

Charitable Plutocracy: Bill Gates, Washington State, and the Nuisance of Democracy

by Joanne Barkan

As seen in the case of megadonors such as Bill Gates helping to institute problematic charter schools in Washington State, the top-down approach to public policy reform raises several questions about the politicization of philanthropy, or charitable plutocracy, by the country's multibillionaires. Perhaps worse—given the work they're funding—they often do not receive the same level of public scrutiny as others. What's the best means of addressing the problem of charitable plutocracy? Massive overhaul of campaign finance practices, as well as reforming private foundations for better regulation and scrutiny.

ONCE UPON A TIME, THE SUPER-wealthy endowed their tax-exempt charitable foundations and then turned them over to boards of trustees to run. The trustees would spend the earnings of the endowment to pursue a typically grand but wide-open mission written into the foundation's charter—like The Rockefeller Foundation's 1913 mission “to promote the well-being of mankind throughout the world.” Today's multibillionaires are a different species of philanthropist; they keep tight control over their foundations while also operating as major political funders—think Michael Bloomberg, Bill Gates, or Walmart heiress Alice Walton. They aim to do good in the world, but each defines “good” idiosyncratically in terms of specific public policies and political goals. They translate their wealth, the work of their foundations, and their celebrity

as doers-of-good into influence in the public sphere—much more influence than most citizens have.

Call it charitable plutocracy—a peculiarly American phenomenon, increasingly problematic and in need of greater scrutiny. Like all forms of plutocracy, this one conflicts with democracy, and exactly how these philanthropists coordinate tax-exempt grantmaking with political funding for maximum effect remains largely obscure. What follows is a case study of the way charitable plutocracy operates on the ground. It's a textbook example of the tug-of-war between government by the people and uber-philanthropists as social engineers.

The Case of Bill Gates and Washington State

This story begins in 1995, when the Washington State House of Representatives first considered legislation that would

enable private individuals and organizations to obtain charters to create their own K–12 schools. These were to be taxpayer-funded schools, but privately run and exempt from many of the regulations governing district (regular) public schools. The funding would come from the resources of regular public schools: each student would “carry” his or her per-child funding out of the district system to a charter school.

The bill died in the state senate, so supporters went directly to voters with a ballot initiative to enable charter schools. The campaign attracted little money on either side, but turnout was high because the vote took place on the same day as the 1996 presidential election. Washingtonians rejected charter schools decisively: 64.4 percent against, 35.6 percent in favor.¹

State representatives kept trying. They proposed new bills in 1997, 1998,

and 1999, but got the same results: success in the lower chamber, failure in the senate.²

Wariness of charter schools didn't mean that Washingtonians were completely satisfied with existing schools or feared change. Voters had legitimate concerns. Charter schools, they worried, would divert tax revenue from already underfunded district schools, especially those serving low-income and minority students. In addition, schools under private management might be less transparent and less accountable to the public than Washington's district schools, which were overseen by locally elected boards.

Charter supporters tried another ballot initiative in 2000, and, for the first time, attracted the backing of a multi-billionaire philanthropist. Paul Allen had cofounded Microsoft in 1975 and The Paul G. Allen Family Foundation in 1988.³ The state places no limits on individual campaign contributions for ballot measures, so Allen was able to give \$3.275 million of the total \$3.4 million raised by the pro-charter side. Opponents raised only about \$11,000. Outspent 309 to 1, they still defeated the initiative, although the millions given in support of charters shrank the margin of victory. The vote was 51.8 percent against charters and 48.2 percent in favor.⁴

In the next four years, the national context shifted. The debate around public education intensified as a controversial market-based education-reform movement grew stronger. "Ed-reformers" claimed that U.S. public schools were failing; that the culprits were bad teachers, teachers unions, and government bureaucracy; and that the private sector, using public resources, could run better schools. They promoted competition among schools to force out the weakest and measuring educational success via students' standardized test scores.

The education-reform movement in general, and charter schools in particular, attracted a new wave of philanthropists, many of whom had made fortunes in high-tech industries and finance. Although they had no experience as educators, they aimed to "disrupt" and rebuild public schooling for urban low-income and minority children. They embraced the idea that giving grants to K-12 reform projects corresponded with investing capital in a business. They described their philanthropy in terms of strategic investments to maximize returns and data collection to verify results. Having succeeded in business, they reasoned, they would succeed in education. They came to see funding education-reform candidates and ballot initiatives as part of the same effort.

