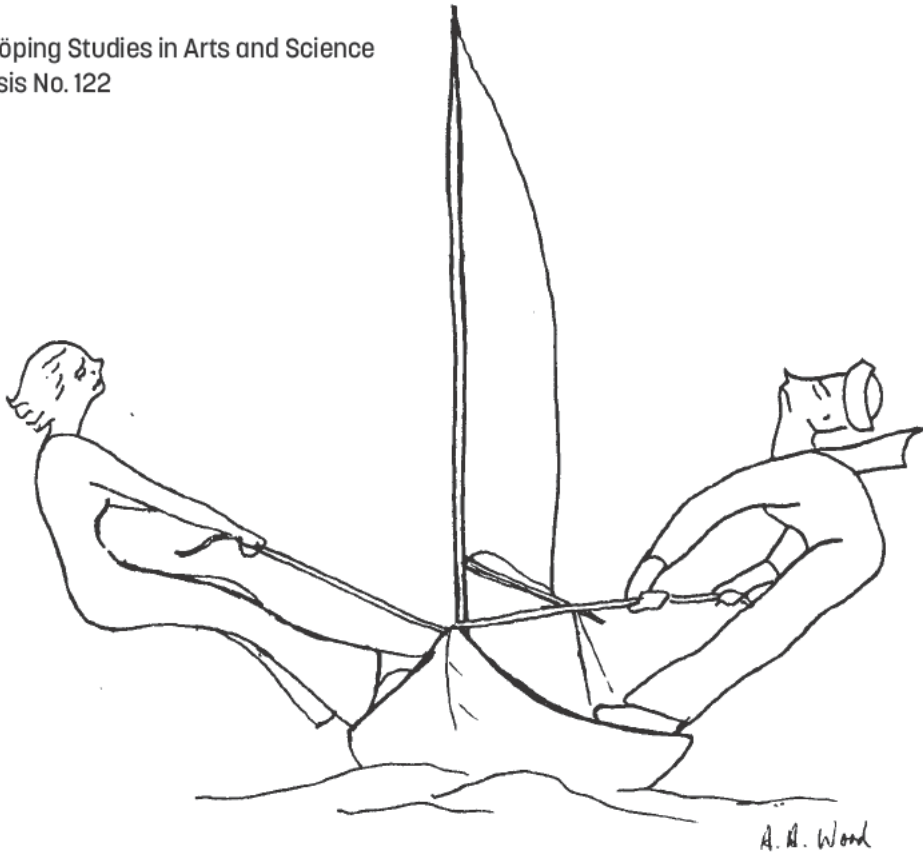


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Market, State, and Morality

Two Studies of How Left and Right Undermined
Moral Motivation in the Swedish School System

Johan Wennström

Faculty of Arts and Sciences Thesis
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Linköping 2017

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By

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ABSTRACT

The bulk of the literature on the New Public Management (NPM) has been blind to the moral dimension of the market-oriented reforms of the public sector. However, this thesis studies the potential for institutional arrangements such as financial incentives and other market mechanisms to undermine intrinsic, moral motivation among both “producers” and “consumers” of tax-financed welfare services. The first paper demonstrates how the promotion of NPM-like ideas by various left-wing and right-wing agents after 1968 led to the erosion of a professional ethos among Swedish teachers. The second paper shows how an ill-conceived school voucher reform in Sweden, implemented under the banner of NPM, has encouraged moral hazard on the part of schools. The thesis demonstrates an ecumenism between the left and right that with few exceptions has been overlooked in political science. It also demonstrates that public administration systems that have adopted market-oriented reforms need morality in order to function in accordance with the principles underlying these institutions.

Keywords: Education; markets; morality; neoliberalism; New Public Management

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List of Papers

This thesis is based on the following papers, which will be referred to in the text by their Roman numerals:

- I. Wennström, J. 2016. "A Left/Right Convergence on the New Public Management? The Unintended Power of Diverse Ideas." *Critical Review* 28(3-4): 380-403.
- II. Wennström, J. 2016. "Market Reform and School Competition: The Lesson from Sweden." *Under review*.

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Introduction

1.1. The Moral Dimension of Market Reform

As the 1980s became the 1990s, the provision of public services in Sweden underwent a transformation from what it once was when the Social-Democratic welfare state was at its apogee,¹ “a public monopoly with standardized services and very little scope for individual preferences and choice” (Millares 2015, 209), to a more market-based regime (see, e.g., Reg.skr. 1984/85:202; Molander 2017). Sweden subsequently became one of the Organization for Economic Cooperation and Development (OECD) countries to have gone furthest in implementing market-oriented reforms of the public sector (Hood 1995; Bergh 2014). Thus, Sweden stands out as a particularly clear example of what Christopher Hood (1991, 3) in a landmark article described as “the rise of ‘New Public Management’” (NPM).

Hood’s term—NPM—referred to an effort to correct the perceived shortcomings of the “old” public management, both in moral terms and at a practical level, through the use of (a particular perception of) private-sector norms and techniques (Hood 1991; Dunleavy and Hood 1994). In one variant or another, this agenda became widespread among Western countries after the late 1970s. Anglo-Saxon nations such as Britain, Australia, and New Zealand became the first to adopt NPM, and other countries later followed their lead (Barzelay 2001; Pollitt and Bouckaert 2011). The public sector reforms that were implemented typically included the following seven elements (Hood 1991; 1995): hands-on professional management; explicit standards and measures of performance; output controls coupled with rewards and incentives; disaggregation of units in the public sector; competition in the provision of public services; stress on private-sector styles of management practice; and discipline and parsimony in resource use. Taken together, these measures amounted to a radical “normative model for public administration and public management”, arguing that government should adopt the values of business administration (Denhardt and Vinzant Denhardt 2000, 551). By the early 1990s, this “striking international [trend]” (Hood 1991, 3) had decisively reached Sweden, as NPM, or NPM-like,² measures were then being introduced in core areas

¹ Broadly speaking, the 1960s to the 1980s (Lindvall and Rothstein 2006).

² A term capturing measures similar to but not necessarily identified as NPM.

of welfare provision (see, e.g., Hasselbladh 2008; Jordahl and Öhrvall 2013; Lewin 2014; Millares 2015). For example, according to Hood (1995, 98), “doctrines of ‘pay for performance’ took a strong hold” in Sweden.

Since Hood more than twenty-five years ago wrote his seminal article that established the term NPM, a large field of scholarship on the nature of NPM and its practical impact on public administration in different countries (including Sweden) has emerged (for a comprehensive review, see Christensen and Laegrid 2010). Within this field, one of the most recurring themes has been the ideological underpinning of NPM, and the almost invariable practice in the literature has been to assume that only neoliberal ideas inspired NPM reforms. An emblematic example of this paradigm is Stephen P. Osborne’s (2006, 382) labeling of NPM as “a child of neoclassical economics”. I return to this later in the introductory essay, but suffice it to say here that the focus has been on technical and ideological aspects of NPM, while the bulk of the literature has been blind to an arguably more profound facet of the development toward NPM that this thesis sets out to study, namely, the moral dimension of the market-oriented reforms of the public sector.

The limited literature that exists on the ethical consequences of NPM tends to focus on how to create administrative doctrines that do not foster undesired unethical behavior in public servants, e.g., corruption (see Maesschalck 2004). An investigation of the impact of NPM on other ethical aspects seems to be lacking. This thesis offers such an analysis by studying the potential for institutional arrangements such as financial incentives and other market mechanisms to undermine intrinsic, moral motivation among both “producers” and “consumers” of tax-financed welfare services. It studies this topic in Sweden, because of the country’s long history of market-based reforms of the public sector, and within the domain of education, as the school system, in particular, is one of the areas in which NPM-inspired principles have been applied to the greatest extent (Jarl, Fredriksson, and Persson 2012). Paper I of the thesis examines the effects of NPM-like ideas on the professional ethos of Swedish teachers, and Paper II explores the effects of school competition in Sweden on knowledge attainment and the perceived value of education among parents and pupils. As such, the thesis is most appropriately placed in the context of a broader literature within political science and economics that studies the relationship between markets and morality and analyzes the problems of making the market economy into a universal model for human affairs (e.g., Röpke 1960/1998; Sandel 2012; Nooteboom 2014; Bowles 2016).

However, because NPM is normative in nature (Denhardt and Vinzant Denhardt 2000), ideational aspects are also brought into the analysis. Restated in the language of the institutional theory that the thesis draws upon, NPM, like any institution, is a “crystallized [idea]’ about how to organize things” (Blyth 2002, 309). As a consequence, the thesis, in addition, investigates from where the values and ideas that underpin NPM might have originated. The political prehistory of NPM is an underexplored subject in the mainstream NPM literature because of the almost invariable assumption that only neoliberal ideas inspired NPM reforms. However, this thesis explores the possibility that both the political left and the neoliberal right contributed an ideological basis for NPM reforms in Sweden (and most likely in other countries as well).

1.2. Aims and Delimitations

From the argument in the previous section, the following desiderata emerge: (1) to examine the potential for institutional arrangements such as financial incentives and other market mechanisms to undermine moral motivation in the realm of education in Sweden, and (2) to explore the political prehistory of NPM, in a combined analysis drawing on institutional theory. The choice to study Sweden was made because it is one of the OECD countries where NPM principles have become most pronounced (Hood 1995). At the same time, Sweden is widely perceived within political science as “the world’s most successful experiment in social democracy” (Blyth 2002, 305). Thus, Sweden should offer an interesting case study both of the impact of market-based public sector reforms on morality and of the ideational antecedents of NPM, assumed by most scholars to be exclusively neoliberal. The school system is an appropriate object of study because it is a public institution that reflects the essential characteristics of the welfare state—thus making the conclusions applicable to other cases—and has strongly adopted NPM principles (Jarl, Fredriksson, and Persson 2012).

A word on limitations is necessary. The thesis does neither attempt to give an exhaustive overview of market reforms in the Swedish public sector nor, specifically, in the school system. The reader is referred, e.g., to Leif Lewin (2014) for such an overview of school reforms enacted under the banner of NPM. Rather, the thesis is strictly focused on the promotion of NPM-like ideas about how to reform the teaching profession and on the system of school competition in Sweden. Likewise, the thesis does not seek to give a full historical account of the introduction of particular NPM reforms in the school system, as, for example, Johanna Ringarp (2011) does in her detailed study of the

radical reform in 1991 to decentralize the management of education to Sweden's municipalities. Although some historical background is provided in the thesis, the emphasis is on ideas and on the incentives created by particular institutional arrangements.

