

Market Reform and School Competition: Lessons from Sweden

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August, 2016

Abstract

In a radical school choice reform in 1992, Sweden's education system was opened to private competition from independent schools funded by vouchers. The expectation was that competition would produce education of higher quality at lower cost than before, in both independent and public schools. This article analyses whether the school choice reform was institutionally secured against unsound school competition. In-depth interviews with key figures reveal that the architects of the reform overemphasized the virtue of market reforms and, therefore, did not deem it necessary to establish proper rules and institutions for school competition. Imprudent grading and curriculum reforms instead opened up for moral hazard in the form of grade inflation. The lesson from Sweden's experience is that market reforms of public services need to take account of how institutions and incentive structures affect behaviour.

Keywords: School choice; grade inflation; institutions; hazardous adjustment

JEL-codes: D02; D62; I28

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1. Introduction

This article makes a novel contribution to existing scholarship on Sweden's internationally recognised school choice system by (1) demonstrating the existence of grade inflation in both independent schools and public schools, and (2) by using an institutional theory of markets to explain why such unsound school competition has arisen. It details the 1992 universal school voucher reform and other, simultaneously enacted, education reforms that in effect removed institutional safeguards against opportunistic behaviour within the then newly created school choice system, and how that inadvertently undermined the potential of raising the quality of education in schools through competition and choice. Although a more comprehensive study would be needed to establish causality, this article gives a plausible explanation for the emergence of unsound school competition.

In contrast, the majority of previous internationally available studies on school competition in Sweden have concentrated on easily measured educational outcomes – i.e., teacher-assigned grades and results on Swedish standardized tests, which are also teacher graded – and found that the expansion of independent schools after 1992 has raised results in both independent schools and public schools. But these literatures have considered neither the striking discrepancy between Swedish grades and the results in objectively graded international knowledge assessments, nor the fact that the loose institutional framework of the school choice system has from its inception allowed room for grade inflation. Thus, they say little about the quality of the education pupils are receiving in the school choice system. This question is the focus of this article. Although the analysis emphasizes the Swedish school choice system, the conclusions are also pertinent to the discussion about privatization of education, and other areas of public responsibility, in the U.S., the UK and other countries.

The article consists of six sections. The remainder of this introduction discusses the background of the study, explains its methodology, and summarizes the main findings. Section two presents an overview of Sweden's education system and its school market. Section three sets out a detailed case for the existence of grade inflation, and examines the evidence to the contrary from previous studies. Explaining the remaining findings of

the article will require a discussion of the importance of institutions to well-functioning markets, which is done in section four. The fifth section shows how such theoretical insights were lost on the policy-makers who brought market principles into the Swedish education system in the early 1990s. The last section presents the conclusions.

The school choice reform that was introduced in Sweden in 1992 is unparalleled internationally in its liberal design (Vlachos, 2012). It allows private actors, such as foundations, parental cooperatives and for-profit firms, to establish independent schools (*friskolor*) run on the same terms as public schools and financed through a voucher scheme similar to the one proposed by Milton Friedman sixty years ago (1955).¹ Prior to this reform, there were few independent schools operating in Sweden, and over 98 per cent of pupils attended their nearest public school. The reform was supposed to encourage choice by pupils and competition among schools. Restrictions on independent schools were then, as they are now, few and did not include competence requirements for owners, such as previous management experience from the educational sector, or limits on the right to pay out dividends to the owners of the schools.

Prime Minister Carl Bildt's centre-right coalition government of 1991–1994, which implemented the reform, valued freedom of choice as an end in itself (Proposition 1991/92:95). But there were also expectations that the new element of competition would produce education of higher quality at lower cost, in both independent schools and public schools (Proposition 1991/92:95, p. 9). This was in line with Friedman's (1962/2002, p. 93) prediction that “the development and improvement of all schools would [...] be stimulated”. Ostensibly, it looks as if that hope has been achieved; recent studies of the effects of school competition on educational outcomes find that the expansion of independent schools has raised results in both independent schools and public schools. However, concerns have also been expressed over the reliability of grades and Swedish standardized tests as indicators of the quality of education. And in fact, a main finding in this

¹ The reform was expanded from primary education to include secondary education in 1993 (Proposition 1992/93:230).

study is that such concerns are warranted because there has been a dramatic rise in grades during the last fifteen years that is not matched by the results in international tests of pupils' knowledge and adult cognitive skills. There is hence quite strong evidence of grade inflation, and of it being caused by school competition. How did this come about despite the good intentions of the reformers?

Grade inflation should be seen as a negative externality in terms of basic human interests (Claassen, 2016), as it has detrimental effects on knowledge, which must be considered one of the basic goods that individuals require in order to lead flourishing lives. And since negative externalities are the result of institutional failure (Ostrom, 1990; Frank, 2012), we should examine whether the school choice system, when first introduced in 1992, was institutionally secured against an unsound school competition that gives rise to inflated grades rather than an increase in achievement among pupils. It is indeed motivated to examine how the institutional arrangements and incentive structures were originally shaped, because while institutional arrangements can cause hazardous behaviour, such "hazardous adjustments come with a lag and do not occur immediately", according to Eggertsson (2005, p. 149), drawing on Lindbeck (1995).