The Washington legislature finally passed a charter school law in 2004. Opponents responded by petitioning for a ballot measure to repeal the law. Mobilized by the teachers unions, League of Women Voters, state Democratic Party, and the Seattle School Board, they raised \$1.3 million for the campaign. The unions contributed the most: the Washington Education Association gave \$601,000, and the National Education Association gave \$500,000.⁵

Charter school supporters raised three times as much—\$3.9 million. Most of it came from three education-reform political funder-philanthropists, who donated about \$1 million each: Bill Gates, who had recently made education reform the main focus of his domestic philanthropy; Walmart heir John T. Walton (from Wyoming), who advocated charters and tax-funded vouchers for parents to use for private-school tuition; and Donald Fisher (from California), founder of Gap and a major donor to the KIPP chain of charter schools.⁶

When philanthropists finance political campaigns, they act as individual

citizens spending their personal wealth, not as the heads of tax-exempt, charitable foundations. Federal and state laws bar private foundations from political activity. Although the regulations have ambiguities and loopholes, high-profile philanthropists are usually careful about keeping foundation and personal monies separate and using only the latter to fund political campaigns.

Although outspent three to one, charter school opponents in Washington won an impressive victory in 2004. The law was repealed by a vote of 58.3 percent to 41.7 percent.⁷

This big-money face-off—multibillionaire philanthropists against teachers unions—turned out to be a prototype repeated across the country in scores of education-reform campaigns in the last decade. Millions of dollars regularly pour into races for local and state school boards and for district and state school superintendents, as well as for education ballot initiatives. The money comes from both in state and out of state. Twenty years ago, these contests cost little to run; the stakes were limited. Now, the money is huge, and the ramifications are national: the nature and control of public education is being decided.

Education-reform philanthropists justify their massive political spending as a necessary counterweight to the teachers unions;⁸ yet, the philanthropists can, and consistently do, far outspend the unions. In 2004, Paul Allen had a net worth of \$21 billion, Bill Gates had a net worth of \$46.6 billion, and John T. Walton (who died in 2005) had a net worth of \$20 billion.⁹ Donald Fisher's net worth was \$1.3 billion in 2005.¹⁰ In 2015, Allen had a net worth of \$17.8 billion, Gates had a net worth of \$76 billion, and Doris Fisher (Donald Fisher's widow and a charter school donor) had a net worth of \$2.9 billion.¹¹ And the unions? According to the 2015 reports filed with

the Office of Labor-Management Standards, the National Education Association had \$388.8 million in total receipts; the American Federation of Teachers had \$327.6 million in total receipts.¹² As political rivals, the education-reform philanthropists and the teachers unions have never competed on a level playing field.

In January 2012, charter school supporters in the Washington State legislature introduced another bill. By then, the state was one of only nine that didn't permit charter schools. Some states had bowed to pressure from the Obama administration's Race to the Top program (2009–2011): by committing to a list of specific reforms, including charter schools, they had a chance to win additional federal funds. Despite resistance to the reforms, resource-starved states were willing to sign on to almost anything to get more funding.

More than five thousand charter schools were operating in the United States in 2012, and researchers were finding some serious problems. Charter schools were diverting funds from district schools while also enrolling a smaller proportion of the most at-risk children (for example, children with disabilities and English-language learners). These children remained at or returned to district schools just as the districts were losing resources. In addition, the quality of charter schools was extremely uneven, according to the education reformers' own criterion: student scores on standardized tests. A large-scale study, published in 2013 by the pro-education-reform Center for Research on Education Outcomes at Stanford University, concluded that about 27 percent of charters performed better than district schools serving equivalent student populations; about 25 percent performed worse; the rest were about the same.¹³

Despite the problems with charter schools, education-reform philan-

thropists had no second thoughts about their drive to replace as many district schools as possible. They had various motivations: the conviction that market competition among schools could not fail to improve the quality of public education; the desire to get government out of the business of running schools (although taxpayers would still fund them); and determination to weaken the teachers unions (only about 7 percent of charter schools are unionized).¹⁴ Charter advocates also argued that low-income parents should have a choice of schools for their children just as wealthier parents did—no matter that most charters were no better than district schools and some were worse, and that charters were weakening district schools and that high-performing charters accommodated few students.

Meanwhile, the leadership of both houses of the Washington legislature opposed the 2012 charter bill.¹⁵ When it died in committee, the activist billionaires stepped in, with Gates in the lead: they would finance yet another charter school ballot initiative—the state's fourth.