It should also be clarified that the analysis conducted in Paper I, which draws on Ludwik Fleck's (1935/1979) theory of "thought collectives" and "thought styles",³ is not a discourse analysis. Although the design could potentially be considered similar to a discourse analysis (e.g., Foucault 1976/1990), it would be more rightly described as an "idea analysis" (Beckman 2005) as it aims to discover new meanings in texts that are representative of various "thought styles" rather than to reveal psycho-social phenomena.

Finally, the thesis does not claim to provide an in-depth description of the practical impact of NPM reforms on producers of public services, as, for example, Anders Ivarsson Westerberg (2004) does in his study of the increasing administrative demands on police officers. This thesis rather focuses on the moral consequences of NPM and the impact of such reforms on intrinsic motivation among teachers, parents and pupils.

1.3. Outline of the Thesis

The introductory essay consists of six sections. After this introduction, the following two sections give both a background to, and a conceptual framework for, the thesis. Section 2 does this by discussing literatures on markets and morality, and Section 3 does this by discussing the common perception within political science of the left and right as natural ideological poles as well as literatures that have challenged this conventional view. Section 4 discusses the research design of the thesis, including theoretical approach, applied methods, and sources. Section 5 provides an extended summary of the two papers comprising the thesis. The final section provides a concluding discussion, explaining the contributions of the thesis and offering directions for future research.

³ See Research Design in Section 4.

Markets and Morality

This is the first of two sections that discuss literature that is of relevance to the thesis. In this section, I first consider the question of whether humans are motivated mostly by self-interest or also by moral sentiments. Thereafter, effects of markets and other institutions on morality are discussed. Finally, research on how financial incentives may cause “moral disengagement” is reviewed.

It has been the assumption of many political scientists that “behavior is motivated solely or predominantly by the rational maximization of self-interest” (Arnhart 2012, 222; see also Lundquist 2010). In similar fashion, the acquisitive and self-interested “economic man” represented for many decades a dominant view of human behavior in economics (Bhidé 2010; Hodgson 2013; Nooteboom 2014). With Gary Becker as the pioneer, economists commonly used this abstraction as a universal explanation for all human activity (Hodgson 2013; Nooteboom 2014). Becker himself (1964; 1976) applied it, for example, to marriage, family relations, and education. Likewise, Gordon Tullock (1976) found the concept of “economic man” pertinent to understanding the motivation of public servants. This focus on self-interestedness—partly influenced by discussions in biology about how to explain evolution, particularly Richard Dawkins’s (1976) notion of the selfish gene (see Gowdy and Seidl 2004)—excluded the issue of morality from the understanding of human action in economics (Hodgson 2013), and in other social sciences as well, as the above citations indicate.

However, recent years have seen a resurgence of interest in the study of morality, and as scholars from a variety of fields, including economics and political science, have demonstrated, people “are not just interested in absolute gains” (Hibbing and Alford 2004, 63). The majority of individuals in fact does not behave as “economic man”, but have strong moral and social preferences, as revealed by a host of studies involving the Prisoners’ Dilemma and other types of experimental scenarios (see, e.g., Hibbing and Alford 2004; Bowles 2016). Indeed, people have both the ability and the inclination to suppress selfish behavior in order to form complex societies that presuppose human cooperation (Haidt, Seder, and Kesebir 2008). They also strive for meaning and satisfaction in their work and their endeavors, that have little to do with shortsighted material gain (Csíkszentmihályi 1992). And public servants—to stay with the example of Tullock (1976)—are often willing to put service to others before sheer self-gain because of

an intensely felt “sense of mission” (Wilson 2000) and a commitment to a “professional ethos” (Reeder 2006). Such moral sentiments are neither skin-deep nor culturally subjective. Rather, they are biologically based and universal (Haidt 2012),⁴ and have arguably played a significant role in the course of human evolution (Hodgson 2013).

Yet, despite what has been established about the limits of self-interest, it is recognized in the literature on morality and ethics that moral sentiment can be both strengthened and undermined by institutional arrangements (MacIntyre 1981; Sellman 2011).⁵ The German economist Wilhelm Röpke was an early observer of this phenomenon. While emphasizing the benefits of the market economy, he also noted that “[m]arket and competition are far from generating their moral prerequisites autonomously” (Röpke 1960/1998, 126). In fact, Röpke suggested that markets may have a morally adverse effect on individuals and society, and thus argued for “a sound political and moral framework” (Röpke 1942/1992, 181) to constrain them. He also warned of allowing the standards of the market to spread to traditionally non-market activities and realms, as he believed them to be morally corrosive (Röpke 1960/1998).

Röpke’s views anticipated later research findings. There is now a large number of studies offering empirical evidence in support of the existence of “crowding-out” (see Frey and Jegen 2001), as the debilitating effect on morality of market mechanisms, such as financial incentives, is commonly termed. The classic illustration is Richard Titmuss’s (1970/1997) study, comparing the voluntary British system of blood collection favorably with the American one, in which payments were then made. Additional examples of how markets have entered areas traditionally governed by nonmarket norms and thereby undermined people’s sense of moral obligation and responsibility are offered by Michael Sandel in his book *What Money Can’t Buy: The Moral Limits of Markets* (2012).

Samuel Bowles (2016) provides further insight into the relationship between markets and morality. His book *The Moral Economy: Why Good Incentives Are No Substitute for Good Citizens* describes experiments that not only confirm that moral motivations may be crowded out by financial incentives, but also reveal the cognitive processes involved. According to Bowles (2016, 95), such incentives “cause ethical reasoning to recede in people’s minds”. To individuals with preexisting social preferences incentives may signal that a particular

⁴ Moral foundations theory (Haidt 2012) is elaborated on in the next section.

⁵ Further literature on the significance of institutions is discussed in Section 4.

situation corresponds to the market setting, in which we deal with each other in an impersonal, arm's-length way, as suggested by Alan Fiske's (1992) relational models theory, and cause them to "disengage morally". The influential power of names (e.g., "sellers" and "buyers") has been confirmed in many experiments, but incentives alone can provide powerful psychological frames that reduce the salience of moral values and offer justification for immoral behavior.

These findings have clear implications for the NPM model, which remain largely unexplored in the mainstream literature. Therefore, and considering that financial incentives and other market mechanisms are already widely used in the Swedish school system, the moral consequences of such institutional arrangements appear to be an important research topic. The next section takes us into the literature on the political conflict between the left and right, in which issues of morality may also play a role.

The Left and Right

This is the second of two sections, which together offer both a background to, and a conceptual framework for, the thesis. Here, I consider the emphasis on a left–right dichotomy in political science, and review literatures relevant to my analysis that offer other ways of understanding the nature of political discord.

The left–right political spectrum represents, in political science, the standard understanding of political thought and behavior. As Will Kymlicka notes in his introductory chapter in *Contemporary Political Philosophy* (2002, 1–2): “Our traditional picture of the political landscape views political principles as falling somewhere on a single line, stretching from left to right. According to this traditional picture, people on the left believe in equality, and hence endorse some form of socialism, while those on the right believe in freedom, and hence endorse some form of free-market capitalism. [...] [It] is often thought that the best way to understand or describe someone’s political principles is to try to locate them somewhere on that line.”

While the narrowness of this traditional view in terms of points of conflict between the left and right has often been criticized, Kymlicka (2002, 2–3) highlights another feature of the conventional left–right political spectrum that is still widely considered relevant, namely, the suggestion that “different theories have different foundational values: the reason that right and left disagree over capitalism is that the left believes in equality while the right believes in freedom. Since they disagree over fundamental values, their differences are not rationally resolvable. [...] This feature of the traditional picture has remained largely unquestioned, even by those commentators who reject the traditional left–right classifications.” A large body of research in political science corroborates Kymlicka’s propositions.

The latter perspective—that the left and right have different “foundational values”—has for example been highly influential in various studies in political science and political history in Sweden. A classic illustration is Leif Lewin’s (1967) study of the “planned economy debate” in Sweden from the 1920s until the 1960s, in which he points to the formation of two distinct political blocs that would redraw the political map into a socialist and a non-socialist wing; one championing state intervention, and the other one adhering to freedom of industry and freedom of the individual. Another example is Kristina Boréus’s (1994) study of the neoliberal “right-wing wave” during the 1970s and 1980s, in which she identifies clear ideological (and also linguistic)

distinctions between left and right. In her study of the historiography of the Social-Democratic Party, Åsa Linderborg (2001) draws similar conclusions in a chapter on the neoliberal response to the Social-Democrat description of both its own and Sweden's history. More recently, in an additional study on NPM taking an ideological approach without regard to issues of morality, Matilde Millares (2015, 210) has attempted to "clarify the political cleavages discernible between the two main political opponents in Swedish politics, the Social-Democratic Party and the Moderate Party" in the discussion of welfare reforms. Her hypothesis is that what might appear as an ideological convergence of the left and right over the issue of individual choice in the provision of public services since the 1990s, conceals the real and underlying ideological differences that remain largely unchanged between the two political camps.

However, must the left and right always disagree because of their different "foundational values"? In recent years, scholars from adjacent fields have offered perspectives that challenge the traditional picture, in political science, of what it means to be on the left and right. For example, the economist-philosopher Thomas Sowell (2007, 8) suggests that, "[s]ocial visions differ in their basic conceptions of the nature of man", but the two principal visions of man that Sowell outlines are not easy to locate on the conventional left-right spectrum. The "constrained vision" sees man as limited by a fixed human nature, and believes that what is important is to produce moral and social benefits *within* that constrained vision. From another point of view, which Sowell calls the "unconstrained vision", man is seen as stymied and corrupted by social institutions that should be reformed. As arguments over human nature in later years have illustrated (Pinker 2002; Dreger 2016), these visions appear to be able to exist both on the left and on the right side of the political spectrum.

The moral psychologist Jonathan Haidt (2012) argues that human morality consists of a number of basic "moral foundations" or "taste buds", something that has implications for people's political opinions. These foundations are (somewhat simplified): care, fairness, loyalty, authority, and sanctity. A sixth moral foundation, liberty, has also been suggested (Iyer et al. 2012). According to this literature, American liberals tend to endorse care, fairness and liberty, while U.S. conservatives endorse all the moral foundations (with emphasis on loyalty, authority and sanctity). Similar results have been reported among students in Sweden (Nilsson and Erlandsson 2015); yet it is plausible that actors on what is conventionally seen as the left and the right side of politics could endorse the same moral values and, thus, similar policies. Indeed, social policy debates in recent decades, e.g.,

concerning immigration, marriage, and military conscription, seem to reflect such convergence.

Against this background, it seems relevant to explore the political prehistory of NPM, and see whether or not neoliberal ideas alone inspired NPM reforms in the Swedish school system as has generally been assumed.