In making the analysis, I have drawn on primary sources, such as government propositions and documents from the Swedish National Agency for Education, and published research, and interviews with key figures behind the 1992 universal school voucher reform. The interviews were conducted by telephone and by email. No recording was made but notes were taken. The main purpose of the interviews was to gain insight into the reasoning of the architects of the reform at the time of its introduction.

I found that the school choice reform was not adequately secured against negative externalities of the nature discussed above. Inspired by Milton and Rose Friedman's proposal for a voucher programme (1980), the architects of the reform in the Moderate Party, the party in charge of education policy in the centre-right coalition government, placed too much faith in the free market's ability to produce education of higher quality at lower cost. It was not deemed necessary to establish proper rules and institutions for school

competition, since the policy-makers assumed that private actors under any circumstances would produce better and more cost-efficient educational services. They instead enacted reforms to grading and the curriculum that created an institutional possibility for independent schools, and eventually also for public schools, to compete in dimensions other than educational quality. The mechanisms are similar to those that led up to the financial crisis of 2008, where regulatory failure paved the way for moral hazard and made it rational for banks to compete by lowering lending standards. Part of the blame also falls on the Left. Despite twelve years in government, 1994–2006, the Social Democrats did not take any steps to reform the system in order to improve its functionality.

2. The independent schools

Sweden's education system is divided into compulsory primary education (grades 1–9) and voluntary secondary education. Most children start compulsory school at the age of seven, some at the age of six, and finish at the age of sixteen. The vast majority of pupils then enter secondary education and finish at the age of nineteen.² Academic grades determine whether pupils will get a place in the secondary school of their choice and at university after they leave school. But despite the importance grades have on future success, Sweden is the only country in the world that does not use external examiners of grades (Wikström and Wikström, 2005).

Both compulsory primary education and voluntary secondary education is, since a decentralization reform enacted in 1991 and fully developed in the mid-1990s, under the responsibility of the municipalities. Municipal tax revenues and general government grants are the main sources of finance. The role of the central government is merely to set goals and objectives for education through the Swedish National Agency for Education (established in 1991), and to ensure that schools are complying with the legislation through the Swedish School Inspectorate (established in 2008). Prior to the decentralization reform of the early 1990s, the education system was heavily

² In 2013, 98 per cent of pupils entered secondary education right after finishing year 9 of primary education (see The Swedish National Agency for Education: www.skolverket.se).

regulated – perhaps more than any other public institution in the world (Lewin, 2014, p. 57).

With the exception of a few independent schools, which in effect taught the children of the wealthiest families or had alternative pedagogic profiles, and were only partially supported by funds from the state, the comprehensive public school dominated the education sector in Sweden from the 1970s until the implementation of the school choice reform in 1992.³ The independent schools received funding, through a voucher system, at a minimum of 85 per cent of the average cost per pupil in public schools (raised to 100 per cent in 1996 in exchange for independent schools abandoning limited student fees). And through a change in the legislation, it also became possible for pupils to choose a different school – either public or private – than the nearest one in proximity to their homes. These changes broke up the government's near-monopoly on education and paved the way for competition among schools. The only restrictions were that independent schools must follow the national curriculum and abstain from “cherry picking” pupils based on ability or socio-economic background.

The first year after the reform was enacted, the number of independent schools doubled, and during the next decade a new education market emerged at both primary and secondary levels. In the academic year 2014/15, 14 per cent of pupils in primary education attended any one of the 800 independent schools at this level, and 26 per cent of pupils in secondary education attended any one of the over 450 independent secondary schools that now exist in Sweden (Edmark, 2015).

Contrary to what many seem to have believed at the onset of the reform,⁴ the education market has become progressively more professionalized. Most independent schools do not have an alternative pedagogic approach, but a general profile that competes directly with the public schools. For-profit

³ The share of pupils who went to independent schools in 1992 was 1 per cent in primary education and 1,7 per cent in secondary education (Jordahl and Öhrvall, 2013).

⁴ According to Anders Hultin (Personal communication, February 11, 2014), political adviser in the centre-right government 1991–94, many in the Department of Education believed that the school choice reform was only “symbolic”, and that it would have a marginal effect in practice.

firms constitute 60 per cent of all independent primary schools and 86 per cent of all independent secondary schools (Edmark, 2015), and, increasingly, independent schools are concentrated to large business groups. E.g., in 2014, the leading business group in the education sector, Academedia, enrolled approximately 3,5 per cent of all pupils in primary and secondary education in any one of its wholly owned but differently branded schools. This is not dissimilar to how leading consumer companies win market shares for consumer goods through their many different brands. Indeed, the parallel is quite apt. For although this education market is a “quasi-market” (Le Grand and Bartlett, 1993), there is evidence that it behaves much like an actual market, meeting consumer demand regardless of whether this is best for the quality of education.