In the first phase of Washington's initiative process, citizen sponsors draft their legislation, and the Office of the Code Reviser certifies the text. Thus, citizens, not legislators, write the proposed law. In phase two, supporters collect a sufficient number of valid signatures to place the measure on the ballot in the next state general election. Phase three is the campaign and vote.¹⁶

Once the thirty-nine-page charter school measure was certified, the state's Attorney General's office issued an official title, subject, and "concise description" to be printed on the ballot. Here they are:

Initiative Measure No. 1240 concerns creation of a public charter school system. This measure would authorize

up to forty publicly-funded charter schools open to all students, operated through approved, nonreligious, non-profit organizations, with government oversight; and modify certain laws applicable to them as public schools.

Should this measure be enacted into law? Yes [] No []¹⁷

The coalition of advocates behind the 2012 initiative included some well-known grantees of the Bill & Melinda Gates Foundation: for example, Stand for Children (about \$9 million in grants from 2005 through 2012)¹⁸ and the League of Education Voters, a subgrantee of the Alliance for Education (\$733,285 in grants for 2011 and 2012).¹⁹

To collect the signatures, the coalition hired PCI Consultants, Inc., of Calabasas, California, a "full service petition and field management firm" with experience in Washington State.²⁰ The drive began in mid-June, which left just twenty-one days to collect 241,153 valid signatures—the shortest drive in state history (except for one in 1973).²¹ Success depended on quick access to millions of dollars for an all-out effort.

The drive raised \$2.3 million and delivered about 350,000 signatures by the July 6 deadline.²² One signature gatherer from California told the *Seattle Times* that he was among about four hundred out-of-staters who had been hired. Coalition spokespeople declined to confirm or deny the information.²³

According to the Public Disclosure Commission in Washington State, funders for the signature drive included Gates (\$1 million), Alice Walton (from Arkansas, \$600,000), Mike and Jackie Bezos (parents of Amazon.com founder Jeff Bezos, \$500,000), venture capitalist Nicolas Hanauer (\$450,000), Katherine Binder (chair of EMFCO Holdings, \$200,000), Paul Allen's Vulcan, Inc. (\$100,000), and Reed Hastings, from

California (Netflix cofounder and KIPP charter schools board member, \$100,000).²⁴

As soon as Initiative 1240 was certified for the November vote, the race to stockpile more money began.

The pro-charter side collected another \$9.1 million for the fall campaign. More than 70 percent of the additional money came from just six donors: Gates (\$2.075 million), Vulcan, Inc. (\$1.5 million), Alice Walton (\$1.1 million), Mike and Jackie Bezos (\$600,000), Hanauer (\$600,000), and Connie Ballmer (wife of former Microsoft CEO Steve Ballmer, \$500,000).²⁵

Opposition to the charter initiative was broad but not deep-pocketed. The organizations calling for a “no” vote included the Seattle King County NAACP, El Centro de la Raza, the Japanese American Citizens League Board, the League of Women Voters, the Washington State PTA, local elected school boards, the Association of Washington School Principals, the Washington Association of School Administrators, many district and county Democratic Party organizations, the Washington State Labor Council, the Washington Education Association, and other state and local unions.²⁶

The “no” coalition raised just over \$727,400.²⁷ The largest donations came from the National Education Association (\$250,000) and the Washington Education Association (\$200,000).²⁸ According to KUOW Puget Sound Public Radio’s blog, “Teachers’ union officials say . . . when it comes to the big money behind the charter school initiative, they just can’t compete.”²⁹

No one disputes that big money sways voting outcomes or that superwealthy philanthropists regularly spend millions to get the outcomes they want. The vote on Washington’s Initiative 1240 stands out for this reason: despite outspending their opponents more than 12 to 1, the

philanthropists barely eked out a victory. The final tally was 50.69 percent in favor, 49.31 percent opposed.³⁰ Citizens might well have asked whether the advent of charter schools in their state expressed the will of the people.

Once the initiative was law, the backing for charter schools switched from political contributions to tax-exempt philanthropy. The Bill & Melinda Gates Foundation went into high gear for the next phase of the project. The foundation disbursed more than \$31 million in less than three years “to give public charter schools in Washington State a strong start.”³¹ In practice, this meant selecting and financing individuals and organizations to start schools, advise charter boards, and develop education programs.

The Gates Foundation spent more than \$13.5 million to set up and run the Washington State Charter Schools Association—a private group whose work includes awarding “fellowships” to educators who want to open schools. Green Dot Public Schools, a charter management organization founded in Los Angeles, received \$8 million in 2013 to expand into Washington. Green Dot has received about \$24 million from Gates since 2006. Another charter management organization, the Bay Area’s Summit Public Schools, also received \$8 million in 2013 to branch into Washington. Charter Board Partners, a D.C.-based nonprofit consultancy for charter school governance, received more than \$1.2 million to open a Washington office. The Gates Foundation gave California’s Seneca Family of Agencies almost \$1 million to develop support for at-risk students in Washington’s charter schools.³²

Thus, the schools were to be public in name and receive public funding for each student, but the Gates Foundation, with no public oversight, stepped in to shape the charter system.

