

Overview Financialization, Public Schools, and Public Goods: A Guide for Educators and Union Staff

Financialization is the process by which financial markets, motives, institutions, and elites gain dominant influence over economic policy and everyday operations. In public services, it restructures or privatizes functions to turn them into investable assets, prioritizing investor returns over community needs. This guide explains how financialization works, how it has stripped public schools and other public goods of their worth, and what educators and unions can do about it.

What is Financialization?

- A structural shift: Profit increasingly flows through financial channels (trading, lending, speculation) rather than production.
- Applied to public services: Assets like schools, water systems, and roads are restructured so private investors can extract revenue via fees, rents, and debt service.
- Typical tools: Securitization of revenue streams, public–private partnerships, outsourcing, and the use of complex debt instruments that move risk to the public while protecting investor returns.

Timeline: Key Shifts Shaping Public Education and Public Goods

1760–1840: Industrial Revolution creates demand for a uniform, disciplined workforce; public schooling expands to serve industrial needs.

1896: Plessy v. Ferguson upholds segregation, shaping unequal access to education.

1940s: Rising labor power and expansion of public goods; education access widens but remains unequal.

1954: Brown v. Board of Education begins legal desegregation; resistance spurs early voucher schemes in some states.

1960s–1970s: Civil rights and women’s rights gains; Title IX (1972).

1970s: Profit squeeze and backlash against taxation/regulation set the stage for neoliberal reforms and market logics.

1980s–1990s: Acceleration of anti-tax, anti-union, and privatization policies; standards-and-testing regimes rise.

1990s–2010s: Charter expansion, vouchers, and financial instruments spread; districts turn to Wall Street credit instead of progressive taxation.

2007–2009: Financial crisis triggers interest-rate maneuvers that saddle districts with swap penalties and higher debt costs.

2010s–2020s: Debt service crowds out classrooms; universal voucher expansions accelerate in multiple states; renewed organizing pushes back.

How Financialization Strips Public Schools of Their Worth

- 1) Converts public funding into private income streams (management fees, bond interest, facility rents).
- 2) Shifts risk to districts and communities while guaranteeing investor protections.
- 3) Elevates short-term financial metrics over long-term educational quality and equity.
- 4) Reduces democratic accountability as decision-making moves to opaque contracts and creditors.
- 5) Creates zero-sum competition (charters/vouchers) that fragments systems and destabilizes neighborhood schools.

State-Specific Examples of Financialization & Privatization

Illinois (Chicago Public Schools)

- CPS financed school-marketplace reforms with heavy borrowing (over \$8.5B), dedicating ~10% of its operations budget to debt service by 2018.
- Use of exotic instruments (variable-rate bonds, interest-rate swaps, options) produced at least \$617M in losses and nearly \$1B in payments when penalties and refinancing are included.
- Charter expansion consumed rising shares of CPS budget while enrollments declined; closures disproportionately hit Black communities.

Michigan (Detroit & Emergency Management)

- State-appointed emergency managers imposed austerity, closed schools, and expanded chartering; debt restructuring prioritized creditors over classrooms.
- Costs of financial deals and state policies left Detroit Public Schools with high debt service and crumbling facilities while charter market share surged.

Ohio

- The ECOT virtual charter scandal siphoned hundreds of millions in state aid away from districts based on overstated enrollments; funds flowed to private operators.
- Widespread charter-related facility financing and management fees redirected public dollars to private entities.

Florida

- Rapid expansion of vouchers (including universal ESA-style programs) channels state funds to private schools with minimal accountability.
- Growth of privately managed charters and P3 facility deals increases fee and rent extraction from public education budgets.

Arizona

- Universal Empowerment Scholarship Accounts (ESAs) convert public funds into private tuition subsidies, accelerating outflow from district schools.
- Charter sector growth tied to real-estate plays where related-party landlords collect rent from public funds.

Wisconsin

- One of the longest-running voucher programs (Milwaukee) steadily diverts state aid from districts; Act 10 weakened unions, limiting capacity to resist privatization.
- Fragmentation of funding increases inequity and fiscal stress in traditional districts.

Pennsylvania

- Cyber charters receive district payments set by state formulas regardless of actual costs, creating structural deficits for sending districts.
- Debt-financed facility projects and swaps (in some districts) compounded budget pressures.

West Virginia

- Recent legislative changes created new charter and voucher mechanisms, shifting funds away from county school systems in a low-capacity tax base.
- State-level promotion of education savings accounts opens recurring private extraction from public revenues.

Louisiana (New Orleans)

- Post-Katrina, New Orleans became the first nearly all-charter district, with public oversight fragmented across multiple operators.

- Facilities and operations often run through private nonprofits with separate boards, diluting community control and enabling fee-based extraction.

Summaries of Attached Articles

1) Financialization Created Chicago Public Schools' Fiscal Crisis (Stephanie Farmer)

Core thesis: Chicago's fiscal crises were not inevitable; they stemmed from market-based school-choice policies paired with education financialization that replaced progressive taxation with borrowing on Wall Street.

Mechanisms: CPS issued billions in debt to overbuild a portfolio of choice schools despite falling enrollment; later layered on risky instruments (variable-rate bonds, interest-rate swaps, options). When rates fell after 2008, swap terms triggered large payments and penalties; total losses exceeded \$600M and pushed debt service to ~10% of operations.

Impacts: Recurrent austerity cut teachers and supports, starved classrooms, and closed schools disproportionately in Black communities, while investors captured steady returns from public revenue streams.

Conclusion: Taxing the rich to fund schools is superior to borrowing from them; otherwise, debt overhang is used to justify endless cuts.

2) The Privatization of Everything (Donald Cohen & Allen Mikaelian)

Core thesis: Public goods—schools, water, transit, broadband—should be collectively provided because everyone needs them and society needs everyone to have them. Privatization moves essential goods into markets where exclusion and profit-maximization drive inequality.

History & harms: From segregationist voucher responses to *Brown v. Board* to modern charter and voucher expansions, privatization has undermined equity and democratic accountability while masking wage and service cuts as “efficiency.”

Action for unions: Play the long game, challenge “efficiency” claims, use tools like pre-privatization checklists, and lift up successes of public provision; organize early to win.

What Educators and Unions Can Do

- Demand transparency: publish all contracts, swaps, and bond covenants; require independent fiscal impact analyses before any privatization or borrowing scheme.
- Fight for progressive, sustainable revenue: close tax loopholes; adopt fair state funding formulas; limit the use of exotic debt instruments and related-party real estate deals.

- Bargain contract language against outsourcing and for workload, staffing, and community school investments; build coalitions with parents and local groups.
- Reframe the narrative: center public goods, equity, and democracy over markets and competition; document harms of fragmentation and fee extraction.