3. Evidence of grade inflation

In the PISA 2012 international education survey,⁵ which assesses the knowledge of fifteen-year old pupils, Sweden scored below average among OECD countries in reading, mathematics and science (Swedish National Agency for Education, 2013). Likewise, in the latest cycle of TIMSS (conducted in 2011),⁶ which assesses the mathematics and science knowledge of 4th and 8th graders, even pupils of the heavily criticized American education system⁷ achieved better results in mathematics at all student achievement levels than did Swedish pupils (Mullis et al., 2012). This represents the lowest point yet in a decline of Sweden’s results in international standardized tests (Hanushek et al., 2012). At the same time, since the mid-1990s grades have continually risen in both primary and secondary education in Sweden, and so has the share of pupils who receive the highest grade (Vlachos, 2010; Holmlund et al., 2014).

[Insert table 1 about here]

These opposing trends become strikingly evident from the OECD’s country report on education in Sweden (OECD, 2015) and one of its graphs

⁵ The *Programme for International Student Assessment* (PISA) is a worldwide study by the Organisation for Economic Co-operation and Development (OECD).

⁶ The *Trends in International Mathematics and Science Study* (TIMSS) is a worldwide study by the International Association for the Evaluation of Educational Achievement (IEA).

⁷ See, for example, Murray (2008).

reproduced here (Fig. 1). This figure shows both the development of the average merit rating in year 9 (the final year of primary education) and PISA assessment data, between the academic years 1997/98–2011/12. According to the Swedish National Agency for Education (Swedish National Agency for Education, 2014b), international standardized tests such as PISA give an accurate picture of the level of knowledge among Swedish pupils and closely resemble the national curriculum. Whilst merit ratings have improved during these years, Swedish pupils have steadily deteriorated in all three areas of PISA – reading, mathematics and science – since the tests began in 2000. This contradiction – that grades have markedly improved in Sweden whilst the level of knowledge as measured by valid international tests has declined – suggests that grades neither reliably measure pupils' knowledge, nor can be used as a valid indicator of the quality of education.

[Insert figure 1 about here]

In the past, poor levels of sheer knowledge among Swedish pupils were often excused by arguing that this was offset by the fact that pupils performed strongly in other important skills that are also weighed into grades, such as critical thinking and creativity. However, another recent PISA assessment has revealed shortcomings (below OECD average) also in critical thinking, creativity, curiosity and perseverance (Swedish National Agency for Education, 2014a). Assertions that the improvement of grades reflects the strengthening of such skills, more or less independently from the level of knowledge, can therefore be rejected.

Hence, neither the external tests of the level of knowledge nor the PISA assessment of problem solving skills can motivate the sharp increase in grades. Perhaps the most puzzling fact is that the share of Swedish pupils who receive the top grades has increased dramatically, and that the same group is also performing worse on international tests, particularly in mathematics (Mullis et al., 2012). The combination of rising grades and

declining international test scores thus suggests grade inflation (Holmlund et al., 2014).⁸

Yet another indicator of grade inflation is Sweden's decline in PIAAC,⁹ which assesses adult cognitive skills in literacy, numeracy and problem solving ability. Sweden's deteriorating results in PISA are perfectly mirrored in the same age cohorts in PIACC, which shows that poor results at age fifteen "remain unchanged at least twelve years after primary education" (Löfbom and Sonnerby, 2015, p. 71). In light of the fact that the school competition in Sweden has raised educational outcomes in both independent schools and public schools, and given that this might be explained by grade inflation, it follows that grade inflation might be an unexpected and undesired consequence of the school choice reform and its voucher system.

The voucher reform has given schools an economic incentive to compete for pupils. However, independent schools have no particular incentive to compete with quality of education rather than with how grades are assigned, and other material and immaterial rewards, such as free driver's licenses and personal computers (which are commonly offered to pupils), or enjoyment, pleasure and fun. This is made possible, at least in principle, by the fact that teachers themselves, and not independent, external examiners, are the ones assigning grades in Sweden. And the fact that parents and pupils generally are satisfied in independent schools, despite the well-known and often-reported decline in the level of knowledge among pupils (Svenskt Kvalitetsindex, 2015), may suggest that a preference for high grades in return for low effort has developed. Changing social norms concerning the value of education might have strengthened such a preference, since the appreciation for education tends to decrease in wealthy and highly modernised societies (Heller Sahlgren, 2015). Research on test score manipulation in Sweden also demonstrates that "its beneficiaries receive large, long-term gains in educational attainment and earnings" (Diamond and Persson, 2016, p. 38). Taken together, this would make it rational for

⁸ In this article grade inflation is defined as the difference between teacher-assigned grades and the results on international assessments.

⁹ The *Programme for the International Assessment of Adult Competencies* (PIACC) is an international survey by the OECD.

schools, even public schools, not to compete with an education of high standards in a “Darwinian market process” (Frank, 2012).

That such a mechanism is likely has been shown by Vlachos (2010) in a study of the effect of school competition on grade inflation (measured in a different way).¹⁰ The effect is small, but the true effect of school competition on grade inflation is likely underestimated, according to the author.¹¹ One important reason for this fact is that the grades are not compared to an objective and time-invariant measure of the level of knowledge (Vlachos, 2010, p. 47). Swedish standardized tests are also graded too generously by teachers in both primary and secondary education, particularly in independent schools (Tyrefors Hinnerich and Vlachos, 2013). Therefore, Swedish standardized tests cannot be used as an anchor against which grades can be measured.