Washington’s first charter school opened in 2014 and was on probation for compliance problems in the summer of 2015, when eight more charters were about to launch.³³ But on September 4, 2015, the Washington Supreme Court halted the entire charter program by declaring the 2012 law unconstitutional. This was the first time any court had struck down a charter school law in its entirety.

The reasoning in the 6-3 decision is straightforward: The state constitution stipulates that only common (public) schools can receive government funding, and all common schools in the state must be subject to local voter control. Because charter schools are run by appointed boards or private organizations, they are not common schools and do not qualify for government funding.³⁴

Charter school supporters blamed the ruling on the bias of liberal activist justices, but as Michael J. Fox, a retired superior court judge, wrote in a letter to the *Seattle Times*, “I voted for the charter schools initiative. . . . But I’ve read the court’s decision thoroughly and am convinced it is well-grounded and based on the pertinent constitutional provisions. Any other decision could only have been based on political ideology and not our supreme law.”³⁵

Charter activists—some with Gates money—filed motions asking the court to reconsider its decision, but the court refused. Undeterred, three Gates grantees—the Washington State Charter Schools Association, Stand for Children, and League of Education Voters—partnered to create a PAC to channel money to legislators willing to vote for a modified charter law. When the PAC was announced, in December 2015, checks had already gone out to twenty-four lawmakers.³⁶ On March 10, 2016, the legislature passed a new bill that would fund charter schools with state lottery

revenue. Supporters believe this will pass constitutional muster because lottery proceeds go into an account that is separate from the state's general fund and the lottery account is not restricted to common schools. Opponents argue that the bill does nothing more than shift money from one account to another.³⁷ Democratic Governor Jay Inslee, who is running for reelection against a pro-charter Republican, allowed the bill to become law without his signature, at the end of a special legislative session on April 2. A union coalition plans to sue the state over the law. Meanwhile, the state remains under a contempt order from the Washington Supreme Court, which ruled in 2012 that the state isn't meeting its constitutional duty to fully fund basic education. There's no end in sight.

The Nuisance of Democracy

The Washington charter saga highlights the workings of charitable plutocracy. Multibillionaire philanthropists use their personal wealth, their tax-exempt private foundations, and their high-profile identities as philanthropists to mold public policy to a degree not possible for other citizens. They exert this excessive influence without public input or accountability. As for the charitable donors who are trying to reshape public education according to their favorite theories or ideological preferences, they are intervening with too heavy a hand in a critical institution that belongs to the public and requires democratic control. But in any public domain, the philanthropist's will and democratic control are often at odds.

Voters, their elected representatives, grass-roots activists, civic groups, unions, public opinion—all can thwart an uber-philanthropist's effort to impose his or her vision of the common good on everyone else. Democracy can be a nuisance for the multibillionaire—a fact of life that Bill Gates has often lamented.

In a CNBC panel, aired on May 4, 2015, and titled “If I were education czar . . .,” Bill Gates discussed the problems he's had in spreading the “best practices” of charter schools throughout the United States: “It's not easy. School boards have a lot of power, so they have to be convinced. Unions have a lot of power, so teachers need to see the models that are working.” Asked about his broader goal to redo all of public education, Gates said, “We're not making as much progress as I'd like. In fact, of all the foundation areas we work in, I'd say this has proven to be *the* most difficult.” The interviewer followed up: “Why do you think that is?” Gates replied, “It's a very big system . . . very resistant to change. The best results have come in cities where the mayor is in charge of the school system. So you have one executive, and the school board isn't as powerful.”³⁸

Gates has been making this point for years. During a CNN appearance in 2009, according to the *New York Post*, Gates said, “The cities where our foundation has put the most money is [*sic*] where there is a single person responsible.”³⁹

During the Gates Foundation's U.S. Education Learning Forum in October 2015, journalist Gwen Ifill asked Bill and Melinda Gates to name “the least pleasant surprise” during their previous fifteen years of education-reform work. Bill answered, “For me the most disappointing is that the work can go backwards. In the other areas we work, if we come up with a new malaria drug or a new malaria vaccine, nobody votes to uninvent our malaria vaccine.”⁴⁰ This was an effective laugh line for Gates, but it's also a telling formulation; no one has ever voted to “uninvent” a Gates offering. But, on occasion, voters or their representatives have rejected a Gates *plan*. That's ordinary democratic policy-making, not uninventing one of his creations.

