NECESSARY CONDITIONS FOR A WELL-FUNCTIONING SCHOOL MARKET: LESSONS FROM THE SWEDISH CASE

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ABSTRACT

In 1991, Sweden introduced parental choice, school competition and public funding of private schools. The promise was: higher student achievement and satisfaction, more variety between schools and lower costs for taxpayers. The policy allowed private companies to open 'independent schools' with public money, which they did in substantial numbers. The result was a living competition between public schools and the new private independent schools, especially in the urban regions of Sweden. Our case study of the Water Quarter in Stockholm testifies in many respects that these promises were fulfilled. According to all people we spoke, school competition has improved the quality of education in the Water Quarter. Our analysis indicates that two important conditions for a well-functioning school market are met. First, there is real competition between suppliers as the market resembles a level playing field and new suppliers can enter the market fairly easily. Second, there is real choice for customers. Customers can really exercise school choice, without having to consider costs. However, the mitigation of market forces appears to be as important as the market forces themselves. The turmoil that comes along with competition are believed to have a negative impact on the school organisation. Public schools work therefore closely together, to protect their common interest and create a considerable degree of stability. This informal cooperation appears as important as the formal competition in understanding the market dynamics in Water Quarter.

1. INTRODUCTION

After much theoretical debate, an increasing number of empirical studies looks at the impact of the introduction of market forces in education. The relationship between school competition and quality improvement lies at the heart of the debate. Empirical evidence about this relationship stems from different places around the world. In agreement with the positive effect that Hoxby (2000) found, findings from Milwaukee suggest that the more competition public schools face, the better they perform (Chakrabarti, 2008). These findings are robust for different samples, different models and different outcome measures. On the other hand, findings from New York state as well as Chile fail to indicate that competition leads to quality improvement (Greene & Kang, 2004; Hsieh & Urquiola, 2006). A study in New York state (during 1989-1993) found that the proportion of students enrolled in private schools had significant positive effects on math and science scores as well as dropout rates,

but a negative effect on certain selective measures of school output, such as the proportion of students receiving a Regents diploma (a diploma given after one has passed an exam for a certain subject) (Greene & Kang, 2004). A totally different country, Chile, has also introduced an extensive nationwide voucher program. Based on data from 150 municipalities, researchers find no evidence that choice improved average educational outcomes (measured by test scores, repetition rates and years of schooling) (Hsieh & Urquiola, 2006). Ladd (2003) reviews findings from Milwaukee, Dayton, Washington D.C., Florida and New Zealand and concludes that in all these cases, there is no compelling evidence to support the view that competition has any effect on public school performance, be it positive or negative. So as yet, the empirical evidence is inconclusive.

One reason for conflicting results lies in methods and measures, as the famous debate between Hoxby and Rothstein makes very clear (Hoxby, 2000, 2007; Rothstein, 2007). As many students of marketization of education indicate, many (unmeasured) factors play a role and often a very important role. The Milwaukee studies are a case in point. The study is based on data gathered over a relatively long period of time (15 years) during which the design of the voucher program changed. Two phases can be distinguished. During the first phase, only non-sectarian private schools were allowed to participate and vouchers were only available for low income students. In the second phase, eight years later, religious private schools were also allowed to participate which led to a three fold increase in the number of private schools. Moreover, the use of vouchers was no longer limited to low income students increasing the number of students enrolled in the program almost four fold. These changes, together with changes in funding made the situation in the second phase very different from the first phase. As a result of these institutional changes, school competition increased significantly in the second phase. The results for phase two are in sharp contrast to those in phase one with to a much larger improvement of public school performance in phase two.

Worldwide empirical evidence thus shows ambiguous findings. Introducing competition in the educational sector may or may not result in positive outcomes in terms of higher student achievement. Research also indicates that fairly similar policies, based on fairly similar intentions, can have very different outcomes. The actual effects of a reform are to a large extend determined by the specific design of the reform and the institutional context. Funding formulas, rules and laws, socio-geography, attitudes of involved actors, the way a reform is acted upon, they all play a part in determining what actually happens when market forces are introduced in education. The Milwaukee studies point to an additional factor, which is time. It seems that results of institutional changes only become perceptible over time. Short-term

effects of reforms can even be misleading, as parental and student choice is exercised in the years following the reform and may take years to transpire in student achievement. Likewise, it may take a decade or more before the supply side – the schools – will find an equilibrium after entry or expansion of successful schools and shrinking or exit of unsuccessful schools (Hoxby, 2000).

2 NECESSARY CONDITIONS FOR WELL-FUNCTIONING EDUCATION MARKETS

The notion that all kinds of program details and context factors are significant, is not only unsatisfactory theoretically, it also highly complicates further empirical research. We believe that the road ahead in this field of research lies in putting the focus on necessary conditions for well-functioning education markets. After all, inconclusive empirical evidence usually indicates that certain conditions must be met before intervention A leads to effect B (Pawson & Tilly, 1997). The neo-classical economic framework is an obvious and useful starting point to explicate necessary conditions for well-functioning markets (Weimer & Vining, 2005). What’s more, reviews of available empirical evidence support the relevance of these theoretically derived conditions in education markets (Waslander 2001, Waslander & Hopstaken, 2005).