Research Design

4.1. Institutional Theory

This thesis focuses on institutions, which “have been one of the bread-and-butter explanatory categories of political science since its inception” (Blyth 2002, 296). Douglass North famously defined institutions as “the rules of the game in society or [...] the humanly devised constraints that shape human interaction” (North 1990, 3). More recently, Geoffrey Hodgson (2006, 7) has expanded the definition of institutions to encompass durable social structures that serve not only as constraints but also as enablers of behavior with the “capacity to change aspirations” of agents. Institutions have regulative, normative and cognitive elements, involving formal rules, moral norms, and values (Scott 1995; Palthe 2014), and, as I explain in this section, this thesis touches on all three aforementioned aspects of institutions.

In Paper I, I study a case of institutional change. This is the replacement of teachers’ “professional ethos”, an institution of normative and cognitive character, by NPM, a model of public administration that involves both formal rules and normative principles, as the regulator of behavior in the Swedish school system. As suggested by the historical institutionalist school in political science, ideas have causal properties that can explain institutional change (Blyth 2002; Tønder 2010). In my analysis, I therefore focus on ideas about teaching and education from both the left and right that might have paved the way for NPM in the school system. Ultimately, these ideas reflect wider beliefs on the left and right side of the political spectrum about institutions and how they are supposed to work. Consequently, they are relevant to analyze in an attempt to explain institutional change. The formulation of the research question, i.e., the choice to investigate the possibility that ideas from both the left and right set the scene for NPM in the Swedish school system, was inspired by Mats Alvesson’s and Jörgen Sandberg’s (2011) call for “assumption-challenging research”; i.e., research that facilitate more interesting and influential theories by identifying and challenging underlying assumptions in existing literature.

In Paper II, I build on those aspects of institutional theory that pertain to the functioning of markets and the creation of incentives for actors in the market, and thus study the relationship between formal rules and moral norms. Economists, particularly of the institutional economics school, have argued that markets cannot and should not be

left alone but require appropriately designed institutions to function efficiently (Hodgson 2013; Nooteboom 2014). Since institutions shape moral habits (Ratnapala 2006), they are needed to restrain the negative effects that markets may have, such as the “crowding-out” of intrinsic, non-material values and moral conduct from areas in which markets are allowed to operate (see the discussion on markets and morality in Section 2) and to make markets work as well as they can. A lack of appropriately designed, constraining institutions may ultimately lead to moral hazard (Kasper, Streit, and Boettke 2013).

“Appropriately designed” is the key term here, because institutional arrangements may also create incentives for morally hazardous behavior, as has been discussed by, among others, the Icelandic economist Thráinn Eggertsson (2005), drawing on Assar Lindbeck’s (1995) study of hazardous welfare-state dynamics. Hence, we must study the effects of institutions, and, as Irving Kristol (1975, 5) has observed, “the only authentic criterion for judging [...] any set of social institutions, is this: what kind of people emerge from them?” This is the analytical lens that I use in Paper II in examining the institutional framework of the Swedish school choice system, and the incentives it created for schools, parents and pupils.

4.2. Thought Collectives and Thought Styles

The hypothesis presented in Paper I is that ideas from both sides of the political spectrum have paved the way for NPM in the Swedish school system, which, as stated above, is in keeping with an historical institutionalist explanation of institutional change. To explore this hypothesis I make use of the biologist Ludwik Fleck’s (1935/1979) theory of *thought collectives* and associated *thought styles*, which has previously been applied in political-theoretical research in, for example, a study of the development of the neoliberal movement by the historian and philosopher of economic thought Philip Mirowski (2013). A similar, but not identical, approach as Fleck (1935/1979) is also taken in a recent study of the impact of the 1968 movement on the Swedish Church, in which Johan Sundeen (2017) describes influential “opinion collectives”. Although Thomas Kuhn, in his preface to *The Structure of Scientific Revolutions* (1962, VII), recognized that Fleck “anticipated many of [his] own ideas” about scientific communities and paradigms, Fleck’s contributions to epistemology were largely forgotten until the 1980s (Sady 2016). Today, however, Fleck’s ideas are applied in various fields, e.g., philosophy and history of science and medicine (Sady 2016).

According to Fleck, new knowledge and new ideas do not arise in individuals alone, but within communities of individuals who interact

with each other. Fleck calls these communities “thought collectives” and views them almost like orchestras, in which individual instruments work together in harmony, but instead of symphonies, thought collectives produce collective “moods” and modes of thinking.

Thought collectives can arise in various sectors of society, e.g., within science, religion or politics, and transgress all kinds of social boundaries, including national borders and the barriers of national languages. In fact, according to Fleck (1935/1979, 107), thought collectives do not even presuppose personal relations, because the “printed word, film, and radio all allow the exchange of ideas within a thought community”, which he believes the migration of ideas within the world of fashion clearly demonstrates. What people within a thought collective instead have in common is a certain way of thinking, a “thought style” in Fleck’s terms. However, the “individual within the collective is never, or hardly ever, conscious of the prevailing thought style, which almost always exerts an absolutely compulsive force upon his thinking and with which it is not possible to be at variance” (Fleck 1935/1979, 41). Thought collectives influence institutions and social values, and can exist during both shorter and longer periods of time. At times, entire epochs live under the influence of a certain thought style (in conformity with Kuhn’s paradigms).

In Paper I, in keeping with Fleck’s theory, I group sources that share ideological beliefs into thought collectives centered around the Swedish Social-Democratic Party and the Moderate Party, which I schematically call “Left” and “Right”. (When grouping my sources, which mainly were books, I relied on their rhetoric, the ideological content of their arguments, and the authors’ political self-labels.) The purpose of this method is to discern the thought style of the respective thought collective. The main benefit of this method is that it provides a better overview of the empirical material. It also allows some crucial relationships between the sources that, according to the results of Paper I, suggest a plausible causal explanation of the rise of NPM in the Swedish school system to be observed.

4.3. Sources

Influential books

The empirical material of Paper I consists to a large extent of books on teaching and education, written by authors who can be grouped into either the Left thought collective or the Right thought collective, and *which are known to have influenced public debate in Sweden*. This method of selection is in keeping with similar studies, e.g., David

Brolin's (2015) study of the philosophical progression of Swedish intellectuals who rejected the far left in the 1970s and arrived at a center-right position in the 1980s, and Henrik Berggren's and Lars Trägårdh's (2006) study of persons instrumental in the development of "state individualism" in Sweden, in which their objects of study were selected based on their influence on public debate and public policy. In her study of the historiography of the Swedish Social Democrats, Åsa Linderborg (2001, 41) points out that intellectuals, such as the authors that I study, "often play a decisive social role" and are able to "change current norm systems".

To determine which books were important in the discussion of school reforms in Sweden from the 1960s to the 1990s, I first relied on the late teacher-trained literary scholar Göran Hägg's published recollections (Hägg 2005) and his suggestions of titles to me (personal communication; 5 November 2013). From the sources that I gathered in this way, I proceeded to find additional books that were accounts of the discussion of school reforms in the period of interest to the analysis. For example Arne Helldén's book *Skola på villovägar* (2002), which details 30 years of school policies in Sweden, and Kerstin Vinterhed's book *Skolan i flykten* (1979), a book about the education debate in Sweden published during my period of study, proved useful both in confirming that I had made appropriate choices of sources, particularly for the Left thought collective, and in suggesting additional ones. Independent of each other, the interviewees discussed below pointed me to a source that proved particularly important to understand the reasoning of the Right thought collective that was first used in Paper I and then again in Paper II, namely, Milton and Rose Friedman's influential book *Free to Choose* (1980).

My search for literary sources can most aptly be described as a cumulative "snowball" process (Esaiasson et al. 2007). It could be argued that a more extensive and systematic search for sources was called for, and I would partly agree with that. However, as the topic of my study was largely unexplored, and in line with Alvesson's and Sandberg's (2011) call for "assumption-challenging research", an exploratory approach with a limited set of ideal sources, which could be corroborated as influential in the discussion of school reforms in Sweden, was considered the most appropriate way to test my hypothesis that both the left and right paved the way for NPM in the Swedish school system.

Public documents

Public documents were also part of the empirical material used in the two papers. The inclusion of such documents is important, as public documents are not utopian, but concrete plans to put ideas into practice

(cf. Millares 2015). As such, they also help to further reveal the thinking of the Left thought collective and the Right thought collective at the time when these agents were in office. In Paper I, one emblematic example is the 1969 school curriculum (Swedish National Board of Education 1969), which was enacted under a Social-Democratic government and must be considered indicative of the Social Democrats' views on teaching and education. To provide a background in Paper I, I used Leif Lewin's (2014) public enquiry into the decentralization of the Swedish school system in the early 1990s, and the *OECD Teaching and Learning International Survey (TALIS) 2013*, as published by the Swedish National Agency for Education (2014).

In Paper II, public documents included relevant government bills regarding reforms of the school system at the beginning of the 1990s, the 1994 school curriculum and other documents of the Swedish National Agency for Education (1994; 1996; 2005). When studying the government bills, I looked for how reforms had been justified politically and were imagined to function by policymakers. Other sources, i.e., the public-agency documents, provided a more detailed account of how reforms were meant to function in practice and also revealed ideas outside of the government about the purpose of various reforms that likely affected their implementation. Both types of sources were treated and analyzed as institutions ("rules of the game"), as Paul Pierson (2006), among others, has deemed appropriate when studying public policies in political science. In Paper II, I also drew on the two recurrent international knowledge surveys *Programme for International Student Achievement (PISA) 2012* (OECD 2013) and *Trends in International Mathematics and Science Study (TIMSS) 2011* (Mullis et al. 2012) to make the argument for the existence of grade inflation in both independent and public schools in Sweden.

Interviews

As a complement to printed sources in both Paper I and Paper II, I conducted interviews with two key agents behind the Moderate Party's school policies in the 1980s and 1990s and, as such, two central members of the Right thought collective. The two interviewees were Odd Eiken, who served as state secretary in the Department of Education during Carl Bildt's center-right coalition government's time in office 1991–1994, and Anders Hultin, political advisor in the Department of Education 1991–1994.

The interview with Eiken was conducted by email in January 2014, and the interview with Hultin was conducted by telephone in February 2014. No recording of the interview with Hultin was made but notes were taken. The main purpose of the interviews was to gain in-

sight into the reasoning of the architects of the Swedish school choice reform at the time of its introduction as well as to establish the intellectual underpinnings of the reform. And as two of the architects, Eiken and Hultin were uniquely situated to provide that information. Moreover, as suggested by the research of Ben Yong and Robert Hazell (2014), “special advisors” such as Eiken and Hultin are an essential part of government, since they can help ministers prioritize, contribute expertise in policymaking, and push through the agenda of the government within the civil service machinery. My aim in interviews would thus be satisfied with these two interviewees. I asked both Eiken and Hultin about the sources of inspiration for the school choice reform, and Hultin, particularly, about the reasons for carrying out the reform and the government’s thinking on various aspects of the reform. For example, I asked Hultin why the government never considered external assignment of grades.