By contrast, international assessments offer such an objective measure of knowledge. Therefore the effect of school competition on grade inflation can be studied by examining the difference between grades and Sweden’s performance on PISA, TIMSS and PIAAC.¹² However, for the time being, we have to rely on the available evidence, which is quite strong. A study of the Norwegian education system, which has many similarities to the Swedish system, is also relevant in this context. It found that grading practices are correlated with the number of schools in the municipality, and that stringent grading is less likely to occur in competitive environments with credible exit options (Bonnesrönning, 2004).

¹⁰ Vlachos (2010) studies grade inflation by looking at the difference between grades and performance on Swedish standardized tests; between grades in practical-aesthetic subjects and grades in subjects with standardized tests; and between grades in primary and secondary education.

¹¹ The result was supported by Holmlund et al (2014) in a study using a similar methodology (grades and Swedish standardized tests). Although the effect was small, the authors found that free schools are more generous in grade setting than public schools, and that grade inflation has been more prevalent in Swedish municipalities with a high degree of school competition measured with the Herfindahl index.

¹² It is not allowed to match PISA data with schools and municipalities, which has impeded the possibility of performing such an analysis.

Previous research

The previous research on the school choice reform is quite mixed, and different studies look at different factors. The results from the studies of school competition in municipalities support the view that both public and independent schools have improved from competition. One of the first major quantitative studies was Sandström and Bergström (2005), which studied grades and performance on Swedish standardized tests in a sample of public school pupils at the primary level in the academic year 1997/98. This study found that “the extent of competition from independent schools [...] improves both the scores on a national standardized mathematics test and the grades in public schools” (Sandström and Bergström, 2005, p. 355). When including both public and independent school pupils at the primary level in the same year, Ahlin (2003) reported a similar significant effect from school competition on standardized test scores in mathematics. Björklund et al (2004) found a positive impact on standardized test scores and final grades in Swedish, English and mathematics for the time period 1998–2000.

The largest and most recent quantitative study of school competition after the school choice reform in 1992 is Böhlmark and Lindahl (2015). They studied whether the share of independent school pupils at the municipality level affect educational outcomes for pupils in both public and independent schools. Looking at grades, Swedish standardized test scores, and some long-term outcomes among compulsory school graduates in 1988–2009, the authors found that an increase in the share of independent school pupils “improves average education performance both at the end of compulsory school and, in the long run, in terms of [secondary school] grades, university attendance and years of schooling” (Böhlmark and Lindahl, 2015, p. 542). The authors also analysed cross-sectional TIMSS data on pupils in 8th grade in the years 1995, 2003 and 2007. They found that the general decline in test results over those years is somewhat smaller in municipalities with a higher share of independent school pupils.

Although the results look promising, there are problems with all of these studies. It may be true that independent schools have raised educational outcomes in terms of grades and test results, but we cannot know whether this is equivalent to more knowledgeable pupils. Grades are not a reliable

measure of the level of knowledge. Ahlin (2003) acknowledged this and therefore studied Swedish standardized tests instead, but as we have seen these tests are not reliable either. Böhlmark and Lindahl (2015) studied grades too, but for several reasons ignored the possibility of grade inflation. First, the authors assumed that Swedish standardized tests can be used as a standard against which grades can be measured, in spite of research showing that they cannot, because of lack of external grading, and that they indeed are graded too generously (Tyrefors Hinnerich and Vlachos, 2013). Second, Böhlmark and Lindahl discounted grade inflation in primary education because they found a positive impact of school competition both on grades in secondary education and on university attendance. But grades in secondary education are possibly even more inflated than grades in primary education (Hansson et al., 2011), and university attendance is more or less an insignificant measure, since grades is the most important determining factor for university admittance. Entrance exams to university are almost invariably not used in Sweden. Third, the authors compared grades in core subjects with Swedish standardized tests on the very same subjects, to grades in other school subjects lacking such corresponding tests – on the hypothesis that the latter subjects are more sensitive to generous grading – and found no indication of inflation. However, it is not evident that core subjects, like mathematics, are less sensitive to grade inflation, as measured by the difference of obtained grades to Swedish standardized test results (Hansson et al., 2011; Diamond and Persson, 2016).

Finally, Böhlmark and Lindahl analysed cross-sectional TIMSS data. Their finding, that the decline in test scores is somewhat smaller in municipalities where independent schooling has increased more, is taken as evidence against grade inflation. The authors show that municipalities with low and high shares of independent school pupils seem to run parallel in TIMSS between the years 1995 and 2003. But between 2003 and 2007, the decline becomes less pronounced in municipalities with high shares of independent schooling compared to those with low shares. However, this sudden diversion is left uncommented. The authors do not discuss the possibility of cohort effects. For instance, in 2007, the rapidly increasing immigration to Sweden had become highly visible in public schools, and the failure of

public education to cope with this, notwithstanding other challenges, had now become an alarming public concern. Under those circumstances, it is possible that the more ambitious and foresighted pupils, and their parents, were keen to get into the schools that could provide the highest grades and the best future for them. And by then it was more or less common knowledge, or belief, that these schools were the independent schools, which already at the end of the 1990s seem to have been inflating grades (Wikström and Wikström, 2005). Such a flow of pupils from public schools to independent schools, driven partly by grade inflation, would include many of the brightest pupils, which in turn would gradually change the aptitude mix in favour of the independent schools. If that is the case, it is not surprising if municipalities with a higher share of independent schooling achieve comparatively better results in TIMSS over time, quite independent from any possible differences in educational excellence.