Probably the shortest summary of the neo-classical economic framework reads as two basic conditions. Markets work when (a) suppliers really compete on relevant features of products, and (b) customers exercise real choices, also based on relevant features of products. Although these two conditions seem completely obvious, time and again it appears very difficult to meet them in practice. That is true for markets in sectors like transportation, energy, health et cetera (Donahue, 1989; Ministerie van Economische Zaken, 2008).

Empirical research on markets in education also shows that these two basic conditions are seldom met. Starting with the supply-side, schools do not always compete for pupils. It often turns out that pupils compete for access to desirable schools (Fiske & Ladd, 2000). This is not necessarily a problem, as long as schools select pupils solely on the basis of their achievement (Coleman, 1992). In practice however, the socio-economic and ethnic background of pupils nearly always comes into play. The condition of actual school competition also points to other factors, such as many suppliers, overcapacity and school autonomy. Many suppliers are needed to divide market shares as well as market power, preventing monopolies and oligopolies. Without a certain degree of overcapacity in the local education system, the system has limited flexibility to accommodate for pupils changing schools. This in turn enables desirable schools to select pupils and grants undesirable schools survival. A related issue is school autonomy. If schools are entirely free to select

pupils, in numbers as well as composition, the condition of actual school competition on relevant features may be very hard to meet. All this implies fairly strong government regulation, also for private schools. At the same time, however, schools need sufficient autonomy with regard to pedagogy, organisation, learning materials and so forth, to compete on educational features.

Turning to the demand-side, providing real choice to parents and pupils also proves to be quite complicated in everyday life. Parents and pupils need to be aware of their options, and sufficient and reliable information is required to make wise choices. In terms of the neo-classical framework, education is an experience-good. Which means that the quality and other features of a product can only be disclosed by, or even after, consuming it. The problems resulting from this feature can be diminished when consumers can ‘learn’ from their choices, for example by making similar choices repeatedly. However, having second thoughts on school choice often costs dearly, if only for social reasons. One of the most intriguing aspects of education markets is the issue of price. As a rule, markets work by virtue of prices, as prices signal customer needs and satisfaction. In the case of education however, monetary costs seem to play a different role. The costs of schools may not be a reliable indicator for the quality of education they provide, but signal the socio-economic background of students they serve instead. Differential costs can therefore have very distorted effects on market dynamics. Which is one of the reasons why many voucher programs cover school fees as well as costs of transportation.

From the neo-classical framework, we derived two basic conditions for well-functioning markets. Based on theory as well as available empirical research, these two conditions could be further expounded. The next question then is whether this framework is a fruitful tool in empirical research and can help explain why the introduction of markets forces leads to quality increase in some, but not in other circumstances. To find that out, we turn to Sweden where we studied the dynamics in a local education market. Before explaining what we did, why and how, we give a short introduction about the Swedish education system.

3 The Swedish education system

In the wake of marketization of education in the 1990’s, many countries have crafted new policy arrangements combining public and private control over compulsory education (Gewirtz, Ball & Bowe, 1995; Walford, 2000; Ladd, 2002). However, very few countries combine public funding with the possibility of for-profit firms governing schools. This is the case in Sweden, making its educational system rather unique.

In 1991, a coalition of four centre and right wing parties came into power. Like elsewhere, the economic recession of the 1980’s spurred politicians to re-think government spending, for example in education. The liberal government was attracted by the ideas known as ‘New Public Management’ (Bunar, 2008b, Cf. Le Grand, 2003). Once in office, the liberal Prime Minister Carl Bildt soon announced a “free choice revolution” and an accompanying educational reform. The new liberal Minister of Education, Beatrice Ask, announced:

The goal is to realize the greatest possible freedom for children and parents in choosing a school. This freedom should include the possibility to choose between the public school system and independent schools, but also to choose a school within the public school system and to choose a school in another community. (Prop. 1991/92:95, 8)

Up until then, parental choice was uncommon in Sweden. First of all, few real choices could be made. Nearly all schools were public schools, with only sixty schools nationwide who could be qualified as different, be it on religious or pedagogical grounds. All public schools had a general profile, followed roughly the same curriculum and were governed by the government itself. Secondly, school attendance was based on ‘catchment areas’. Other schools in close proximity were officially prohibited, while choosing a non-public school was almost impossible.

The main goals of the ‘freedom of choice policy’ were to add variety to the education system and to improve the quality of education. Competition should be the driving force behind these goals. The Minister of Education put it like this:
In my conviction, stimulating competition between different schools, with multiple denominations and multiple types of ownership can contribute to higher quality and higher productivity of the educational system. (Prop. 1992/93:230, 27)

School competition was expected to vitalize and develop the educational system. The policy contains a voucher for everybody, granting access to all public and all independent schools. All schools are to be open for all pupils and provide education free of charge. Independent schools are not allowed to ask a fee, or any other financial contribution. Independent schools are publicly funded, on similar grounds as public schools. Although market-forces were introduced in the educational system, some safe-guards remained in the system. Public schools face more responsibilities than independent schools and the catchment area principle still exists.