As in any qualitative interview, the interviewees’ memory may have faltered. They may also have presented themselves in a more favorable light (Esaiasson et al. 2007). However, I did not perceive any signs of this in the interviews. Eiken answered specific questions that I had e-mailed him in the style of a structured interview, while the interview with Hultin was conducted in a semi-structured fashion, in which a pre-determined set of questions was combined with a discussion of topics that were brought up during the interview (see, e.g., Teorell and Svensson 2007).

4.4. Analysis and Interpretation

In summary, the theoretical framework of my thesis is an institutionalist one. In Paper I, I employ the thinking of the historical institutionalist school, in which ideas have causal properties that can explain institutional change — in this case, the rise of NPM in the Swedish school system. To arrive at what those ideas were, I used Ludwik Fleck’s (1935/1979) theory of thought collectives and thought styles to group and analyze sources, which mainly consisted of influential books but also included public documents. The method of analysis can most accurately be described as an “idea analysis” (Beckman 2005), as I attempted not just to describe the content of the selected books, but to interpret and organize the content in new and unexplored ways. In this case, I wanted to test whether books that ostensibly were only about teaching and education could be interpreted to reflect NPM-like ideas. I did this by comparing the views expressed in the books to the strategies that Hood (1991) lists as the seven elements of NPM. Thus, I looked for views on teaching and education that ultimately reflected beliefs about

institutions, and not, for example, beliefs about children's learning needs. Inspired by Fleck's (1935/1979) ideas about "the intercollective communication of thoughts", I also wanted to explore, and potentially uncover, ideological connections between the left and right. I did this by comparing the arguments and ideas expressed in the books after first having grouped them into the two different thought collectives.

In Paper II, I built on those aspects of institutional theory that pertain to the functioning of markets (e.g., Hodgson 2013; Nooteboom 2014). I used insights from this theory concerning how a lack of appropriate institutions may create moral hazard as a lens when considering public documents regarding the Swedish school choice reform, i.e., the institutions surrounding the reform, as well as the answers given by my interviewees who were integral to the reform process. The results of these analyses are summarized in the next section.

Summary of the Papers

5.1. A Left/Right Convergence on the New Public Management? The Unintended Power of Diverse Ideas

This paper explores the political prehistory of NPM. Previous literature argues that only neoliberal ideas inspired NPM (Savoie 1994; Greenaway 1995; Rhodes 1996; Ventriss 2000; Ranson 2003; Marobela 2008; Leicht et al. 2009; Bevir 2010; Boston 2010; de Vries 2010; Lorenz 2012; Guerrero-Orozco 2014); even in case studies of countries where left-wing or Social-Democratic governments have applied NPM reforms, scholars claim that neoliberal ideas have been highly significant causal forces (Mascarenhas 1993; Johnston 2000; Dale 2001; Robertson and Dale 2002; Lewis 2004). Keeping in mind that NPM is a set of market-oriented strategies for public-sector reform, it is perhaps not surprising that this assumption regarding the ideological roots of NPM has been made. However, the introduction of NPM in the Swedish school system suggests that this is a myopic view that neglects the involvement of the left. This paper demonstrates that the antecedents of NPM, in fact, date back to the 1968 movement, and that both the left and the neoliberal right contributed to the rise of NPM in the Swedish school system by weakening intrinsic motivation among teachers.

In the 1960s, the left claimed that teachers performed an authoritarian style of teaching, to the detriment of children's learning and well-being. Moreover, it was suggested that teachers have personal political agendas that need to be curbed by employing NPM-like techniques, such as financial incentives, increased demands on documentation of what goes on in the classroom, and limiting the teachers' professional autonomy. This critique neglected a well-established ethos among teachers, which emphasized such virtues as duty, fervor, and self-sacrifice, and which was considered the reason why they could be trusted to perform to the best of their abilities with little or no explicit top-down monitoring. Nevertheless, translated books by, among others, the left-wing pedagogues Neil Postman and Charles Weingartner (1969), the socialist theorist Paulo Freire (1970), and the Austrian anarchist Ivan Illich (1971) that claimed that this was the case influenced public debate and public policy at the highest level in Sweden.

The works and ideas of these thinkers were congruous with the school-reform ideas of the Social Democrats. The Social Democrats, too, favored techniques in line with NPM principles to monitor the

teachers' work. Together with the public-sector trade unions, the Social Democrats also denounced public-sector ethics and teachers' professional ethos in favor of a more materialistic view of work. The main purpose of such rhetoric, and of new legislation that eroded the imperative for public-sector employees to view their jobs as a vocation, was likely to increase identification among electoral groups in the middle class with the Social Democrats' political agenda. However, ultimately, it contributed to weakening the public-service ethos of teachers and other public servants even further. Yet, something more was important to pave the way for NPM in the Swedish school system, and this was a parallel right-wing assault on intrinsic motivation among teachers.

During the 1970s, 1980s and early 1990s, a neoliberal criticism of the public sector emerged in many Western countries. The school of public-choice economics, whose ideas were imported into the Swedish public debate, crystallized this criticism in its claim that all public servants are "budget-maximizing" bureaucrats (Niskanen 1971), motivated solely by material gain, who must be controlled with NPM methods (Tullock 1976). In a book about choice reforms that had a large influence on the Swedish right, Milton and Rose Friedman (1980) specifically applied the public-choice theory about the motivations of public servants to teachers. For purely selfish reasons, the Friedmans argued, teachers had acquired power over education while parents and pupils had lost theirs, and, consequently, a voucher reform in the school system (i.e., steering through financial incentives) was needed to force teachers to work in the interests of the "consumers" of education. Directly inspired by the Friedmans, such a reform was advocated by Sweden's largest center-right party, the Moderate Party, during the 1980s and enacted by the party in 1992.

After this joint assault by the left and right on teachers, their professional ethos was dismantled and the way for NPM to enter the school system was thus cleared. As teaching in Sweden became less of a vocation and more of a regular job, there was a need for NPM to replace the old management principles based on professional ethics and intrinsic motivation that were no longer viable.

Following Mats Alvesson's and Jörgen Sandberg's (2011) call for "assumption-challenging research", the paper contributes to the existing literature by challenging the assumption that only neoliberal ideas inspired NPM reforms. It thus opens new avenues of research into the prehistory of other cases of NPM reforms in other countries. The analysis reveals unexpected ideational relationships between the left and right.

5.2. Market Reform and School Competition: The Lesson from Sweden

This paper explores the effects of Sweden's school choice reform on knowledge attainment. Introduced in 1992, the reform is unparalleled internationally in its liberal market design. It allows private actors such as foundations, parental cooperatives and for-profit firms to establish independent schools that operate on the same terms as public schools and are funded through a voucher scheme similar to the one proposed by Milton Friedman more than 60 years ago (1955). The reform was meant to encourage choice among pupils and competition among schools, as its architects in the Swedish Moderate Party, and its supporters in the free-market right generally, believed that this would increase the level of knowledge in both independent and public schools.

Previous studies on the effects of school competition in Sweden on educational outcomes seem to have confirmed the belief that both independent and public schools would benefit from a school choice reform (Ahlin 2003; Björklund et al. 2004; Sandström and Bergström 2005; Böhlmark and Lindahl 2015). Concentrating on easily measured outcomes, i.e., teacher-assigned grades and the results of Swedish standardized tests, which are also grades by teachers, they find that the expansion of independent schools after 1992 has improved the results in both independent and public schools. However, as this paper demonstrates, these results are impossible to reconcile with the long decline of Sweden's results in international standardized tests. The fact that Swedish grades have improved dramatically since the late 1990s while results in objectively graded international assessments of knowledge among Swedish pupils have continuously deteriorated instead provides clear evidence of the existence of grade inflation in both independent and public schools.

The paper argues that this phenomenon should be understood as a consequence of school competition in Sweden, or, more precisely, as a "hazardous adjustment" of behavior (Lindbeck 1995) on the part of schools, parents and pupils to the lax institutional framework of the school choice system. From its inception, the framework has allowed for competition based on phenomena that are unrelated with educational quality, including grading and material and other hedonic rewards.

The center-right coalition government that enacted the reform in 1992 introduced the independent schools into a debilitated institutional setting that had been inherited from the previous Social-Democratic government, which had decentralized the school system to the municipal level and replaced the old regulatory agency with a new body that

denounced regulation of schools. The remaining impediments to grade inflation were then weakened or eliminated by the Moderate Party, which was the party in charge of education policy within the coalition government. Where there had previously been a common core curriculum, schools and pupils were now in effect allowed to decide for themselves on the importance of teaching a knowledge-based curriculum. And where there had previously been standardized tests carrying high stakes for the pupils, teachers were now given full autonomy to assign grades.

Economists, particularly of the institutional economics school, have argued that markets cannot and should not be left alone; markets require appropriately designed institutions to function properly (e.g., Hodgson 2013). Since institutions shape moral habits, they are needed to limit the negative effects markets may have. However, despite this, regulation of the (quasi) market for school competition in Sweden was never thought through. It was more or less just assumed that market forces would strengthen the quality of education. But combined with the nature of the quasi market, in which the only way for schools to boost profits is to attract more students, and an evolved preference for inflated grades among parents and pupils, the above-mentioned changes to the school system made it rational for both independent and public schools to compete in dimensions other than educational quality. Instead of an institutional framework that encouraged moral behavior, the center-right government created a framework that provided incentives for unsound competition, inviting comparison with the hazardous incentives and lack of appropriate regulation that spawned the U.S. financial crisis of 2008.

These shortcomings could potentially have been rectified when the Social Democrats returned to governing in 1994. However, they, too, believed that competition between independent and public schools would improve the quality of education and did not take any major steps to reform the system. Furthermore, the Social Democrats ensured that grades became a tool for selection into higher levels of education and nothing else. This resulted in the moral aspect of education being substantially played down and grades being reduced to a kind of currency, the main purpose of which was competition with others. This likely played a part in creating a preference for high grades in return for little effort among parents and pupils; together with changing social norms regarding the value of education, and the market setting itself, which powerful experiments in economics suggest can create a “moral disengagement” in the minds of consumers (Bowles 2016).

