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Hillary and Bill Clinton: The for-profit partnership

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They have made \$22m from the education industry since 2010 but such connections may blight her White House bid



In 2010, Bill Clinton made a deal that drew him closer to some of the most high-powered investors in the world, including the private equity firm Kohlberg Kravis Roberts, Citigroup, hedge fund managers Steven Cohen and George Soros and Microsoft co-founder Paul Allen.

Under the arrangement, the former US president would serve for five years as honorary chancellor of Laureate International Universities, a global network of for-profit institutions of higher education that had been taken private in 2007 in a \$3.8bn leveraged buyout by its founder Douglas Becker and the KKR-led consortium.

Mr Clinton's duties included providing advice on "issues like social responsibility, youth leadership and civic engagement" and visiting 19 campuses in 14 countries, Laureate's website says. His pay exceeded \$16.5m — or more on an annualised basis than the president of Harvard University.

The one-time commander-in-chief had become a globetrotting connector par excellence, as Mr Clinton explained during a speech in November 2010 at Malaysia's Inti International University, one of dozens of Laureate schools serving more than 1m students around the world. "I agreed to be the honorary chancellor of Laureate because it is first of all a true global network of universities and I'm very big on establishing networks," he said. "I think tying people together across national, religious, ethnic [and] ideological lines is the key to the 21st century."

Soon, Mr Clinton will find out whether his sense of the situation was correct. In the coming weeks, the Clinton brand of networking will be put to the political test as his wife Hillary, the presumptive Democratic presidential nominee, takes on Donald Trump, her Republican rival and proprietor of Trump University, his own for-profit education business, in what promises to be a rugged general election campaign.