At times, democracy seems to flummox Gates. In the same interview, he reflected on why there's been strong opposition to the Common Core State Standards—a detailed set of K–12 benchmarks in math and language arts that the Gates Foundation developed and marketed around the country at a cost of about \$263 million.⁴¹ “It's not like somebody's got some great alternative in terms of the benefits to students,” he said. “It's more about ‘Oh, we'll show our autonomy’ than it is about having something better for learning.”

Gates, who has no training as an educator or researcher, easily dismisses the work of professionals in the field, but it's never been clear how well, or even if, he knows their work. He appears continually in the media promoting his chosen policies, but he doesn't engage in depth—at least not publicly—with experienced educators or scholars who disagree with him. His entrée into policy-making is money, not expertise. Talking to Ifill, he brushes off opponents as obstructionists who merely want to flaunt their autonomy—as if disagreeing with him were an exercise in piskiness rather than part of a necessary substantive debate. As for entering the fray as a candidate and asking voters to endorse his ideas, Gates wants no part of it. Questioned at the 2012 Abu Dhabi Media Summit about running for president, he said his current job with the Bill & Melinda Gates Foundation was “a very nice office” and that it didn't require him to raise funds to “try to get elected,” nor does it “have term limits of eight years . . . I actually think, maybe I'm wrong, that I can have as much impact in that [philanthropic] role as I could in any political role. In any case, I would never run for political office.”⁴²

Multibillionaires who play the dual role of philanthropist and political bankroller range ideologically from progressive to far right, and they spend

on myriad causes in addition to public education. At the progressive end are George Soros and his Open Society Foundations. On the far right are the Koch brothers and their David H. Koch Charitable Foundation and Charles Koch Foundation. In addition to Gates, the most aggressive philanthropies in market-based education reform are the Walton Family Foundation and the Eli and Edythe Broad Foundation. (Walton supports publicly funded vouchers for private school tuition but otherwise the major education-reform financiers back similar policies.)

Regardless of political stands or projects, all philanthro-barons with their own foundations are generously subsidized by taxpayers. When a baron says, “It’s my money to use as I please,” he or she is wrong. A substantial portion of every tax-exempt foundation’s wealth—39.6 percent at the top tax bracket for filing in 2016—is diverted each year from the public treasury, where voters would have determined its use.⁴³ Taxpayers subsidize not only the philanthropy of the Koch brothers, Soros, and the others but also their political work. Part of the megaphilanthropist’s wealth goes into a personal cache; part goes into a tax-exempt cache. The money saved by not paying taxes goes wherever the philanthropist wants, including to political work.

American democracy is growing ever more plutocratic—a fact that should worry all admirers of government by the people. Big money rules, but multibillionaires acting as philanthropists aggravate the problem by channeling vast sums into the nation’s immense nonprofit sector. Their top-down modus operandi makes this a powerful tool for shaping public policy according to individual beliefs and whims. And they receive less critical scrutiny than other actors in public life. Most people admire

expressions of generosity and selflessness and are loath to find fault. In addition, anyone hoping for a grant—which increasingly includes for-profit as well as nonprofit media—treats donors like unassailable royalty. The emperor is always fully clothed.

So, what to do? The measures required to rein in plutocracy in the United States are plain to see and difficult to achieve: radical campaign finance reform to end the corruption of politics by money, and steeply progressive taxation without loopholes to reduce inequality in wealth and power. Private foundations, too, are due for reform. Congress hasn’t overhauled their regulation since 1969, and watchdog agencies are woefully underfunded. But few, if any, megaphilanthropists give these reforms top priority, although many talk endlessly about reducing inequality and providing everyone with a chance at a good life. The interests and egos of philanthro-barons rarely incline toward curbing plutocracy.

Questioning the work of megaphilanthropists is a tricky business. Many readers of this article will be fuming in this way: Would you rather let children remain illiterate, or allow generous people to use their wealth to give them schools? Would you rather send more money to our bumbling government, or let visionary philanthropists solve society’s problems? Here is a counterquestion: Would you rather have self-appointed social engineers—whose sole qualification is vast wealth—shape public policy according to their personal views, or try to repair American democracy?

NOTES

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Fiscal Year [2015] > click on “submit” > find TEACHERS AFL-CIO NATIONAL HEADQUARTERS and Total Receipts [three columns to the right]. For the NEA, fill in NEA-NATIONAL EDUCATION ASN IND [drop-down menu] and 2015 > submit > find NATIONAL EDUCATION ASN IND NATIONAL HEADQUARTERS and Total Receipts.)

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