By analyzing the framework of Sweden’s school choice system, the paper contributes to the existing literature by nuancing the general

perception of the effects of Sweden's school choice reform on knowledge attainment. It also demonstrates that market reforms of tax-financed service production need to recognize the manner in which institutions and incentive structures affect behavior.

Concluding Discussion

6.1. Principal Findings

Drawing on institutional theory, this thesis has examined the potential for institutional arrangements such as financial incentives and other market mechanisms to undermine intrinsic motivation among both “producers” and “consumers” of tax-financed welfare services in the realm of education in Sweden. In keeping with the ideational element of institutionalism, the thesis has, in addition, investigated the political prehistory of NPM. Paper I showed that while the prevailing and intuitive view has been that only neoliberal ideas inspired NPM (a term that passed into general usage in the early 1990s), its antecedents date back to the 1968 movement. Both the left and right contributed to the introduction of NPM in the Swedish school system by weakening moral motivation among teachers.

First, in the 1960s and thereafter, the left claimed that teachers performed an authoritarian style of teaching and had personal political agendas that needed to be curbed by, for example, financial incentives, increased documentation requirements, and limiting the professional autonomy of teachers. Then, in the 1980s and 1990s, the right suggested that all public servants, including teachers, were “parasitic”, budget-maximizing bureaucrats (Coyle 2011), who needed to be controlled. According to the right, competition and choice reforms in the public sector, e.g., a voucher reform in the school system, would force government employees to work in the interests of the “consumers” of public services.

Both political camps denounced, and ultimately dismantled, traditional public service ethics and the teachers’ professional ethos. Thus, the way was cleared for NPM to enter the school system as other management principles—already sketched out by the left and right—were needed in the absence of intrinsic motivation, which used to be considered the reason why public servants, e.g., teachers and police officers, could be trusted to perform to the best of their abilities with little or no explicit top-down monitoring. Today, there are tight controls on teachers and monitoring through documentation, which has reduced the share of work time at school spent on teaching to barely a third.

Paper II explored the effects of one of the measures proposed to supervise and discipline teachers, namely, the Swedish school voucher reform of 1992, on knowledge attainment and the perceived value of

education among parents and pupils. The free-market right had suggested that school competition for vouchers would simultaneously bring teachers under control and increase the level of knowledge among pupils. However, the paper showed that during the same time period in which Sweden's results of international knowledge assessments deteriorated, grades rose dramatically, which provides clear evidence of grade inflation. The analysis also showed that the likely cause of this is school competition, because the lax institutional framework of the Swedish school choice system has from its inception allowed for competition based on aspects that are unrelated to educational quality, including grading and material and other hedonic rewards.

Instead of embedding school competition into appropriate, constraining institutions, which all markets require in order to function as intended, the center-right government that was in office 1991–1994 weakened or eliminated all impediments to grade inflation. Where there had previously been a common core curriculum, schools and pupils were now in effect allowed to decide for themselves on the importance of teaching a knowledge-based curriculum. And where there had previously been standardized tests carrying high stakes for the pupils, teachers were now given full autonomy to assign grades. Combined with the nature of the quasi market for education, in which the only way for schools to boost profits is to attract more students, and an evolved preference for inflated grades among parents and pupils, this made it rational for both public and independent schools to compete in dimensions other than educational quality.

Changing social norms concerning the value of education might have strengthened such a preference for high grades in return for low effort, and the market setting itself may have reduced the salience of fairness in the minds of parents and pupils. However, an additional important factor was most likely the policy of the Social-Democratic government that came to power in 1994 to ensure that grades became a tool for selection into higher levels of education and nothing else. This resulted in the moral aspect of education being substantially attenuated and grades being reduced to a kind of currency, the main purpose of which was competition with others. As in the case presented in Paper I, a main finding is that the left and right share a responsibility for creating the incentives for grade inflation in the Swedish school system.

Conclusions of the two papers

Although different in subject matter, the two papers comprising the thesis have both examined the undermining of morality by financial incentives and other market mechanisms in the Swedish education system. To summarize the results, the first paper demonstrated how the

promotion of NPM-like ideas by the left and right after 1968 led to the erosion of the teachers' professional ethos; and the second paper showed how an ill-conceived school voucher reform, implemented under the banner of NPM, has encouraged moral hazard on the part of the schools and further reduced the teachers almost to mere grade givers.

6.2. Contributions of the Thesis

The contributions of the thesis are as follows. First, it demonstrates an ecumenism between strands of ideas and collectives of agents that can be schematically called “left” and “right”, which with few exceptions has been overlooked in political science because the conventional left–right spectrum is still the standard model for understanding political thought and behavior. Though the left and right have perceived themselves to be in ideological disagreement, their ideas and arguments regarding the motivation of public servants, and teaching and education, have been surprisingly similar, only clothed in different language. Thus, the left and right have unknowingly steered in the same direction, and that is in the direction of NPM. This observation should open many research avenues not only on the introduction of NPM reforms in other welfare sectors and other countries, but also on radical shifts in other political areas in which the left and right have contributed an ideological basis for policy.

Second, building on the previous point, the thesis shows that there is indeed a political prehistory to NPM. This prehistory has been underexplored in previous research as it has been too easy to assume that only neoliberalism inspired NPM. However, as shown, left-wing ideas were also important. Future studies might reveal more about the left's contributions. Such a research endeavor could perhaps start from an interesting parallel to NPM provided by Wilhelm Röpke in his work *A Humane Economy* (1960/1998, 95) that seems to lend support to my hypothesis:

Röpke wrote, “The role of competition in the market economy is to be mainspring and regulator at one and the same time, and it is this dual function which is the secret of the competitive market economy and its inimitable performance”, and against this background he argued that the reason why attempts in the Soviet Union and Eastern Europe to create a “socialist market economy” would be unsuccessful, was that only one of the two pillars on which the market economy rests is feasible in a system of government planning. This is competition as a stimulant of performance improvement, because taking full advantage of

competition presupposes free market prices, independence of firms and private ownership.

As Röpke tells us, in former Yugoslavia, public enterprises were “decentralized” and broken up into independent and competing units to raise productivity. However, because the other function of competition—the function of selection of products and firms—was not present, competition was reduced to simply a “psychological technique”, ultimately unable to accomplish what the real market economy does by utilizing the dual nature of competition. “[It] remains a serious weakness in any collectivist economy that competition can, at best, fulfill only one of its functions, and even that less than optimally”, Röpke wrote (1960/1998, 97).

Without further comparison, NPM in fact shares traits with the attempts in the old planned economies of the Soviet Union and Eastern Europe to utilize market mechanisms. NPM reformers, too, imagine that the market economy is reducible to a “technique” and that competition and other market principles can be seamlessly adopted by the public sector as stimulants of performance. The strategies that Hood (1991) lists as the seven elements of NPM then become a kind of prosthesis for phasing out failing practices in the absence of selection by competition (as in the real market economy).

Perhaps we find not only further antecedents of NPM in Röpke’s argument, but also the root causes of what this thesis is concerned with, which is the undermining of morality in the market-oriented school system. In hybrid systems lacking genuine competition such as NPM, “the carrot and the stick are ruthlessly applied” (Röpke 1960/1998, 96), and this leaves little room for ethics. As the Dutch economist Bart Nooteboom (2014, 58) has observed on this subject, “[i]f one is told what to do one will wonder less what is right to do.”

Yet, and this is the third and final contribution of the thesis, it is clear that public administration systems that have adopted market-oriented reforms need morality in order to function in accordance with the principles underlying these institutions. Without its professional ethos, teaching has ground to a halt, and in the absence of an appropriate framework that encourages moral habits there is now school competition in other dimensions than educational quality. Hence, now that NPM is in place, careful consideration should be given to how moral norms and principles can be preserved in the NPM setting. Future reforms of tax-financed service production must also account for the manner in which institutions and incentive structures affect behavior, and avoid unintended immoral outcomes.

6.3. Directions for Future Research

This thesis has studied education, but future research might explore other welfare areas and the problematic and counterproductive incentives that have been created there. One possible avenue could be to examine the introduction of NPM into the police, health care or social services, for example by extending the analysis that I have carried out in Paper I by conducting a more systematic and comprehensive search for sources. Another possible route is to step outside of the context of NPM and investigate hazardous incentives in other areas of public policy in Sweden, and it is this direction that I have chosen for my own future research. One example could be the system for the placement of refugees, in which sparsely populated municipalities, where the opportunities for employment and integration are meager, are incentivized to receive large groups of refugees with benefits from the government. This avenue would offer a possibility to test whether the conclusions of this thesis also hold true in a sharply different context. If that turns out to be the case that would provide further validity with regard to the problems suggested in this study.

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Appendix

PAPER I

A LEFT/RIGHT CONVERGENCE ON THE NEW
PUBLIC MANAGEMENT? THE UNINTENDED POWER
OF DIVERSE IDEAS

ABSTRACT: *While it might appear self-evident that the trend toward the New Public Management (NPM) in the public administration systems of many Western countries is an outgrowth of neoliberalism, the case of Swedish education suggests that such policies can have widely different and counterintuitive sources. Ideas about education from both sides of the political spectrum appear to have paved the way for NPM in the Swedish school system. This possibility casts the ideological basis for NPM reforms in a new light, at least in the context of the Swedish school system.*

Keywords: *Christopher Hood; deprofessionalization; education; neoliberalism; New Public Management.*

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PAPER II

Market Reform and School Competition: The Lesson from Sweden

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Abstract

In a radical school choice reform in 1992, Sweden's education system was opened to private competition from independent for-profit and non-profit schools funded by vouchers. Competition was expected to produce higher-quality education at lower cost, in both independent and public schools. This article analyzes whether the school choice reform was institutionally secured against school competition based on phenomena that are unrelated with educational quality. Interviews with key personalities reveal that the architects of the reform overemphasized the virtues of market reforms and therefore did not deem it necessary to establish appropriate rules and institutions for school competition. Instead, ill-conceived grading and curriculum reforms paved the way for moral hazard resulting in grade inflation and other forms of unintended school competition. The lesson from Sweden's experience is that market reforms of public services production, particularly those that introduce for-profit producers, must account for how institutions and incentive structures affect behavior.

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 the existing scholarship on Sweden's internationally recognized school choice system by (1) demonstrating the existence of competition-induced grade inflation in both independent schools and public schools and (2) by using an institutional theory of markets to explain why school competition has resulted in increasing discrepancies between absolute test results and grades, i.e., grade inflation. It details the 1992 universal school voucher reform as well as other education reforms enacted simultaneously that effectively removed institutional safeguards against opportunistic behavior within the newly created school choice system at that time. Ultimately, the article describes how the objective of raising the quality of education in Swedish schools through competition and choice was inadvertently undermined.