4. Markets and institutions

Markets require institutions in order to function as intended. Douglass North famously defined institutions as “the rules of the game in society or [...] the humanly devised constraints that shape human interaction” (North, 1990, p. 3). More recently, Hodgson (2006, p. 7) has expanded the definition of institutions to encompass durable (humanly devised) social structures that serve not only as constraints, but also as enablers of behaviour with the “capacity to change aspirations” of agents. As has been argued by economists, particularly of the institutional economics school, markets cannot and should not be left alone from intervention and regulation, but require properly designed institutions to work (Hodgson, 2013; Nooteboom, 2014). Institutions shape moral habits (Ratnapala, 2006), and are thus needed to limit the negative effects that unfettered markets may have, such as the “crowding out” of intrinsic, non-material values and moral conduct from areas where markets are allowed to operate (see, e.g., Sandel, 2012), and to make markets work as well as they can to serve society.

Since markets are fundamentally about satisfying demand, whatever that might be to the individual consumer who has limited rationality and is frequently swayed by short-term considerations, it is not self-evident that

markets serve collective aims (Nooteboom, 2014). Hence, institutions must restrain markets and freedom of choice to some extent, as stipulated by the definition of North (1990). Lack of appropriate, constraining institutions may ultimately lead to moral hazard (Kasper et al., 2013). The broader view of institutions as also having the capacity to change the aspirations of agents, suggested by Hodgson (2006), brings another important point to light.

Prisoners' dilemmas, when agents, such as firms, think they cannot afford to take less self-interested courses of action as others will not go along, is a well-known problem of markets, which can have detrimental effects on the society at large (Nooteboom, 2014). In these situations, proper institutions may support socially concerned actors and shift competition towards outcomes that are more desirable from a public perspective.

Institutions have to be carefully constructed, particularly in conjunction with privatization and cases when markets become providers of publicly financed services, such as education (Hodgson, 2013; Nooteboom, 2014). Principals then have to examine whether regulatory frameworks and incentives are designed to encourage moral behaviour among agents. Voucher reforms, for example, should entail institutions that both limit moral hazard and favour those schools that wish to compete in educational quality and not in other dimensions. Milton Friedman (1955) suggested such a framework in his original proposal for a voucher reform sixty years ago when calling for a basic core curriculum, set by the state to ensure homogenous performance standards, which was to be administered also in privately run schools. Another appropriate regulation is external assignment of grades. However, as will be shown, such institutions were either absent or undermined in the Swedish case.

We can get help in understanding the importance of institutions, from the related literature on the financial crisis of 2008, such as Richard Posner's book *A Failure of Capitalism* (2009) and Raghuram Rajan's book *Fault Lines* (2010). Both authors argue that the financial crisis cannot be blamed on either markets or government alone, but that it was a "systemic" crisis caused, to a large extent, by hazardous incentives and lack of proper regulation.

Posner argues that the period from the 1970s onward could be seen as a “deregulation movement” of profound sweep within the U.S. financial industry, which dissolved boundaries between traditional banks and new, competitive financial intermediaries like hedge funds, and lifted regulatory restrictions on risky lending. This movement converged with falling interest rates in the early 2000s and the appetite for increased refinancing of existing house mortgages among lenders “with little thought for the future”, who often could not afford their loans (Rajan, 2010, p. 129). Banks, according to both Posner and Rajan, behaved rationally from their point of view, and in line with the market principle of satisfying demand, when they began competing by lowering lending standards. “Businessmen can no more afford to consider the effect of their decisions on the economy as a whole than consumers can” (Posner, 2009, p. 325). Government regulators should have restricted this risky form of competition on the lending market, but instead they were invested in a free-market ideology that opposes government intervention and holds that markets are self-regulating (Posner, 2009). This left the financial system vulnerable when a housing bubble eventually burst and lenders defaulted on their mortgages, in turn causing banks to fail. As will be shown in the remainder of this article, similar mechanisms have been at work in the Swedish education system.

5. A failure of institutions

In 1991, one year before Carl Bildt’s centre-right government implemented the school choice reform, Sweden’s education system was decentralized and deregulated by a Social Democratic government. The reform reduced the role of the central government in education to merely setting general goals and objectives, and placed primary and secondary schooling under the full responsibility of the municipalities (Proposition 1990/91:18).¹³ One reason for this reform was the trend of decentralization and management by objectives that swept through public administration in Sweden during the 1980s (Lewin, 2014), but it was also congruent with a movement to reduce government regulation in education that had been developing since the 1970s (Haldén, 1997). Both the political Left and the political Right had

¹³ See section 2 of this article.

attributed the shortcomings of the comprehensive public school system to detailed regulation of the scope and content of education, and had argued that the quality of schools would improve if they were decentralized to local authorities and given greater freedom to pursue their own approaches (Ringarp, 2011).