Current situation

The policy change allowed private companies to open ‘independent schools’ with public money, which they did in substantial numbers. The result is a living competition between public schools and the new independent schools, especially in the urban regions of Sweden. Almost two-third (63%) of all independent schools is situated in one of the three main urban regions (Stockholm, Göteborg, Malmö). On average, 9% of all elementary pupils and 17% of all upper secondary pupils attend an independent school. However, in the Stockholm region the proportion is 25% and 40% respectively. The vast majority of elementary and upper secondary schools are public and owned by the municipality. Nevertheless, the number of independent schools is still growing. The number of independent upper secondary schools increased by 71% over the last five years. Likewise, the absolute number of pupils attending an independent school consistently increases since the mid-1990s. For demographic reasons the total number of pupils decreased during that time and continues to do so.[2] This implies, together with the growing share of independent schools, a fairly rapid decrease in the number of pupils attending public schools.

There are various types of ownership among independent schools, ranging from idealistic foundations to commercial for-profit companies. To add variety to the system, independent schools were allowed to offer education based on different philosophies (like Montessori or Waldorf, or a religious profile). However, more and more independent schools with a general profile open their doors, often run by companies. These companies are always especially founded to provide education. That means that they are not running any other businesses and are always owners of the schools. The five largest independent school companies operate nationwide and were, after a few years in the red, able to make a combined profit of 85 million Swedish crowns, or 8 million euro, in 2007 (Stockholm City, April 4th 2008). Among the largest educational companies are Kunskapsskolan, Vittra, Pysslingen, Baggium and Jensen education. Almost two-third (64%) of the independent schools is run by a for profit company and the proportion of private companies owning independent schools increases unremittingly (especially for the independent upper secondary schools). Not only are new for-profit parties entering the market, existing companies also expand the number of schools they operate. The biggest companies all run more than thirty schools each and all plan to start more schools (Friskolarnas Riksförbund, 2005).

More than a decade after the reform was implemented, it is interesting to see whether and to what extend the aims have been realised. Despite the fact that the reform of the Swedish education system was introduced more than ten years ago, the effects have been poorly researched (Björklund et al., 2005; Bunar, 2008a).

4 THE CASE OF THE SWEDISH WATER QUARTER

We studied a local school market in Stockholm, called Water Quarter (pseudonym). This local market comprises three public and an independent secondary school, as well as two elementary feeder schools. The reason to limit the study to a well confined area comes from research on (quasi-) markets in education. It is known that schools do not compete with just any other , but with very specific other schools in their vicinity. Research also shows that actions of schools can best be understood in direct relation with actions of schools close by (Waslander & Thrupp 1995). Compulsory schooling is a local phenomenon; parents and students do not travel very long distances between schools, as they might do for higher education. As the nature of education markets in secondary education is local, research aimed at understanding market dynamics must be local as well.

The research area, Water Quarter, was chosen for several reasons. First, both schools as well as parents and pupils consider the quarter to be a confined local market. That is, schools consider the other schools as competitors, and parents and pupils have realistic choices between these schools. The municipality covers all the costs (fee, school meals etc.) so that all schools have the same ‘price’. In addition, schools are not allowed to control their intake, making all schools equally accessible. Parents and pupils are not hindered in reaching the schools, as Stockholm has an extensive metro network and many secondary pupils make use of this network. Finally, the market in Water Quarter not only comprises public schools but also an independent school, run by the largest school company of Sweden.

To guarantee the respondents anonymity, we named the secondary schools after Swedish lakes: Vänern, Vättern, Mälaren and Siljan school. The first three schools are public schools, Siljan school is an independent school. We named the two elementary feeder schools after large Swedish rivers: Lagan (public) and Nissan school (independent). The geographical lay out of the Water Quarter is simplified in Figure 1.