In contrast to this article, most previous internationally available studies on school competition in Sweden have concentrated on easily measured educational outcomes – i.e., teacher-assigned grades and the results of Swedish standardized tests, which are also graded by teachers – and found that the expansion of independent schools after 1992 has improved results in both independent and public schools. However, this literature has considered neither the striking discrepancies between Swedish grades and the results of objectively graded international knowledge assessments nor the fact that the lax institutional framework of the school choice system has allowed for grade inflation and other forms of unintended school competition from its inception. Thus, the previous literature says little about the quality of the education pupils are receiving in the school choice system. This article aims to investigate precisely this matter. Although the analysis focuses on the Swedish school choice system, the conclusions are also pertinent to general discussions about privatization of education and other areas of public sector responsibility in the U.S., the UK and other countries (e.g., Angulo, 2016).

The article consists of six sections. The remainder of this introduction discusses the background of the study, explains its methodology, and presents 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 competition-induced grade inflation and surveys

previous studies that are relevant to this discussion. Explaining the remaining findings of the article requires a discussion of the importance of well-designed institutions to guaranteeing that markets function properly, which is undertaken in section four. The fifth section demonstrates how such theoretical insights were either unknown to or ignored by those policy makers who brought market principles into the Swedish education system in the early 1990s. The last section presents the conclusions.

Together with Chile's voucher system, the school choice reform that was introduced in Sweden in 1992 is unparalleled internationally in its liberal market design (Vlachos, 2012). It allows private actors such as foundations, parental cooperatives and for-profit firms to establish independent schools (*friskolor*) that operate on the same terms as public schools and are financed through a voucher scheme similar to that proposed by Milton Friedman more than 60 years ago (1955).¹ Prior to this reform, there were few independent schools operating in Sweden, and over 98 percent of pupils attended their nearest public school. The reform was meant to encourage choice among 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 any restrictions on the right to pay dividends to the owners of the schools or to sell the school under the same conditions as any other business.

Moderate Prime Minister Carl Bildt's center-right coalition government of 1991–1994, which implemented the reform, valued freedom of choice as an end in itself (Proposition 1991/92:95). However, there were also expectations that the new element of competition would produce education of higher quality at lower cost in both independent and public schools (Proposition 1991/92:95, p. 9).² In an opinion piece launching the reform, the Moderate Minister of Schools Beatrice Ask (1992) wrote: “The independent schools have all the prerequisites to be the vitalizing force urgently needed in the public school system. New alternatives and new

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

² The aspect of cost is not discussed in this article.

methods can be tried and contribute to the improvement and deepening of the level of knowledge among Swedish pupils, and confirm that schools remain strongholds of knowledge”. This optimism was in line with Friedman’s (1962/2002, p. 93) prediction that “the development and improvement of all schools would [...] be stimulated”.

Ostensibly, these goals appear to have been achieved; recent studies on the effects of school competition on educational outcomes find that the expansion of independent schools has improved outcomes in both independent 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. In fact, one of this study’s main findings is that such concerns are warranted; while a dramatic rise in grades has occurred over the last fifteen years, that rise is not matched by higher results of international tests of pupils’ knowledge and adult cognitive skills. On the contrary, the results of Swedish pupils have dropped sharply both absolutely and relative to the OECD average. Hence, the evidence of grade inflation is quite strong, and it may in fact be caused by school competition. How did this occur despite the reformers’ good intentions?

Grade inflation can be considered a negative externality in terms of basic human interests (Claassen, 2016), as it has detrimental effects on knowledge acquisition,³ which is one of the basic goods that individuals require to lead flourishing lives. Negative externalities are in turn the result of institutional failure (Frank, 2012; Ostrom, 1990). While institutional arrangements can lead to hazardous behavior, such “hazardous adjustments come with a lag and do not occur immediately”, according to Eggertsson (2005, p. 149), drawing on Lindbeck (1995). Therefore, educational institutions established in conjunction with the school choice reform must be examined; in addition, the incentives created regarding grade setting in general and those related to school competition in particular must also be investigated. This is all the more pertinent as the changes to the education system that were made in the early 1990s were intended to be aligned and integrated (Ask, 1992).

³ See Betts and Grogger (2003), Figlio and Lucas (2004), and Bonnesrönning (2004a) for studies demonstrating that pupils learn less when grading is not stringent.

In conducting this analysis, I draw on primary sources, such as government propositions, documents from the Swedish National Agency for Education, newspaper articles, published research, and interviews with key personalities behind the 1992 universal school voucher reform. The interviews were conducted by telephone and by email. No recordings were 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.

Although a more comprehensive study is necessary to firmly establish causality, the article provides a tentative yet plausible hypothesis regarding the emergence of competition-induced grade inflation. I find that the school choice reform was not adequately secured against certain negative externalities of the nature discussed above. Inspired by Milton and Rose Friedman's proposal for a voucher program (1980), the architects of the reform in the Moderate Party, which was in charge of education policy in the center-right coalition government of 1991–1994, placed too much faith in the free market's ability to produce education of a higher quality at a lower cost irrespective of the regulatory framework. Establishing appropriate rules and institutions for school competition was deemed unnecessary because 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 made it institutionally possible for independent schools – and eventually also public schools – to compete in dimensions other than educational quality. The mechanisms are similar to those that gave rise to the financial crisis of 2008 in which regulatory failure paved the way for moral hazard and made it rational for banks to compete by lowering lending standards. Part of the responsibility also falls on the political Left. The Social Democrats were advocates for and participated in the grading and curriculum reforms. Despite twelve years in government, 1994–2006, they took no major steps toward reforming the system and improving its functionality.

2. The independent schools

Sweden's educational system is divided into compulsory primary education (grades 1–9) and voluntary secondary education. Most children begin

compulsory school at the age of seven, some at the age of six, and they finish at the age of sixteen. Most pupils then enter the secondary education system and finish at the age of nineteen.⁴ Academic grades determine whether pupils will be admitted to the secondary school of their choice and into a university after they leave secondary school. However, despite the importance grades have regarding future success, “the Swedish school system is unique when leaving the entire responsibility for the grading to the schools, and consequently to the teachers” (Wikström & Wikström, 2005, p. 310).

Both compulsory primary education and voluntary secondary education are the responsibility of the municipalities as the result of a decentralization reform enacted in 1991 and fully developed in the mid-1990s. Municipal tax revenues and general government grants are their 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 relevant legislation through the Swedish School Inspectorate (established in 2008). Prior to the decentralization reform of the early 1990s, the education system was heavily regulated – perhaps more than any other public institution in the world (Lewin, 2014, p. 57).

With the exception of a few independent schools, which essentially 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 1992.⁵ The independent schools then received funding through a voucher system of a minimum of 85 percent of the average cost per pupil in public schools (raised to 100 percent in 1996 in exchange for independent schools abandoning limited student fees). And through a change in the legislation, it

⁴ In 2013, 98 percent of pupils entered secondary education immediately after finishing year 9 of mandatory primary education (see the Swedish National Agency for Education: www.skolverket.se).

⁵ The share of pupils who went to independent schools in 1992 was 1 percent in primary education and 1,7 percent in secondary education (Jordahl & Öhrvall, 2013).

also became possible for pupils to choose a school – either public or private – other 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 restriction on independent schools was that they had to abstain from “cherry picking” pupils based on ability or socio-economic background. Since 1997, they have also been required to follow the national curriculum.

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 percent of pupils in primary education attended any one of the 800 independent schools at this level, and 26 percent 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,⁶ the education market has become progressively more professionalized. Most independent schools do not offer an alternative pedagogy, but have a general profile that competes directly with the public schools. For-profit firms constitute 60 percent of all independent primary schools and 86 percent of all independent secondary schools (Edmark, 2015). Increasingly, independent schools are concentrated to large business groups. For example, in the school year 2014/15, the leading firm in the education sector, Academedia, enrolled approximately 3.5 percent of all pupils in primary and secondary education in any one of its wholly-owned but differently branded schools (Academedia, 2015). 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 & Bartlett, 1993), there is evidence that it behaves much like a regular market, adjusting to consumer demand regardless of whether this improves the quality of education.

⁶ According to Anders Hultin (personal communication, February 11, 2014), political adviser in the centre-right government 1991–1994, many in the Department of Education believed that the school choice reform was only “symbolic” and would have a marginal effect in practice.

3. Evidence of grade inflation

In the PISA 2012 international education survey, which assesses the knowledge of fifteen-year-old pupils,⁷ Sweden scored below average among OECD countries in reading, mathematics and science (OECD, 2013a). Likewise, in TIMSS 2011,⁸ which assesses the mathematics and science knowledge of 4th and 8th graders, even pupils of the heavily criticized American education system⁹ achieved better results than Swedish pupils in mathematics in 8th grade at all student achievement levels (Mullis, Martin, Foy, & Arora, 2012). This represents the lowest point yet in a long decline of Sweden's results in international standardized tests (Hanushek, Peterson, & Woessman, 2012).¹⁰ However, since the mid-1990s, grades have continually risen in both primary and secondary schools in Sweden, as has the share of pupils who receive the highest grade (Holmlund et al., 2014; Vlachos, 2010).

[Insert table 1 about here]

These opposing trends become strikingly evident from the OECD's country report on education in Sweden (OECD, 2015) and in one of its graphs 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 the PISA assessment data between the academic years 1997/98–2011/12. According to the Swedish National Agency for Education (2014), international standardized tests such as PISA give an accurate picture of the level of knowledge among Swedish pupils and closely resemble the national curriculum. While 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

⁷ The *Programme for International Student Assessment* (PISA) is a worldwide study by the Organisation for Economic Co-operation and Development (OECD). In Sweden, the test is taken in the year the pupils turn sixteen.

⁸ The *Trends in International Mathematics and Science Study* (TIMSS) is a worldwide study by the International Association for the Evaluation of Educational Achievement (IEA). TIMSS 2015 was released on 29 November 2016. This study discusses the decline in knowledge as far as TIMSS 2011.

⁹ See, for example, Murray (2008).

¹⁰ PISA 2015 will be released on 6 December 2016. This study discusses the decline in knowledge as far as PISA 2012.

– that grades have markedly improved in Sweden while the level of knowledge as measured by valid international tests has declined – suggests that grades do not reliably measure pupils’ knowledge and cannot be used as a valid indicator of the quality of education.¹¹

[Insert figure 1 about here]

In the past, poor levels of substantive knowledge among Swedish pupils have often been excused by arguing that it 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 also revealed shortcomings (below the OECD average) in critical thinking, creativity, curiosity and perseverance (OECD, 2013b). Sweden was ranked 20th out of 28 countries when the test was given in 2012. Assertions that the improvement in grades reflects the strengthening of such skills – independent of the level of knowledge – can therefore be rejected.