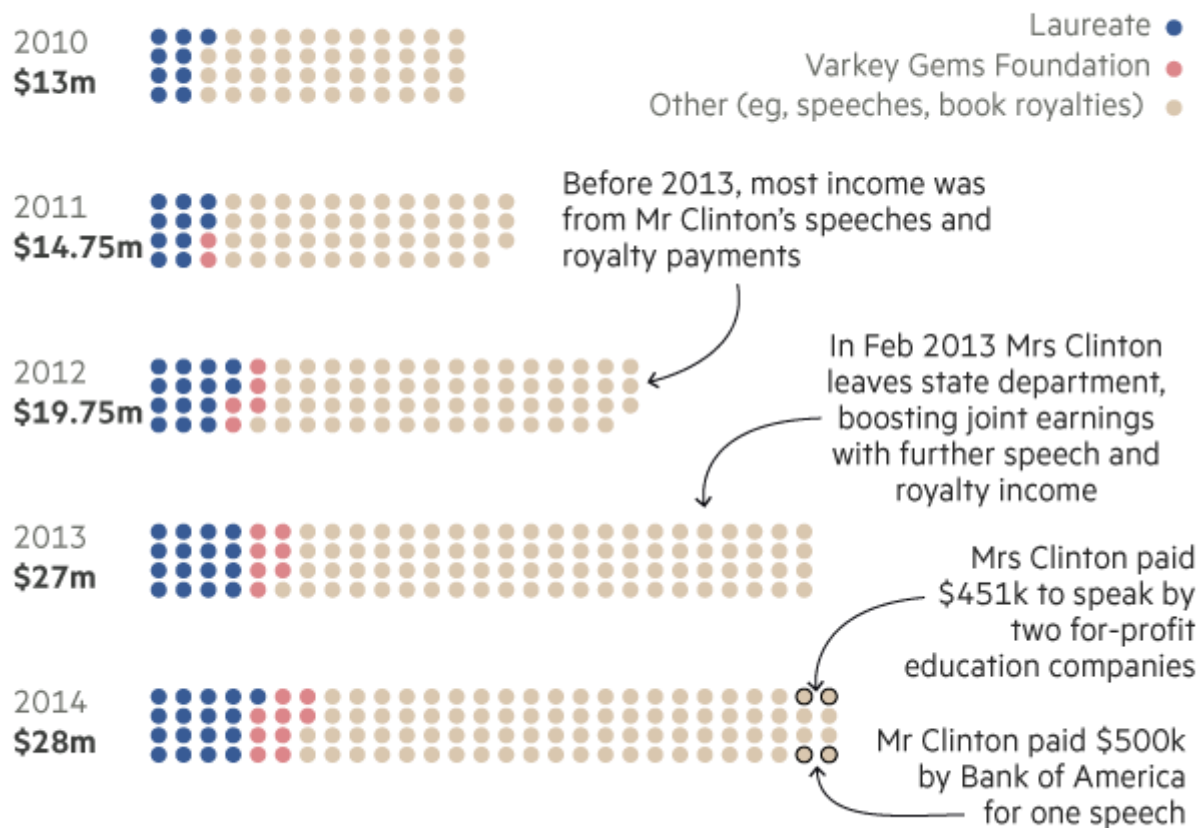
Learning curve

For the Clintons, the Laureate connection has been a profitable step in one of the most lucrative post-presidential business careers in US history. After leaving the White House in 2001 in self-described penury, Mr and Mrs Clinton made close to a quarter of a billion dollars, largely by giving speeches, publishing books and consulting.

The question is whether voters will understand. Today's electorate is wary of the well connected. In the Democratic primaries, Mrs Clinton struggled to fend off Bernie Sanders, foe of the wealthiest 1 per cent of the citizenry and advocate of free public universities. On the Republican side, Mr Trump won the nomination by casting himself in the role of a tycoon beholden to no one.

Better off out of office: the Clintons' rising income

Adjusted gross income (\$m), each dot represents \$250,000



FT graphic Alan Smith Sources: FT research, taxhistory.org, figures rounded to nearest 250,000

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The Clintons, by contrast, have profited financially by using their connections to the global elite — including in such highly regulated sectors as for-profit education, finance and healthcare. Big banks such as Goldman Sachs and UBS, which have together paid almost \$2m for speeches from the Clintons since 2013, are the obvious example.

“In the realm of appearance, it’s just unnecessary,” says Robert Reich, who served as Mr Clinton’s labour secretary from 1993 to 1997. “It would be one thing if they were financially needy. But from all the accounts I have read that doesn’t seem to be the case. So why take the risk of the appearance of impropriety? Why give ammunition to the vast networks of people looking for ammunition? It’s a complete mystery to me.”

The Clintons’ income from for-profit education could prove an especially sensitive subject at a time when US student debt exceeds \$1.2tn. Critics argue that for-profit operators devote too much revenue to marketing and providing themselves with a return, and too little to teaching. Their case is made stronger by evidence that students at for-profit schools are less likely to pay back their loans or find jobs.

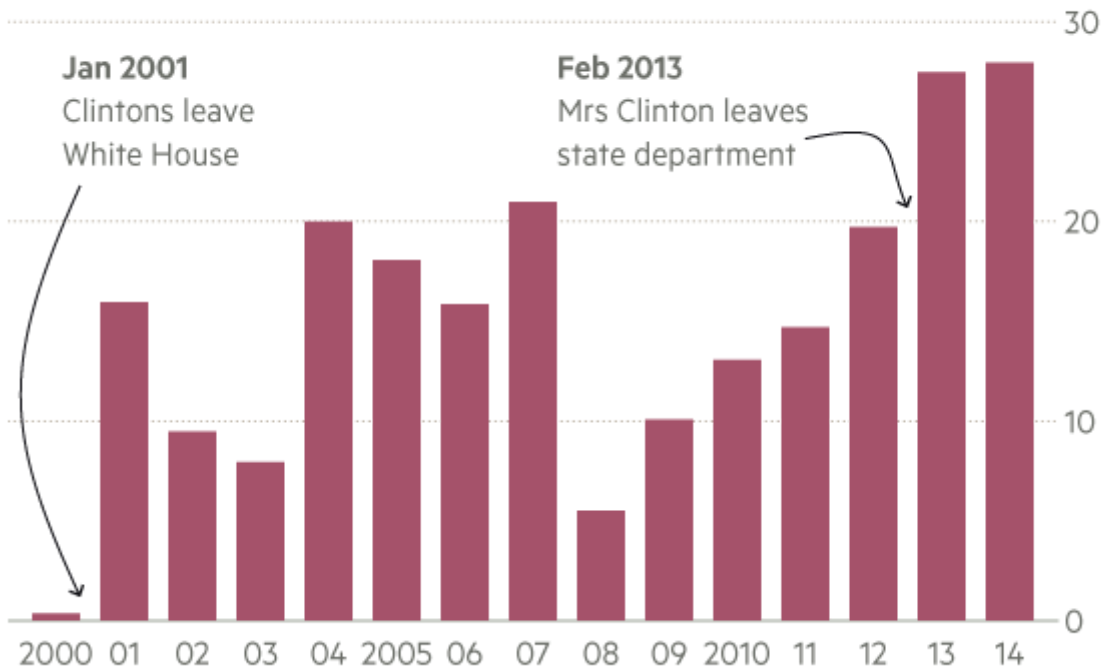
Tax returns released by Mrs Clinton’s campaign show that she and her husband reported income of more than \$22m from interests in the for-profit education industry since 2010.