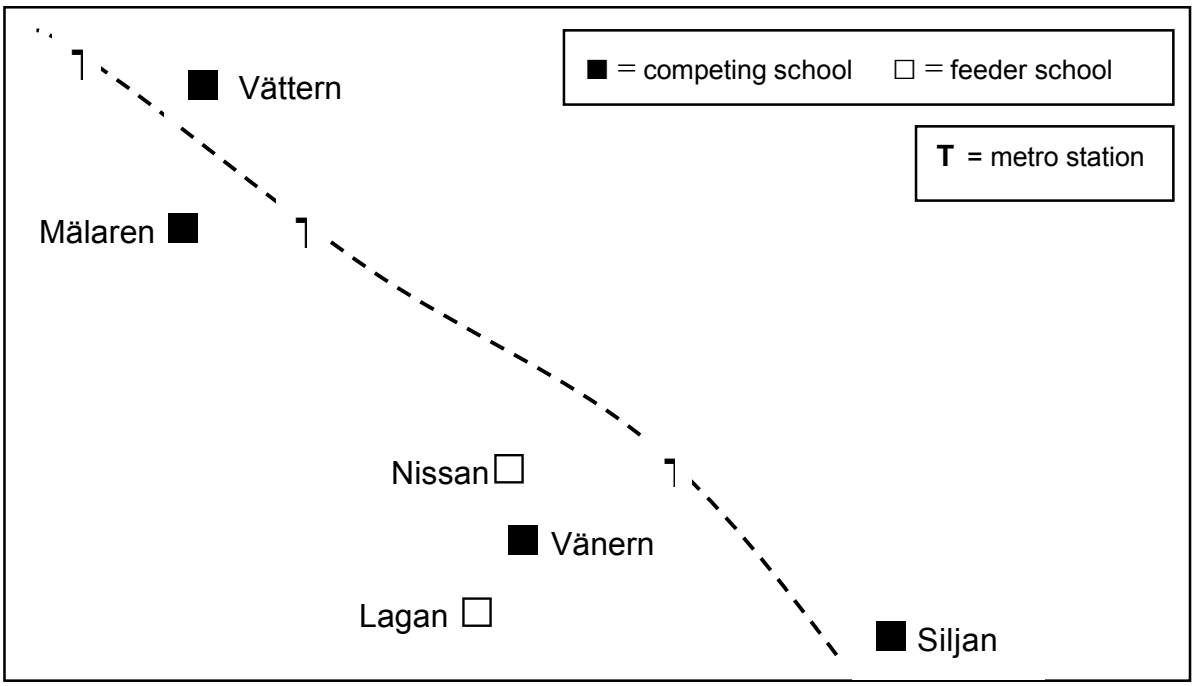

Figure 1: The Water Quarter education market

School type

The study focuses on effects of competition in secondary or so called ‘year 6-9’ schools. Children in these schools are 12-15 years of age. These pupils are old enough to travel by metro, unlike younger children in elementary schools who base their choice for a school on its proximity to home. Older pupils in upper secondary schools have limited choices, because upper secondary schools offer different vocational and academic programs. The studied (secondary) schools are equally accessible for pupils.

Data collection

A total of 11 in-depth interviews (lasting at least one hour) were held with all those involved in the local market, that is school principals, board members and organisations at the policy level. The interviews were undertaken in a period of two weeks, during the spring of 2008. Except for one school, all selected schools were willing to take part in the research. The one school that was too busy for a face to face interview in April, took part a few months later by a telephone interview. This means that the principals of all secondary (6-9) schools in the selected local school market participated in this research. Two elementary feeder schools (or ‘year 1-5’ schools) in Water Quarter, a public and an independent school, have also been interviewed for their ‘outsider vision’ on school competition in the local market. Further, one interview was held with the Stockholm Education Administration in their capacity of board of the public schools in the research area, and another with their colleague, the CEO of the independent school company. To broaden the view on the local school market, some experts

at the policy level were interviewed. Including an officer of the Swedish National Agency for Education, about criteria for approval of new independent schools and two people who were working as national and local policy maker at the start of the reform.

All conversations were focused interviews using an interview protocol (Yin, 2003). Respondents were asked about matter-of-fact issues, but also to express own insights on specific episodes and to give opinions about several events. The dialogue was open-ended and had the nature of a conversation, but was also steered by a certain set of questions derived from the protocol. The interviews provide a retrospective view on the situation prior to the reform, the short term effects of the introduction of the independent school in the local market and the current situation.

Analysis

The verbatim transcripts of the interviews were systematically analysed using open and auxiliary coding techniques. The case study has a single case design (see Yin, 1993). That is, all schools are considered to be part of one case. The case study has a chronological sequence. The quotations are the literal words of the respondents. For reasons of confidentiality, all principals are portrayed as women.

5 FINDINGS

For years, the Water Quarter had three 6-9 public schools, all with their own well-defined catchment area. Schools enjoyed a stable and predictable intake, dissatisfied parents could hardly opt out.

In 2001, a company owning independent schools announced to start a secondary school (6-9) in Water Quarter. The company moved quick, Siljan school opened its doors the same year. The public schools were directly confronted with competition and feared a loss of pupils.

Principal Mälaren: The immediate problem was that it started to be really insecure. Especially for those schools that were in a bit of a troubled area, because we knew that parents around us would probably choose other schools for their children.

Public school principals in the Water Quarter were upset about the threat of losing pupils, but even more about the way in which Siljan attracted pupils.

Managing director independent school company: This brochure is send by direct mailing. We buy addresses and send them to mothers that have children born in a specific year. And

there is a cover letter that says: “we have a school in your area, I’m the headmaster, I think these things are important and we would like you to come to an information evening”. We send two of those in November and two in January.

In addition to the four letters parents receive, they are also called twice asking whether they have already made their decision. The new independent school did not limit its actions to new entrances, but also targeted older children attending public schools. Public school principals were not used to this kind of marketing and qualified it as aggressive and bad behaviour.