The decentralization reform of 1991 reflected these political convictions. The Social Democratic Minister of Education at the time, Göran Persson (Prime Minister 1996–2006), vowed to reduce the size of the school regulatory system and swiftly abolished the National Board of Education (established in 1920), which was viewed as an obstacle to the realisation of a new, deregulated education system (Haldén, 1997). In its place came a new body, the National Agency for Education. However, it was not mainly a regulatory agency. Indeed, the National Agency for Education defined itself against the abolished National Board of Education, and pledged to “dismantle traditional supervision and control” (Haldén, 1997, p. 17). Its first director general displayed a disregard for the institutional memory of the previous organisation, and publicly expressed fears that that its “bureaucracy was stuck to the walls” of the newly created agency (Kornhall, 2013, p. 51).

The primary task of the National Agency for Education was not to directly regulate schools, but to collect information and perform analyses. It was believed that the agency’s research into “good examples” of successful schools would inspire other schools to improve themselves, and that it would ultimately function as an indirect form of regulation (Haldén, 1997). However, it can be argued that this, in effect, amounted to a policy of self-regulation of schools. It was thus into this debilitated institutional setting that the independent schools were introduced only a year later, when the school choice reform was enacted in 1992.

Ideas for a school choice reform based on vouchers had first emerged in the youth league of the Moderate Party in the 1970s, and until the beginning of the 1980s “the young moderates were fairly alone in having these ideas, also in relation to the policies of the mother party”, according to Odd Eiken (Personal communication, January 12, 2014), State Secretary in the

Department of Education 1991–1994 and one of the original architects of the school choice reform. During the second half of the 1980s, however, school choice and vouchers successively became a more popular issue to adopt, both outside of the mother party, by free market organisations such as the influential liberal think tank Timbro, and within the party. An ideological movement for greater individual freedom and less government intervention was growing inside the Moderate Party (Reinfeldt, 2015, p. 60). And there was also a general discussion in society, even in the Social Democratic Party, about the shortcomings of the public sector in delivering welfare services of high quality and the need for private alternatives, which gave impetus to school choice as well as other ideas to reform public monopolies in the provision of education, healthcare, childcare, and elderly care (Jordahl and Öhrvall, 2013). By the election of 1985, the Moderate Party had developed a plan to implement a school choice reform if elected to power (Odd Eiken, personal communication, January 12, 2014).

The Moderate Party's main source of inspiration for the reform that eventually came into effect in 1992 – according to both Odd Eiken (Personal communication, 12 January, 2014) and Anders Hultin, political adviser in the Department of Education 1991–1994 (Personal communication, February 11, 2014) – was Milton Friedman's voucher scheme, as presented in his book *Free to Choose* together with Rose Friedman (1980). The Friedmans were critical of government monopolies in education, and argued that publicly run schools serve the interests of teachers and administrators rather than those of parents and pupils, who have to conform to the bureaucracy's goals. In order to counter this transfer of power from "consumers" to "producers" in education, the Friedmans proposed giving pupils vouchers and thus the freedom to choose among schools, including privately run schools.

This would open a vast education market where "only those schools that satisfy their customers will survive – just as only those restaurants and bars that satisfy their customers survive" (Friedman and Friedman, 1980, p. 205). The comparison with restaurants and bars may sound hedonistic. However, a voucher plan would "bring learning back into the classroom", according to the authors, "since parents have greater interest in their children's schooling

[...] than anyone else” (Friedman and Friedman, 1980, p. 194). The Friedmans clearly intended public and independent schools to compete in educational quality and not in other dimensions. Indeed, they argued that, “as the private market took over, the quality of all schooling would rise so much that even the worst, while it might be *relatively* lower on the scale, would be better in *absolute* quality” (Friedman and Friedman, 1980, p. 206, emphasis in original). According to Anders Hultin (Personal communication, February 11, 2014), the architects of Sweden’s school choice reform shared this “naïve view” of private actors’ ability to improve educational quality. “There was an instant air of quality about the private sector when compared to the public sector.”

This overconfidence in the market caused the centre-right government to make regulatory mistakes when implementing the school choice reform. First, the architects of the reform overlooked Milton Friedman’s crucial point about enacting a basic core curriculum to ensure homogenous performance standards (Friedman, 1955) – perhaps because this point was not included in the proposal in *Free to Choose* (Friedman and Friedman, 1980). In conjunction with the school choice reform, the government instead enacted a curriculum that was considerably less prescriptive than the previous curriculum and lacked clear instructions regarding the scope and content of education (Swedish National Agency for Education, 1994). This was, however, in line with the spirit of the new, deregulated school system, in which the government would only set general goals and objectives. It was also congruent with the views of the Moderate Party’s Minister of Education, Beatrice Ask, who had previously argued for “less central steering of the content in school” (Ask, 1990, p. 367).