Hence, neither the external tests of knowledge level nor the PISA assessment about problem-solving skills can explain 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).¹²

Yet another indicator of grade inflation is Sweden’s decline in PIAAC,¹³ 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 reveals that poor results at age

¹¹ PISA is not an uncontroversial assessment, particularly with respect to its ranking of countries (Kreiner & Christensen, 2014). However, other international assessments as well as various domestic tests of knowledge among Swedish pupils show the same declining trend (Henrekson & Jävervall, 2016).

¹² In this article grade inflation is defined as the difference between teacher-assigned grades and the results in international assessments.

¹³ The *Programme for the International Assessment of Adult Competencies* (PIACC) is an international survey by the OECD.

fifteen “remain unchanged at least twelve years after primary education” (Löfbom & Sonnerby, 2015, p. 71). Because school competition in Sweden has raised educational outcomes in both independent 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, the regulatory framework offers independent schools no particular incentive to compete based on quality of education rather than in terms of how grades are assigned, and other material and immaterial rewards, such as free driving instructions and personal computers (which are commonly offered to pupils),¹⁴ or other enjoyable frills. This grading competition is made possible, at least in principle, by the fact that teachers themselves (and not independent external examiners) assign grades in Sweden. Additionally, in the quasi market that education has become, charging higher fees to provide a better service is not possible; hence, profitability can be boosted only by attracting more pupils. The fact that parents and pupils are generally satisfied with independent schools (Svenskt Kvalitetsindex, 2015), even though those schools took the lead early on in offering inflated grades, which is demonstrated by a study of competition among Swedish secondary schools in 1997 (Wikström & Wikström, 2005),¹⁵ may suggest that a preference for high grades and low effort has emerged. Changing social norms concerning the value of education might have strengthened such a preference because the appreciation for education tends to decrease in wealthy and highly modernized societies (Heller Sahlgren,

¹⁴ See, for example, *Aftonbladet* (2007), “Schools fight over secondary school pupils”, and *Svenska Dagbladet* (2009), “Pupils in independent schools have superior computers”.

¹⁵ Wikström & Wikström (2005) is interesting because these authors study school competition at an early point in time when the independent school sector was still in its infancy. Thus, it is not surprising that they find “small and selective” effects of *school competition* on grade inflation (*ibid.*, p. 317). However, it is noteworthy that as early as 1997, they found that “independent schools seriously engage in grade inflation” and that “students in independent schools appear to fare much better under decentralized grade setting than in the public schools” (*ibid.*, p. 317). This suggests that the incentive for parents and pupils to choose an independent school to receive good grades and for public schools to gradually adapt has been strong since the late 1990s, at least in secondary education.

2015). The market setting itself may have created a “moral disengagement” and reduced the salience of fairness in the minds of parents and pupils, as suggested by powerful experiments conducted in economics that revealed the corrosive effect of markets on ethical reasoning (Bowles, 2016). Taken together, these factors would make it rational for schools, even public schools, not to compete by offering 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).¹⁶ While that effect is small, the true impact of school competition on grade inflation is likely to be underestimated, according to the author.¹⁷¹⁸ One important reason for this underestimation 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 & Vlachos, 2013, 2016). Therefore, Swedish standardized tests cannot be used as a standard against which grades can be gauged.

By contrast, international assessments offer this type of objective measure of knowledge. Therefore, in principle, the effect of school competition on grade inflation could be studied by examining the difference between grades and Sweden’s performance on PISA and TIMSS. However, the fact that matching PISA data with schools and municipalities is not allowed has

¹⁶ 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. The relationship between grade inflation and school competition is also discussed in Fredriksson and Vlachos (2011).

¹⁷ 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 independent 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 by the Herfindahl index.

¹⁸ Böhlmark and Lindahl (2015) follow the same approach as Vlachos (2010) and find no effect. However, since there were two different grading systems in operation during their period of study – one cohort-referenced and one criterion-referenced – the results should be interpreted with caution.

impeded the possibility of performing such an analysis. For the time being, we therefore must 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, as 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 (Bonnesrønning, 2004b).

Until now, this section has presented evidence for the existence of competition-induced grade inflation in Sweden's schools. Although none of the findings discussed are original to this article, the collection of findings provides a more comprehensive perspective on Sweden's school choice system than the previous literature on school competition offers. I will next turn to this literature.

One of the first major quantitative studies in this field was Sandström and Bergström (2005) who 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 & 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 of 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). These authors studied whether the share of independent school pupils at the municipality level affects educational outcomes for pupils in both public and independent schools. By examining grades, Swedish standardized test scores, and certain 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 & Lindahl, 2015, p. 542). The authors also analyzed cross-sectional TIMSS data on 8th grade students 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 seem promising, their significance is uncertain and they should therefore be interpreted with caution. Independent schools have truly raised educational outcomes in terms of grades and test results, but whether this is the equivalent of more knowledgeable pupils is less certain. 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 observed, these tests are also not reliable because they are graded by the pupils’ own teachers.

Even the significance of the most promising study thus far, Böhlmark and Lindahl (2015), is difficult to assess. For example, these authors find no indication of grade inflation, but as mentioned above, two different grading systems were in operation during their period of study – one cohort-referenced and one criterion-referenced. Additionally, how do we reconcile their premise that Swedish standardized tests can be used as a standard against which grades can be measured with the research showing that schools – and particularly independent schools – grade these standardized tests too generously (Tyrefors Hinnerich & Vlachos, 2013, 2016)? Moreover, how significant is Böhlmark and Lindahl’s finding that a positive impact of school competition exists both on grades in secondary education and on university attendance when considering that grades in secondary education are possibly more inflated than grades in primary education (Vlachos, 2010) and that those grades are the most important selection criterion for university admittance?¹⁹

Perhaps the authors’ most notable result is their analysis of cross-sectional TIMSS data, but this is also difficult to evaluate. The authors demonstrate that municipalities with low and high shares of independent school pupils

¹⁹ Entrance exams to universities are almost invariably never used in Sweden.

seem to run parallel in TIMSS between the years 1995 and 2003. However, between 2003 and 2007, the decline becomes less pronounced in municipalities with a high share of independent school pupils compared to those with a low share. As Böhlmark and Lindahl (2015, p. 509) themselves explained, test results “deteriorated less” in regions with a higher proportion of independent school students. When controlling for the number of books at home among the test-takers as well as the average socioeconomic composition in the municipality, this amounts to an increase of approximately 7 points, which corresponds to approximately 10 percent of a standard deviation (one standard deviation on the 2007 TIMSS test score is approximately equal to 71 points, according to the authors). This can hardly be considered a major positive effect of school competition on knowledge attainment.

I argue that all these studies illustrate that we need to widen the scope of research from grades and test scores to the institutional framework of the education system and the incentives it has created, particularly in combination with school competition. The remainder of this article will consider this issue.

4. Markets and institutions

Markets require institutions 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, Geoffrey Hodgson (2006, p. 7) has expanded the definition of institutions to encompass durable social structures that serve not only as constraints but also as enablers of behavior with the “capacity to change aspirations” of agents. Economists, particularly those of the institutional economics school, have argued that markets cannot and should not be left alone but require appropriately designed institutions to function efficiently (Hodgson, 2013; Nooteboom, 2014). Since institutions shape moral habits (Ratnapala, 2006), they are needed to limit the negative effects that markets may have, such as the “crowding out” of intrinsic, non-material values and moral conduct from areas in which markets are allowed to

operate (see, e.g., Bowles, 2016; Sandel, 2012) and to make markets work as well as they can.

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 North's definition (1990). A lack of appropriate, constraining institutions may ultimately lead to moral hazard (Kasper, Streit, & Boettke, 2013). The broader view of institutions as also having the capacity to change the aspirations of agents, as suggested by Hodgson (2006), brings another important point to light. Prisoners' dilemma-type situations in which 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 and can have detrimental effects on society at large (Nooteboom, 2014). In these situations, appropriate institutions may support socially concerned actors and shift competition towards outcomes that are more desirable from a public perspective.

Institutions must be carefully designed, particularly in conjunction with privatization and in cases in which markets become providers of publicly financed services, such as education (Hodgson, 2013; Nooteboom, 2014). Principals then must examine whether regulatory frameworks and incentives are designed to encourage moral behavior among agents. Voucher reforms, for example, would most appropriately entail institutions that both limit moral hazard and favor 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 program more than 60 years ago when calling for a basic core curriculum, set by the state to ensure homogenous performance standards and administered in privately run schools as well. Another appropriate regulation is the external assignment of grades. However, as will be shown, such institutions were either absent or undermined in the Swedish case.

We can gain help in understanding the importance of institutions, from a strand of literature on the financial crisis of 2008 that is linked to these perspectives, 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 the government alone, but that it was a "systemic" crisis caused largely by hazardous incentives and a lack of appropriate regulation.

Posner argues that the period from the 1970s onward could be considered a "deregulation movement" of profound range within the U.S. financial industry, which dissolved boundaries between traditional banks and new, competitive financial intermediaries such as hedge funds and lifted regulatory restrictions on risky lending. This movement intersected 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 to service 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 observes (2009, p. 325). Government regulators should have restricted this risky form of competition on the lending market, but instead, they trusted that markets would be self-regulating (Posner, 2009). This left the financial system vulnerable when a housing bubble eventually burst and lenders defaulted on their mortgages, which in turn caused the banks to fail. As will be shown in the next section 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 center-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).²⁰ 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 attributed the shortcomings of the comprehensive public school system to detailed regulation of the scope and content of education. They 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 realization of a new, deregulated and decentralized education system (Haldén, 1997). In its place, a new body was established: the National Agency for Education. However, it was not primarily a regulatory agency. In fact, the National Agency for Education defined itself in opposition to the abolished National Board of Education and pledged to “dismantle traditional supervision and control” (Haldén, 1997, p. 17). Its first Director-General expressed a direct disregard for the institutional memory of the previous organization and publicly voiced 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 this would ultimately function as an indirect form of regulation (Haldén, 1997). However, it can be argued that in effect, this amounted to a policy of self-regulation of schools. It was thus into this debilitated institutional setting that

²⁰ See section 2 of this article.

the independent schools were introduced only one 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. However, 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 prime architects of the school choice reform. During the second half of the 1980s, school choice and vouchers successively became a more popular issue to adopt, both within the mother party and outside of it by free market organizations such as the influential free-market think tank Timbro. An ideological movement for greater individual freedom and less government intervention was growing inside the Moderate Party (Reinfeldt, 2015, p. 60). A general discussion throughout society, even in the Social-Democratic Party, about the shortcomings of the public sector was also taking place. It noted the shortfalls 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 & 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 with Rose Friedman, *Free to Choose* (1980). Based on their experience in the U.S., 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. To counter this transfer of power from “consumers” to “producers” in education, the Friedmans proposed giving

vouchers to pupils and thus the freedom to choose among schools, including those that are privately run.