The fear of public schools soon became a reality when some of their pupils moved to Siljan. All public schools were confronted with the new school, albeit some more than others.
Principal Vänern: Our school lost a lot of pupils, a lot. Not half, but almost half. It has been a hard run to take them back. Many of the teachers couldn’t keep their jobs of course (…)..

When schools lost pupils, they also had to deal with too many teachers, too much space and decreasing budgets. While the public school principals had a rude awakening to the new reality, the independent school took its position in the local school market fairly easily.

The return to the public schools

The turmoil that came into the Water Quarter with Siljan school, showed yet another face when the school year was just under way.
Local educational policy maker: A bigger problem came after 1-2 months when a lot of young students realized that Siljan school wasn’t a school who could see and take care of their needs. They returned to the public school, who couldn’t say no to a family who lives in the area. By that time the public school had organised everything based on the known number of students and they also received less money then the year before. Many of these young students were in need of special reading and learning, which was why their parents moved them in the first place.

The movement of pupils went into reverse, from the independent to the public schools. Many of them were special needs pupils. Usually, a school receives additional funding for special needs children. However, by the time these pupils moved schools, the countings were done and the money had already been allocated between schools. So when the independent school received the (additional) funding, the pupils themselves moved to the public schools. These pupils lived in their catchment area and therefore had a right to attend their schools.

Public schools had no choice than to welcome them again. Also other pupils went into reverse when the novelty of Siljan faded.

Principal Nissan: That first year, a lot of students went from the public schools to Siljan school and they were there one term or two terms and then half of them went back. There was a lot of irritation.

Unlike the independent school who is free to take and let go pupils, the public schools are obliged to host pupils who live in their catchment areas. These pupils can come back whenever they want, leaving their former school with the funding to educate them all year round. One source of irritation is the money, another is the moral. Public school principals resent the fact that the independent school bears no responsibility.

Principal Lagan: The independent schools can do whatever they want. We have a date when we don’t take children anymore. They take them all the time, when they have a place, they take them. They don’t care about rules, they only look after themselves!

Public schools received little help from their board, the municipality, who also has more general tasks as inspectorate and quality control. Municipalities are responsible for the well-functioning of all schools and funds the public as well as the independent schools.

Local educational policy maker: The municipality had little possibilities to do something about the competition because in fact both schools are financed by tax money so in practice they are working for the same employer.

A living competition

Although many children who left the public schools in the first place returned after a while to the public schools, this did not mean that everything went back to normal. A number of pupils kept attending the independent school. Moreover, freedom of choice also means that pupils are free to choose between the public schools and not only between schools in their own area, but throughout the whole city, both public and independent.

Principal Vänern: It’s close to competition between all the schools, that’s the whole idea with the system. The money following the students so that’s the whole idea: the parents are supposed to choose the school for their kids.

Thus, it is not only the independent school anymore who is a big rival of the public schools. Now that the public schools are as attractive as the independent school, they have not just won the game. It has consequences, that is, they now face many more rivals: their own colleagues. Some public principals note that the result of public schools becoming more attractive, is increased competition between the public schools in the area. Water Quarter is

thus a good example of “a stimulating competition between all school types’’ as the government intended.

The Stockholm Education Administration: The thing is you don’t only compete with independent schools, you compete with other public schools as well. That makes it a little complex, sometimes a bit awkward.

Stockholm has an extensive metro network and the metro is the common means of transport. Pupils all have subscriptions, and the same costs apply irrespective of the number of stops. All this means that choice options for parents and pupils are not limited to schools in their immediate vicinity. With a small amount of additional travel time, other real options enter the picture. This gives competition an additional impulse.

Principal Vättern: It’s extreme, extremely high competition. Particular in Stockholm and these kind of areas because schools are so close and it is very easy to travel.

Organizational uncertainty

Pupils choosing other schools than they formerly ‘belonged’ to, is a consequence of the ‘freedom of choice policy’ affecting the existing school system probably the most. Pupils can choose any school they want; an independent school, another public school in the area or even another school outside the local area. Public schools on the other hand have to be accessible for everybody from their catchment area; catchment residents may exercise their right to attend at any moment in time. This causes organizational uncertainty.

Stockholm Education Administration: You can’t organize and plan as you could before. When we had the catchment areas you could always plan; you knew if you start a school, you knew how many kids were going to be 16, where they live etc. Now there’s absolutely no idea of planning, you can’t do that, that’s very difficult. That’s a negative side, because it’s more costly for the municipality.

Every single public school is responsible for planning and managing its own budget. Schools also face planning problems. How many teachers should they employ for the new school year? Do they need more? Or less? And how many children of the group who “belong” to the school may change their mind and return halfway through the school year? The big question is: how to deal with uncertainty and be flexible.

Principal Mälaren: I can’t, I need to have ice in my stomach. This is the same question every year. But if you’ve been going on as long as I have been going on.. I can estimate quite well, I have a feeling and my estimate is mostly right with a margin of 10 kids…. The problem today is that we have a lot of parents who like to choose my school, but I have no place.