The new national curriculum stipulated that the content of education would be decided on the local level – in local curricula, in actual fact: “It is really only in the individual school that one can talk about a curriculum in the true sense of the word”, according to the National Agency for Education at the time (1996, p. 22). The responsibility for learning was to a large extent transferred to the pupils, who were expected to involve themselves in the planning of lessons and discussions about the content of their education. Moreover, the traditional concept of knowledge in education was obfuscated

in the new curriculum. The training of diligence, perseverance and other non-cognitive skills, which facilitate the attainment of knowledge, and which was emphasized in the previous curriculums, was consequently abandoned (Hörnqvist, 2012). The official commentary to the curriculum explained the new definition of knowledge: “knowledge is seen as an expression of man’s (the pupil’s) relationship with the world rather than something ‘in itself’ to be ‘attained’” (Swedish National Agency for Education, 1996, p. 9). This soft curriculum effectively left it to the individual schools to decide on the value of traditional knowledge in education. There was no coherent framework that could prevent school competition from undermining the quality of education.

In conjunction with the school choice reform, the government also introduced a new objective-based grading system. In the previous grading system, teachers were required to motivate in writing why they wanted to assign grades that greatly diverged from the result on centrally graded standardized tests (Swedish National Agency for Education, 2005). The new grading system, however, removed the influence of such standardized tests and gave individual teachers full autonomy to assign grades. The National Agency for Education realized that the grading reform would open the way for more ambiguous (“qualitative”, in the official term) valuations of pupils’ knowledge (Swedish National Agency for Education, 1996), and welcomed this change.

According to the National Agency for Education, the old grading system had been “characterised by the belief that it is possible to objectively measure knowledge”. However, “ideas about the scientifically based and the ‘objective’” and that all pupils are ‘expected to learn the same things’” were not in harmony with the new, objective-based education system (Swedish National Agency for Education, 1996, p. 35). What was now needed was a “re-thinking when it comes to assigning grades and what grades are but also the meaning of the terms fairness, comparability and equivalence”. “Taken together, the orientation towards local variations, individual diversity and qualitative dimensions of knowledge require a different way of looking at assessment and grades”, the agency concluded (Swedish National Agency for Education, 1996, p. 36). For example, it was deemed theoretically

possible for a teacher to assign grades in any subject based on observations of the pupil that the teacher had made outside of the classroom.

The soft national curriculum and the deregulated grading system, both influenced by the belief that knowledge is a fluid concept, offered little institutional resistance to grade inflation and school competition in dimensions other than educational quality. The centre-right government “never considered external examiners of grades” when implementing the school choice reform, according to Anders Hultin (Personal communication, February 11, 2014). “Nonetheless, there was no lack of reform pace”, he says. “The pupil’s right to choose was the central part of the reform.”

The regulation of the independent schools had not been thought through when the reform was enacted. “The National Agency for Education was given the task to supervise independent schools, which was something entirely new to them and their first supervisory report was deplorable”, according to Anders Hultin (Personal communication, February 11, 2014). “There was no competence or readiness for this”, he says, which is not surprising given the fact that the National Agency for Education did not consider itself to be a regulatory body.

This lack of institutional framework could potentially have been rectified when the Social Democrats returned to government in 1994. However, it was the Social Democrats that had deregulated the education system and abolished the National Board of Education. Accordingly, they had now also embraced the school choice reform, and believed that competition between public and independent schools would improve the quality of education (Proposition 1995/96:200, p. 37). To improve conditions for independent schools, the Social Democratic government raised the vouchers to the full average cost per pupil in public schools. Moreover, the Social Democrats agreed with the spirit of the new national curriculum and emphasised that pupils should have substantial influence over the content of their own education. The Social Democrats and the Moderate Party were seemingly in agreement that it was unnecessary to establish proper institutions for school competition.

6. Conclusions

The following conclusions can be drawn. First, Sweden's school choice reform, unparalleled internationally in its liberal design, has not produced education of higher quality at lower cost overall, as its architects expected. The fact that Sweden has seen its results in international assessments of the level of knowledge among pupils fall while domestic grades have improved dramatically, suggests that school competition is taking place in other dimensions than educational quality, namely, grading as well as other material and hedonic rewards. Second, this hazardous behaviour is the result of a failure of institutions. Because of overconfidence in markets, the centre-right government that enacted the reform did not deem it necessary to regulate school competition properly. Through imprudent grading and curriculum reforms, the government instead opened up for moral hazard. The succeeding Social Democratic government then did not take steps to reform the system in order to improve its functionality and thus protect basic social interests. Third, the lesson from Sweden's experience is that market reforms of public services need to take account of the positive and negative impact on behaviour of different institutions and incentive structures. This article has studied education, but there are also other markets for tax-financed welfare services, characterised by similar institutional weaknesses and hazardous adjustments of behaviour, which should be studied and learned from.