This would open a vast education market in which “only those schools that satisfy their customers will survive – just as only those restaurants and bars that satisfy their customers survive” (Friedman & 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” (ibid., 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” (ibid., 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 center-right government to make regulatory mistakes when implementing the school choice reform. Here, I will point to two principal weaknesses. 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 & Friedman, 1980). Indeed, it was not until 1997 that independent schools were made to follow the national curriculum; prior to that they were only required to follow “a curriculum” approved by the National Agency for Education (Proposition 1991/92:95, p. 11). Second, the grading system was changed to give teachers greater flexibility and autonomy in awarding grades.

In conjunction with the school choice reform, the government enacted a curriculum that was considerably less prescriptive than the previous one and that lacked clear instructions regarding the scope and content of education

(Swedish National Agency for Education, 1994). However, this was 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 Schools, Beatrice Ask, who had previously argued for "less central management of content in schools" (Ask, 1990, p. 367).

The new national curriculum stipulated that what was to be taught would be determined at 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 largely transferred to the pupils themselves, who were expected to be involved in the planning of lessons and discussions about the content of their education. This transfer of responsibility to the pupils had been prepared by the previous Social-Democratic government whose Minister of Education, Göran Persson, had guaranteed "pupil influence" in the law and argued that the education system could and should instill democratic values in pupils by applying "democratic" and not "authoritarian" forms of education (Proposition 1990/91:115, p. 53). Having no objections, the center-right government carried out the policy and implemented it in the new curriculum. To Beatrice Ask, ideologically on the center-right, giving pupils greater influence over their education was a matter of individual freedom (Svenska Dagbladet, 1993a).

Moreover, the traditional concept of knowledge in education was marginalized or even eliminated in the new curriculum. Training in diligence, perseverance and other non-cognitive skills, which facilitate the attainment of knowledge (e.g., Heckman & Rubenstein, 2001) and which were emphasized in the previous curricula, was consequently abandoned (Hörnqvist, 2012). The official commentary on 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). The soft curriculum effectively left it to the individual schools to decide on the importance of teaching traditional knowledge. The radical decline in

knowledge in the PISA surveys is most pronounced among pupils who were educated in accordance with this curriculum (Henrekson & Jävervall, 2016), and this fact suggests that “traditional” knowledge was not prioritized.

Taken together, the changes to the curriculum meant that there was no longer a basic core of knowledge that all pupils were expected to master and which could have prevented school competition from undermining the quality of education. Intriguingly, this was partly intentional. As was explained in an editorial at the time in the moderate newspaper *Svenska Dagbladet* (Hellman, 1993), the freedom given to schools to determine the content of education for themselves would also force public schools to develop different educational profiles and strengthen competition with independent schools. The National Agency for Education drew the same conclusion (Svenska Dagbladet, 1994a).

In conjunction with the school choice reform, the government also introduced a new absolute objective-based grading system (Gustafsson, 2012). In the previous relative grading system, teachers were required to justify in writing why they wanted to assign grades that greatly diverged from the result of standardized tests (Swedish National Agency for Education, 2005). The new grading system eliminated the authority 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 possibility of more ambiguous (“qualitative” according to the official term) evaluations of pupils’ knowledge (Swedish National Agency for Education, 1996), and they welcomed this change.

According to the National Agency for Education, the old grading system had been “characterized by the belief that it is possible to objectively measure knowledge”. However, “ideas about the scientifically based and the ‘objective’” and the idea 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”. The agency concluded that “taken together, the orientation

towards local variations, individual diversity and qualitative dimensions of knowledge require a different way of looking at assessments and grades” (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 in circumstances other than the lesson in class.

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. As explained by both Beatrice Ask (1992) and the editorial page of *Svenska Dagbladet* (1993b, 1994b), the curriculum and grading reforms went hand in hand with the school choice reform. They were designed to pave the way for school competition, but with the tacit assumption that competition would only be based on educational quality.

Emblematic of this assumption is the fact that the center-right government “never considered external examination of grades” according to Anders Hultin (personal communication, February 11, 2014). “The pupil’s right to choose was the central part of the reform”, he says. Other aspects of the regulation of the independent schools had also not been thought through, despite the fact that Beatrice Ask (1992) had promised “strict quality control” of the schools. “The National Agency for Education was given the task of supervising 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. This is perhaps not surprising given that the National Agency for Education did not consider itself to be a regulatory body (Haldén, 1997). Instead, market liberal ambitions intersected with the post-modern view of knowledge, which was influential in the National Agency for Education (Kornhall, 2013). While the free-market Right pressed for an objective-based grading system to make grades more comparable between schools and hence facilitate competition (*Svenska Dagbladet*, 1994b), the National Agency for Education considered grading

reform to be an opportunity to dismantle the notion that it is possible to objectively measure knowledge.

This missing institutional framework could potentially have been rectified when the Social Democrats returned to governing in 1994. However, it was the Social Democrats who had decentralized 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 schools 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.

The Social Democrats also supported the new grading system, but they made a significant reform vis-à-vis the policy of the previous center-right government. The Moderate Party wanted grades in at least six levels beginning at the latest in grade 7. This would not only serve as a tool for selection into higher levels of education but also as a motivational incentive to promote diligence and hard work. When the Social Democrats returned to power in 1994 (which they would hold until 2006), they reversed this policy. In contrast to the Moderate Party, the Social Democrats did not believe that grades provided incentives for learning. Therefore, grades were introduced from grade 8 and the grading scale was made less nuanced with fewer (only three) steps to ensure that grades became a tool for selection into higher levels of education and nothing else (Gustafsson, 2012). This resulted in the moral aspect of education being substantially attenuated and grades being reduced to a sort of currency, the main purpose of which was competition with others, which likely also played a part in creating a preference for inflated grades among parents and pupils.

6. Conclusions

Sweden's school choice reform, which together with Chile's voucher system is unparalleled internationally in its liberal market design, does not seem to have met the high expectations of its architects, i.e., that it would produce education of higher quality in both independent and public schools. The results from the only study that uses a convincing measure of quality, i.e.,

TIMSS (Böhlmark & Lindahl, 2015), are not impressive. The results of Swedish pupils in international knowledge achievement tests have declined, while domestic grades have increased. This suggests that (among other contributing reasons for the deterioration of knowledge) school competition is taking place in other dimensions than educational quality, including grading and other material and hedonic rewards.

This hazardous behavior is facilitated by regulatory failure. Because of overconfidence in markets, the center-right government that enacted the school choice reform in 1992 did not deem it necessary to appropriately regulate school competition. Through ill-conceived grading and curriculum reforms, the government instead paved the way for moral hazard. The succeeding Social-Democratic government did not take any major steps to reform the system to improve its functionality and thus protect basic social interests.

The most important general lesson from Sweden's experience is that market reforms of tax-financed service production must account for the manner in which institutions and incentive structures affect behavior. This article has studied education, but there are also other (quasi) markets for tax-financed welfare services that are characterized by similar institutional weaknesses, triggering welfare-reducing adjustments of behavior, which can be studied and offer lessons.

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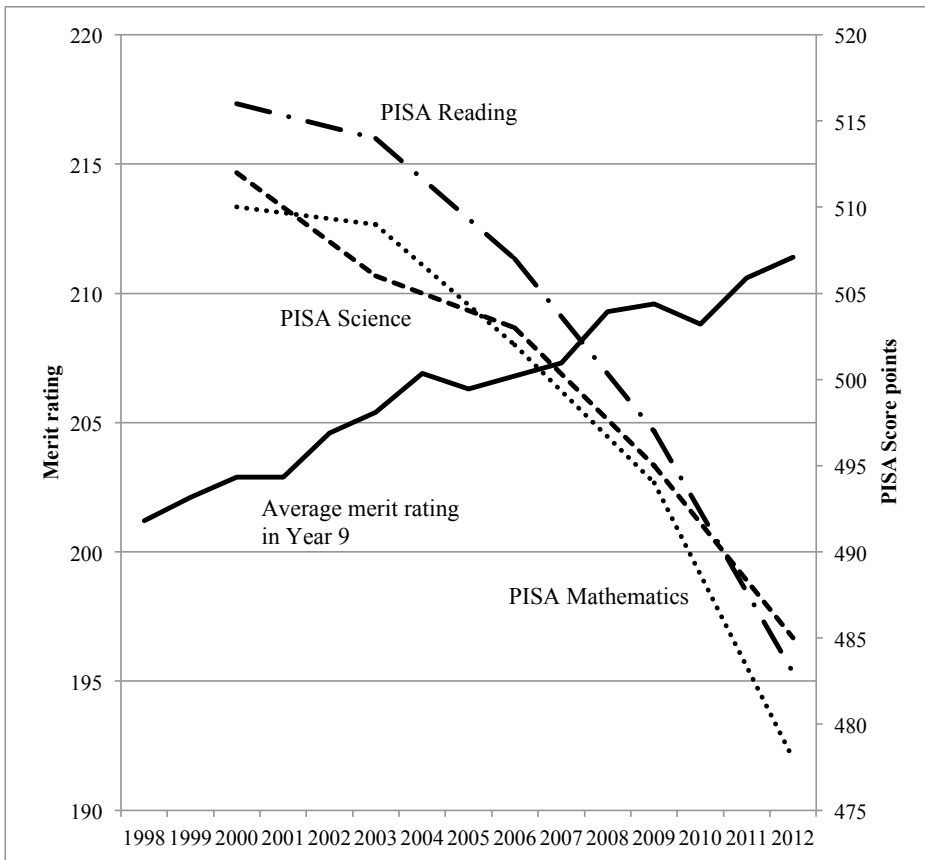
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Figure 1. Merit rating and PISA Score points, 1998–2012



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</i> <i>Percentile</i>	<i>10th</i> <i>Percentile</i>	<i>25th</i> <i>Percentile</i>	<i>50th</i> <i>Percentile</i>	<i>75th</i> <i>Percentile</i>	<i>90th</i> <i>Percentile</i>	<i>95th</i> <i>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</i> <i>Percentile</i>	<i>10th</i> <i>Percentile</i>	<i>25th</i> <i>Percentile</i>	<i>50th</i> <i>Percentile</i>	<i>75th</i> <i>Percentile</i>	<i>90th</i> <i>Percentile</i>	<i>95th</i> <i>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.

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