In addition to the \$16.5m that Mr Clinton received from Laureate between 2010 and 2014, he was

paid \$5.6m as honorary chairman of the Varkey Gems Foundation, the charitable arm of Gems Education, a Dubai-based company founded by Sunny Varkey, an Indian-born billionaire. Payments from Laureate and the Varkey foundation continued in 2015, according to another filing by Mrs Clinton, which says only that the amounts in each case exceeded \$1,000.

Clinton household income

Adjusted gross income (\$m)



Sources: FT research, taxhistory.org

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Laureate, in turn, donated between \$1m and \$5m to the Clinton Global Initiative, says a representative of the education company. The Bill, Hillary & Chelsea Clinton Foundation also lists Gems Education as a donor in the same \$1m-\$5m range.

Mrs Clinton has made far less personally from the education sector than her husband. However, after stepping down as secretary of state in February 2013, she was paid a total of \$451,000 in 2014 to speak to two for-profit education companies: Academic Partnerships of Dallas, Texas, and New York-based Knewton, founded by Jose Ferreira, a former strategist for John Kerry, Mrs Clinton's successor at the state department. In 2013, Mrs Clinton received \$225,000 to speak to KKR, the Laureate investor.

'Coalitions of money'

The irony is that the Clintons might have made more money in education than the ostensible industry entrepreneur in the presidential race. Eric Schneiderman, New York state's attorney-general, says the available evidence suggests Mr Trump received \$5m in profits from his real estate university while it operated from 2005 to 2010. The exact figures are unavailable because Mr Trump has refused to release his tax returns, citing a continuing audit.

The comparison is somewhat unfair. Despite its name, Trump University was not a university. A New

York judge ruled in 2014 that it was an unlicensed school. Three lawsuits — one filed by Mr Schneiderman, two by former students — have alleged it was a fraud. None of the suits has been tried. Mr Trump has denied wrongdoing and suggested that the US-born judge in the students' cases is biased because his parents came from Mexico. He has also vowed to reopen his school — now called the Trump Entrepreneur Initiative.

As a business indicator, however, the appearance of both the Clintons and Mr Trump on the for-profit education scene was revealing. During the early years of this century, it seemed like everyone wanted to get in on the act — with investors, technologists and other business interests all looking to upend traditional educational models.



“You had hedge funds, private equity funds, all these coalitions of money that came into the for-profit education arena,” says AJ Angulo, author of *Diploma Mills*. “There was sort of a feverish approach to build up these institutions as quickly as possible.”

