As a state legislator in 1990 she fought a hard-won battle to enact the Milwaukee Parental Choice Program, which allows low-income children in Milwaukee to use public vouchers to attend nonsectarian private schools. In 1995 the legislation was amended to include religious schools.

The second is J. Patrick Rooney, chairman of the Golden Rule Insurance Company. In 1991 he founded the first-ever private voucher program, the Educational CHOICE Charitable Trust, which provided partial tuition scholarships for low-income students in Indianapolis.

I was attracted to private vouchers for all the obvious reasons: I wanted to rescue kids from lousy schools and I wanted to offer parents of limited means the freedom to choose the best education for their children. But I thought that such vouchers might be fairer and might have a more dramatic impact on education reform if they were offered to all students in a single institution. If four or five students fade out of a public school, no one notices, and it is easy for administrators to go about their business as usual. If a huge number of students depart, it is a major embarrassment. I wanted to shake things up—to introduce significant competition, just as Federal Express and UPS did when they took on the U.S. Postal Service.

If four or five students fade out of a public school, no one notices, and it is easy for administrators to go about their business as usual. If a huge number of students depart, it is a major embarrassment.

I had spent most of my working life in the investment business and had witnessed firsthand how competition, no matter how risky, had ultimately resulted in more innovation and better products and services.

So I made some notes about what I wanted to do—scribbles that would have ended up in the wastebasket but for the efforts of the talented and dedicated staff members of the Empire Foundation for Policy Research in Albany, New York. Under the direction of Tom Carroll, they helped make my idea a reality. In December 1996 we announced that a new program called “A Better Choice” (later renamed “A Brighter Choice Scholarships”) would offer every student at Giffen Memorial Elementary School a scholarship (worth 90 percent of tuition with an annual cap of \$2,000) to attend the private school of his/her choice for three to six years.

Why did we pick on Giffen? Only half of its third-graders were able to meet the minimum standards for literacy. Year after year it topped the list as the worst elementary school in Albany, New York.

\* In March 1992 *Imprimis* featured essays by A. Polly Williams and J. Patrick Rooney. —Eds.

Of course, many opponents in the media, the public school bureaucracy, and the teachers unions claimed that we were out to destroy Giffen and public education. They were greatly alarmed that, by mid-1997, nearly 20 percent of the student body—105 out of 458 children—were using our scholarships to escape Giffen.

At the same time they were making dire predictions, *Forbes* was running a favorable cover story on “Voucher Kids,” most notably on our scholarship recipients. The story generated national attention, and along with the mass exodus of students, it prompted Giffen to make changes. The principal and 20 percent of the teachers were replaced and two assistant principals were hired, and subsequently a revamping of the curriculum took place. Giffen did not go out of business. It changed, thanks to competition.

Why did I offer my scholarships? I believe “public education” means tax dollars should be spent to make sure that citizens are educated. This should not mean that parents (unless they have money) should have to send their children to government owned and operated schools determined by where they live. Parents should have the freedom in a democracy to decide what is best for their children. Schools should have the freedom to decide how best to educate. I would like to see an open education system that allows for many kinds of schools and school choice. Philanthropists can help point the way. ▲



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## Putting Children First

**Fritz Steiger**  
Cofounder and President  
CEO America

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**FRITZ STEIGER**, former director of the Wal-Mart Foundation and cofounder of the Texas Public Policy Foundation, is also cofounder and current president of CEO America. This nonprofit organization has helped establish or expand nearly 70 private voucher programs. Mr. Steiger holds a degree from the University of Arkansas.

Since the 1980s private businessmen have tried to address the problems of public education by pouring millions of dollars into failing inner-city schools, but to no avail. Then in 1991 J. Patrick Rooney, a Midwestern insurance executive, decided that he would do

something extraordinary. He would bypass all red tape associated with the usual reform initiatives and directly offer low-income children in Indianapolis the chance to go to *whatever private school they and their parents chose*. Specifically, he would put up \$800 in tuition money for each student. Parents would be responsible for the rest.

He formed the Educational CHOICE Charitable Trust and on August 2, 1991 announced that 750 scholarships would be available. In a little over three days, he received 2,000 applications.

Dr. James R. Leininger, a physician and businessman, sent me a copy of an August 1991 *Wall Street Journal* editorial about Rooney. Across the top, he had written, “San Antonio needs one of these.” We founded the Children’s Educational Opportunity Foundation (popularly known as CEO San Antonio) in April 1992. It adopted the same model as the CHOICE program: Scholarships were granted on a first-come, first-served basis to low-income children. Their parents had the freedom to choose the school and the responsibility of paying half the tuition.

We raised funds from executives who were tired of giving money to “fix” public schools through well-intended but largely ineffective mentoring programs, computer giveaways, and the like. These executives were also tired of having to re-train employees who lacked the basic skills that should have been acquired in the classroom.

In the same month in which we launched our program, a *Wall Street Journal* editorial appeared on “Grass Roots Choice.” CEO San Antonio was mentioned and so were two other private voucher programs we hadn’t heard of: the Children’s Educational Foundation in Atlanta, sponsored by insurance executive Henry F. McCamish, Jr., and Partners Advancing Values in Education (PAVE) in Milwaukee, sponsored by the Lynde and Harry Bradley Foundation and local businesses.

We realized that there was an urgent need for an organization that would serve not only as a national clearinghouse of information on existing voucher programs but also as a consultant and guide for starting new ones. People from all over were calling to say, “We love what you’re doing! How can we do the same thing in our own area?”

With the timely aid of a Texas donor, we set up speaking tours and produced a “how-to” video on private vouchers. The results were encouraging. By 1993 we had helped start seven new voucher programs in cities such as Washington, D.C., Dallas, Houston, and Los Angeles. By 1994 our expanded operation, CEO America, had won a



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