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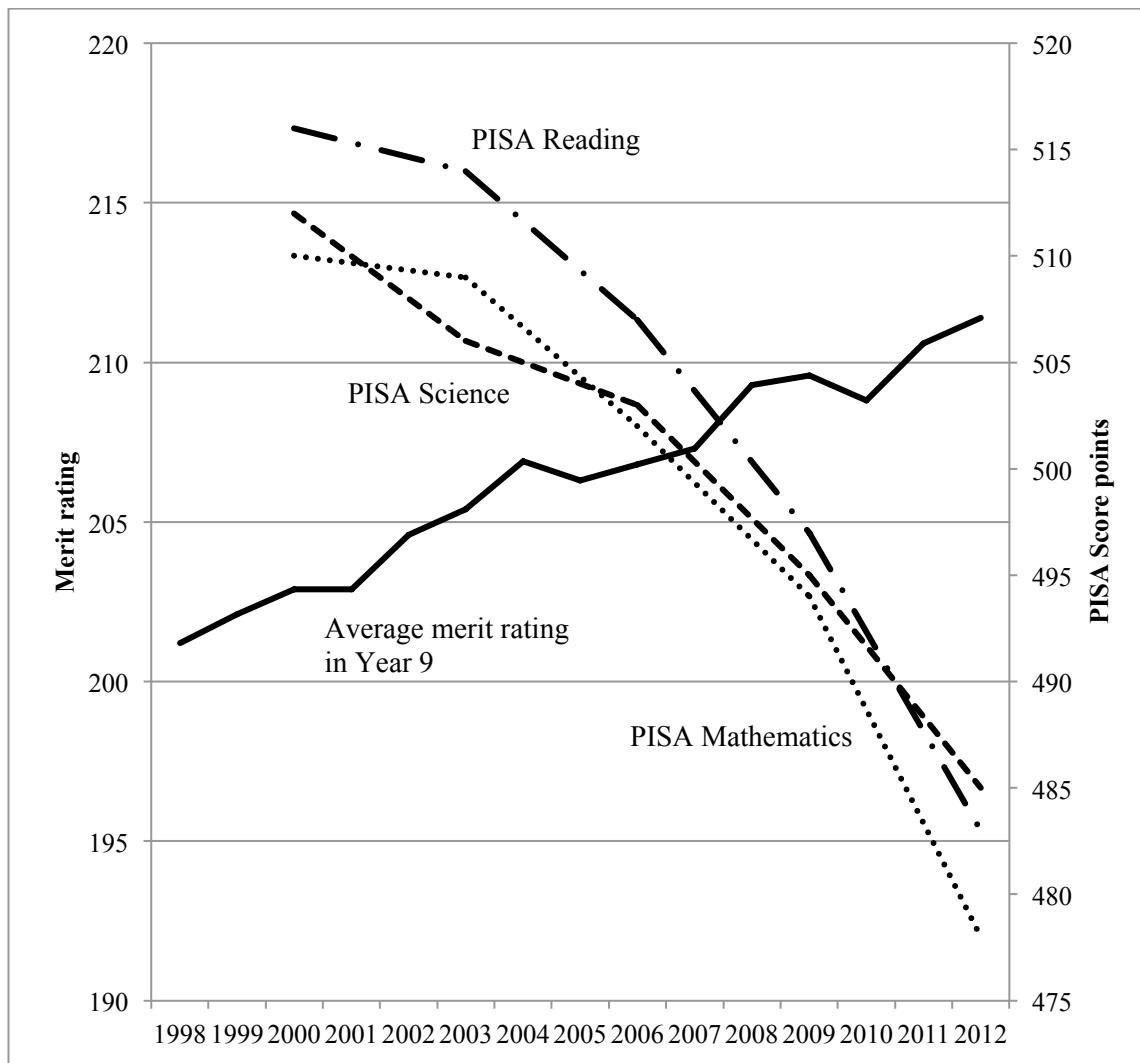
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Figure 1. Merit rating and PISA Score points, 1998–2012



Source: OECD (2015), *Improving Schools in Sweden: An OECD Perspective*,
<http://www.oecd.org/edu/school/improving-schools-in-sweden-an-oecd-perspective.htm> – reproduced by permission. The development of the average merit rating in year 9, shown on the left axis, is contrasted with PISA assessment data, shown on the right axis.

Table 1. US advantage in TIMSS 2011 International Results in Mathematics

TIMSS Fourth Grade							
	<i>5th Percentile</i>	<i>10th Percentile</i>	<i>25th Percentile</i>	<i>50th Percentile</i>	<i>75th Percentile</i>	<i>90th Percentile</i>	<i>95th Percentile</i>
Sweden	388	416	462	507	549	587	610
USA	410	440	492	544	593	635	660
US advantage compared to Sweden	22	24	30	37	44	48	50

TIMSS Eighth Grade							
	<i>5th Percentile</i>	<i>10th Percentile</i>	<i>25th Percentile</i>	<i>50th Percentile</i>	<i>75th Percentile</i>	<i>90th Percentile</i>	<i>95th Percentile</i>
Sweden	368	395	440	487	532	569	590
USA	381	409	457	511	562	607	635
US advantage compared to Sweden	13	14	17	24	30	38	45

Source: Mullis, et al. (2012), *TIMSS 2011 International Results in Mathematics*. Data are from appendix G. Note that US students consistently have an advantage over Swedish students. Even the weakest American student is comparatively stronger than the weakest Swedish student.