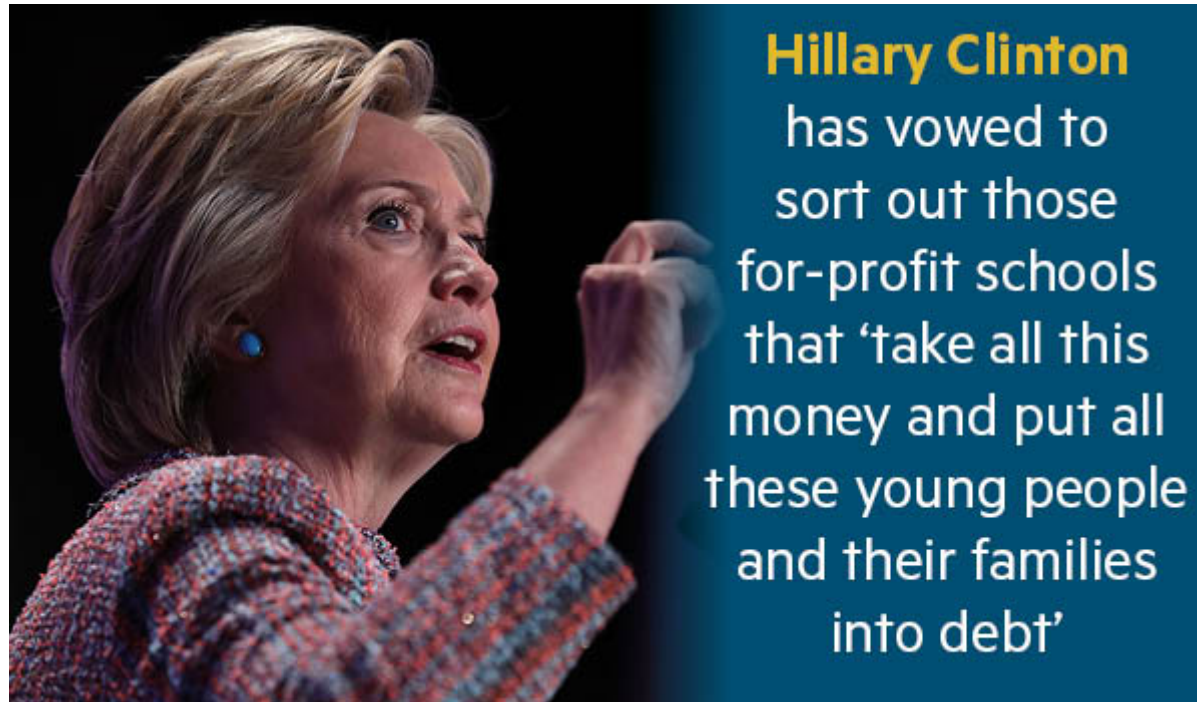
Laureate Education, the university chain's parent, based in Baltimore, Maryland, was started by one of the more unlikely players in the game. Mr Becker, 50, the company's chairman and chief executive, never attended university. While still in his teens, he and some friends developed a high-tech medical records card that made them millionaires in the 1980s.

Mr Becker and one of his partners turned to education in the early 1990s, acquiring Sylvan Learning Systems, a publicly traded tutoring company. From Sylvan grew Laureate, which began acquiring for-profit university assets in 1999, starting with the Universidad Europea de Madrid in Spain.

Mr Clinton became honorary chancellor in 2010 as US regulatory pressure on the education sector grew and industry participants realised that dealing with the government had become essential.

“For an education business, having political connections is a reality,” says Michael Moe, co-founder

and chief investment officer of GSV Capital, a California fund manager with holdings in more than a dozen education companies. “[In] education, like healthcare, you have to have that as part of the playbook.”



The case for Laureate was easier to make in the US because it focused on developing countries. Laureate has its critics — particularly in Chile — but its US operations tended to compare favourably with its competitors. For example, the student loan default rate at Laureate’s online Walden University was 6.8 per cent, compared with 15.8 per cent at the average for-profit institution, according to federal statistics.

Further validation for Laureate came in January 2013 from the World Bank’s International Finance Corporation, which supports the private sector in emerging markets. In the biggest education investment in its history, the IFC bought \$150m in Laureate common stock, while Korea Investment Corporation picked up \$50m. IFC officials told the Financial Times that their relationship with Laureate dated from 2004.