It is thus a matter of making an educated guess, especially on how many places and which amount of the budget should be saved for children who belong to the school and may want to attend it sooner or later. Public schools thus need some overcapacity and some resources are unused, although they are being sought after by another group of customers. Public schools therefore face some ironic consequences. They need to accommodate a certain degree of overcapacity that may never be used, while not admitting every new customer who deliberately chooses their school. Likewise, they need to leave some of their resources unused, while at the same time wanting to deploy those resources to improve their teaching.

Negative consequences for the public schools

Public schools have lost all securities in the influx of pupils. This means that schools have to work hard and compete for their pupils. Unpopular schools have little alternatives but to change their schools organisation or even step out of the market. The uncertainty for the schools organization, caused by school competition, give rise to existential questions within schools.

Principal Vättern: Less and less students are coming to this school. So it’s dying naturally because of the changeover of students, or do something to make the students come back. … We are now hesitating about whether we have to close the school down or we have to do something else.

The balance between public and independent schools

The Swedish National Agency for Education is tasked with the approval of new independent schools. They control the balance between public and independent schools, from the pupils perspective. The criterion for allowance of new independent schools is that pupils are still able to attend a public school in their municipality. A new starting independent school won’t get permission if their establishment means that the public school will loose so many pupils that it has to close down. The choice to attend a public school is protected, but the choice for an independent school is not. However, the used law is not suitable for Stockholm. Stockholm is considered as one municipality and even if a public school in a local district faces a closedown it is not enough reason to stop the new independent school from starting. After all, pupils can still attend a public school in the big municipality of Stockholm. Thus, the law does hardly provide any restrictions for new independent schools to start in Stockholm.

As long as the legislation for approval remains unchanged, the number of independent schools will increase in Stockholm; forcing the local public schools to adjust their organization, merge with other public schools to share costs or close down entirely.

The number of independent schools increased rapidly over the last years. Given the fact that the number of prospective pupils decreases, their increasing share has even more influence.
Principal Mälaren: It wasn't that bad in the beginning, it wasn't that big. But then it started increasing, it's taking over, it's now 25-30% [of all pupils attending an independent school]. *And it's a 125%-130% schools in Stockholm but only a 100% students and that's what I think the politicians haven't taken responsibility for. Because if you want to increase and private schools to start, you must realize that we're gonna have too many schools in the end.*

Equal funding acts as an incentive for independent schools to enter the market. Regulation is easy: schools can just fill in the forms and start ceaselessly. As a result, the desired number of schools in some areas has long since been surpassed. Public actors say that the government must intervene.
Principal Mälaren: It would be better if they said: you can start, but then you have to go, so that they balance it. But they don't balance it and everybody looses on that.

How do independent schools think about their huge increase in market shares? Do they take the number of schools already in an area into consideration?
Managing director independent school company: No. It's always full. If you look at it that way, there is never a market for us. There is never a market for another player. The only way to build that market is to steal from somebody else.

The independent schools really have to fight for their share in local school markets. For the public schools in such an area it always means a loss of pupils, be it small or big.

Competition or co-opetition?
Because all schools have roughly the same set of options to inform and attract pupils and parents, a good reputation appears the only strategy that works in competition:
Principal Vättern: We do everything we can. We try to have a very high level of education, high level of quality. You have to work in a process of improving, improving and innovate, innovate.
Competition causes a constant incentive for improvement. Trying to be the best school of the area requires personnel and principal of a school to put a lot of effort into the school, continuously. Aren't there ways to alleviate the pressure? Why do schools not work together rather than battling each other?

Working together with the independent school seems no option for public schools, they

hardly even talk to them:

Principal Vänern: With the independent school it's nothing, zero. Not even a professional contact. Maybe we call once a year.

Apparently, it is difficult for the public schools to get over the fact that Siljan school entered the area and attracted "their" students.

Prinicipal (independent) Siljan: When this school opened I think there was a lot of 'bad blood' and that's still around a bit. They have a bit scepsis to us because … we come in, we are in competition, we 'take' their students, instead of working together.

At the same time, the relations between public schools were also put under strain when the competition started:

Principal Mälaren: In the beginning it was like not so nice feelings like "they took two more children from us, I hope I can take one more from them" like that.

The fact that the independent school became less attractive, first added fuel to the fire. The public schools regained territory and started a brisk competition with each other. After a while, however, that changed. The public schools discovered that they also have a common interest, and they decided to make a brochure together in the 'competition fight' with Siljan:

Principal Nissan: The public schools in this area made a nice pamphlet together that they've send to all homes, about 1,5 years ago. … Normally the public schools in Sweden don't advertise. There was no need for that. But as Siljan school and the other schools in the city centre are attracting more pupils, they have to do something, something extra.

The public schools still compete with each other in this local school market, but their attitude changed. They have become partners, with a common goal:

Principal Vänern: We want that our neighbours [not have to close down] ... I like the neighbours, so I'd like them to have a good school.

Principal Vättern: The principals are colleagues and the only colleagues we have, they are people you know, sometimes since many years back.