Talent from the capital

Soon the Laureate network came to include more Washington insiders. In March 2013, George Muñoz, who headed the US government’s Overseas Private Investment Corporation during Mr Clinton’s presidency, joined the board. In December that year, two more directors were named: Robert Zoellick, the former World Bank president and a veteran of Republican administrations and Goldman Sachs, and Judith Rodin, Rockefeller Foundation president and the former president of the University of Pennsylvania.

“I know Bob, Judy and George,” Mr Clinton said in a Laureate press release announcing their roles. “I know that each will contribute to Laureate’s efforts to expand access to quality higher education in those places where it is most needed.” A Laureate representative told the FT that Mr Zoellick played

no role in the IFC decision to invest in the company. His five-year World Bank term ended in June 2012, before the decision on taking the equity stake was made, according to IFC records.

Mr Clinton left Laureate in April 2015 shortly after his wife announced her second White House bid. His role was filled by Ernesto Zedillo, president of Mexico from 1994 to 2000.

Later in 2015, Laureate became a “public benefit corporation” — a new form of organisation giving its board the ability to consider social benefits as well as the profit motive — and filed for an initial public offering of shares. Mr Becker declined to comment for this story, citing the so-called quiet period for IPOs.

As a candidate, Mrs Clinton has tried to stake out her own positions on education. She has slammed Trump University, calling it “more evidence that Trump is himself a fraud”, and vowed to crack down on for-profit schools that “take all this money and put all these young people and their families into debt”. A spokesman added on Thursday that Mrs Clinton “has made it clear that all for-profit institutions should be held to the same standards”.

With all their connections and networks, however, the Clintons could prove a tough sell for even sympathetic American voters. Some critics of for-profit education wonder whether their ties to the industry might colour Mrs Clinton’s performance in office.

“This doesn’t bode well for those of us who think problems exist in the industry,” says Mr Angulo. “In one way or another it’s likely to influence the kind of people who are around them.”

Building relationships: Antiwar comrade proved a lasting colleague

Nearly 46 years ago, Bill Clinton was a student at Yale Law School in Connecticut, trying to end the Vietnam war. In the process, the future president — and passionate networker — made his first connection to a future executive of Laureate Education, the owner of for-profit universities.

That person was Joseph Duffey, right, who in 1970 was an ordained minister standing as the Democratic candidate for the US Senate in Connecticut against Republican Lowell Weicker and Thomas Dodd, the incumbent running as an independent.


Mr Weicker won. But much of the antiwar crowd around Mr Duffey went on to bigger things. Anne Wexler, his campaign manager, became his wife and an aide to President Jimmy Carter. As well as Mr Clinton, his campaign workers included Joe Lieberman, the future US senator and Democratic vice-presidential candidate, Tony Podesta, the prominent lobbyist, and Tony’s younger brother John, now Hillary Clinton’s campaign chair.

Mr Duffey served in a variety of governmental and academic capacities, including as president of American University in Washington, before being recruited by Laureate founder Douglas Becker in 1999 and becoming the university network’s senior vice-president for educational strategy.

Mr Clinton and Mr Duffey were reunited in 2010 when the former president joined Laureate International Universities as honorary chancellor. Mr Clinton said how proud he was to work with Mr Duffey again. "We have been friends for 40 years," Mr Clinton said in April 2010 at a ceremony held by Laureate's Universidad del Valle de México. "When we were much younger . . . he was running for office and I was helping him." Mr Duffey also received a boost the previous year from Mrs Clinton, then secretary of state. According to one of her emails from 2009, Mrs Clinton urged that a Laureate representative be invited to a private department dinner on education policy.

"And [redacted] works for the fastest-growing college network in the world, Laureate Universities, started by Doug Becker, who Bill likes a lot," she wrote. "It's a for-profit model that should be represented." Mr Duffey wound up with a seat at the table, state department records show.

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