In this local school market, competition is here to stay. But the way in which the public schools deal with it is up to them. School competition caused a highly predictable, and as some principals say "easy", situation to change into an unpleasant situation for the public schools with a lot of turmoil. The public schools do not want a tough competition, but have a common interest in a considerable degree of stability. No wonder that they try to accommodate to the new situation:

Principal Vättern : We have this kind of agreement. We belong to the same organisation, our boss is the same. So we don’t try to steal students from each other. That is nót what we’re trying to do. We’re trying to get the students that belong to us, to our area. And if some students outside our area want to attend our school, it’s positive.

Principal Mälaren: We’re colleagues as well. … It’s not like we’re sitting there and grabbing children from each other saying “hehehe I’ve taken a share of you and you’re not gonna make it.” If we don’t have children enough, none of the schools is able to fix it. Everybody gets a problem with that. So we are making sure that every school has enough children to work on and that’s not working when the parents are not choosing one of the schools.

The public schools made an agreement to weaken competition, and they are not ashamed to tell it. While the government introduced school competition to urge schools to improve the quality of their education, the public schools try to hold on to the ‘old system’ by making an informal agreement not to grab children who “belong” to another public school. Irrespective of all good intentions of the government, schools actively try to suffer least. Public schools look for stability to be able to perform well in a competition situation with a lot of turmoil. Stability appears to be a necessary condition to be able to offer the necessary high quality of education. The aim of the government to improve the quality of education by school competition is realized, but partly via another way than they planned.

Besides the common interest, schools also all have their own interest. Some principals are searching for the right balance between those interests:
Principal Vättern: I think sometimes you have to be more… not just remaining status quo. Also try to attract more and outside the area and work like that. That’s the way the independent schools work. All students are their students, it doesn’t matter where they live. We have to work a little bit like that too.

It can be questioned if the mutual agreement survives when some schools start to fend for themselves.

While school competition and parental choice arrived in the Water Quarter, the associated way of thinking clearly entered the mindset of principals.
Principal Mälaren: I run this school as if it were a company. We have a product and that product is what happens in year 9, that’s our product. We get a certain amount of product coming in and another product coming out. That’s what we are trying to do in this school and I try to run it like a company. Like personnel thinks like: This is my mission, this is my work,

this is what I have to do if this product is going on. It was really something that hit me, that I started to realize that this is how you deal with it if you are a private school. The parents are customer, and the children a product. And the parents can say ‘this is the product I want you to provide me for when it goes out’.

The liberal government who introduced a more output orientated education system and wanted schools to become more sensitive to customer needs, would probably be glad with this latter principal. She clearly has developed a market view on education, and she is not the only one. The way they talk, the way they run their school, the marketing research they are planning to do, the fact that they want to develop a ‘strategy’ to try to meet the competition: It all points to public schools who adapted themselves entirely to the comprehensive reform. Operating in an education market has become part of daily business.

6 ANALYSIS

Conditions

Our case study of the Water Quarter testifies in many respects to the neo-classical framework. Traditionally, catchment areas ensured the intakes of public schools in Sweden providing them with few incentives to be responsive to parents and pupils. Schools did not compete, parents and pupils had very limited choice options. In accordance with the theory, hardly any variety existed in the Swedish educational system. With the ‘freedom of choice policy’ came competition and choice. According to all people we spoke, the quality of education in the Water Quarter improved since then. Our analysis indicates that the two basic conditions underlying the neo-classical framework, were met to a considerable degree.

Suppliers compete

The neo-classical theory points to the need of *many suppliers.* In the urban region we studied, there were several suppliers. Sweden has relatively many small schools, enabled by relatively high per-pupil funding (OECD, 2008). To start a school, only twenty pupils need to be enrolled. The market resembles a *level playing field* as new suppliers can enter the market fairly easily. Privately run schools are publicly funded but allowed to make a profit and free to spend it, possibly providing incentives to private companies to enter the education market.[3] All schools are publicly funded and not allowed to ask fees. Schools therefore do not compete on the basis of price, but on the basis of other features such as the (perceived) quality of their offerings.

Customers choose

A particular feature of the Swedish education system, is the financial support for parents and pupils. Customers can so to speak use their voucher in any school without additional costs. Costs for learning materials and school meals are fully covered by the municipality, irrespective of the school a pupil attends. Although the costs for transportation are not covered by the voucher in Stockholm, the extensive metro system provides easy travel without additional costs for additional stops.

As said, education is a prime example of what economists call an *experience good*. Customers lack information before they make choices and only become familiar with the features of a product or service by consuming it. This kind of *information asymmetry* can seriously hamper the functioning of markets. In a sense, this issue is addressed in Sweden by providing customers with a *fallback option*. Pupils still have a right to attend their local school and can exercise that right at any time.

Ironies

Although the education market of the Water Quarter seems to comply with the market model, the case-study also illuminates two major ironies.

While the government supports pupils to switch schools, their bureaucratic procedures do not account for such movements. Schools receive funding according to the number of attending pupils on a certain counting date. Schools can refuse to take in pupils after that date, with one important exception. Public schools must always allow entry to pupils from their own catchment area. This right may stimulate choice by parents (see above) but at the same time causes unequal treatment between suppliers. Independent schools can refuse all pupils after the counting date and make a profit from pupils who leave, public schools can never refuse ‘their’ pupils and have to pick up the bill.

The irony goes one step further. Public and equal funding of all schools, enables parents and pupils to really make a choice of school. Private suppliers are allowed to make and spend the profit they make with public money. This may attract private parties to enter the education market and add to the sought after variety of schools. However, while private shareholders of independent schools gain from profits made by government funding, public schools lack public funding for pupils who regret their choices. Private companies of independent schools rapidly increase their market share, raising questions at the national level. Sweden is known for its welfare state and focus on equality (Esping-Andersen, 1990). Many consider profit-making with tax money unfair and the issue is heavily discussed in the public debate.

Restricted competition

Market forces are clearly at work in Water Quarter as parents and pupils can exercise school choice and schools compete for pupils. A closer look suggests however that the mitigation of market forces is as important as the market forces themselves. First, the quality improvement is also likely to stem from the cooperation between public schools. When the independent school entered the local market, the flow of students first went to this new privately run school. After a while, however, pupils returned to the public schools during the school year. As yet, public schools always face the uncertainty of incoming pupils during the school year. Public schools try to avoid the turmoil and instability that comes with it, as they fear the effects on their school organisation. Public schools have a point here, as research shows that instability may indeed have harmful effects on pupil achievement (Weiss, 2001). To own interest public schools work closely together to create a considerable degree of stability. It may therefore be the cooperation between public schools, as much as the competition with the independent school which supports the noted quality improvement.

Competition is not solely restricted by informal cooperation between public schools. Restrictions are also built into the formal system itself. A risk of unlimited market forces is that no party is willing or able to perform the most difficult tasks. The Swedish system prevents this risk by giving public schools specific obligations. Public schools must offer inclusive education for special needs pupils. Public schools must also offer lessons in the mother language of pupils. In this way, the system will surely perform the most difficult tasks. Although public schools receive equity funding to fulfil such obligations, it remains to be seen whether a level playing field can be maintained when private parties expand their market shares.

7 CONCLUSION & DISCUSSION

The introduction of freedom of choice and the establishment of an independent school, sparked a living competition in the Water Quarter. The aim for “real and practical possibilities for parents and pupils to be able to choose the education that fits best to their own needs” was met in this local market. The most important expectation, quality improvement, is also associated with the most compelling result. All persons involved in the local school market note that the quality of education has improved as a result of school competition in the Water Quarter. Market forces are also believed to provide a constant incentive for improvement. Unlike most other countries, costs can hardly play a role in the choices parents and pupils make. Schools compete on other features, the most important being a good reputation based

on outstanding performances. To enhance pupil performances, schools do everything they can to improve the quality of their education. The Swedish education policy had the intended effects in our case study area.

This is not to say that these effects are here to stay. The case study shows how competition effects schools, in particular the public schools. These schools have to change their organization and may be forced to merge with other schools or even face closedown. When merges and closings continue, as some fear, parental choice as well as school competition may be jeopardised. The turmoil originating from Siljan school entering the Water Quarter, made way for a temporary equilibrium. The provisional stability is partly due to public schools working together to obviate instability. However, our interviews indicate that all principals have second thoughts about their cooperation and seek opportunities for the benefit of their own school. Can their mutual agreement survive when some schools fend for themselves? The most likely scenario seems in increase in competition between the public schools. This raises a further question about sustainability. The reconstruction of market dynamics also testifies, once more, to the importance of the time dimension. In other words: markets change over time, as does their impact.

All our respondents related the quality improvement directly to school competition. If they are right, a considerable degree of competition appears necessary to cause this effect. At the same time, schools seem to need a certain degree of stability to function well. Public schools decided to cooperate to create sufficient stability. These findings are in accordance with other research, playing with the idea that competition between schools may have an optimum level. When the amount of competition is insufficient nothing happens, when it is too severe its effects may be detrimental to the overall quality of education (Greene & Kang, 2004; Waslander & Hopstaken, 2005).

Our research also has some clear restrictions. One question is whether the situation in Water Quarter may also be found in other parts of Sweden. Freedom of choice has mainly come to full growth in urban areas of Sweden, with Stockholm as most flowering region. In a third of the Swedish municipalities there are no independent schools at all. In sparsely populated areas few independent schools are to be found while public schools in such areas are unable to focus on certain subjects or offer variety in other ways. Our findings do therefore not in any way imply that freedom of choice increased in Sweden as a whole. Our respondents agreed that the quality of education in the Water Quarter improved. A more critical issue is the output measure. A very important issue is of course whether our respondents are right in their unanimous estimate that the quality of education improved as a result of competition.

Unfortunately, we were unable to test their claims in a reliable way.[4] Another, closely related, issue is whether quality improvement should be the sole output measure. Although research on voucher systems is mainly focussed on student performance, there may be other, equally important gains or losses. The introduction of freedom of choice in Sweden added variety to the education system. Instead of one unity school, parents and pupils can now choose between a wide range of schools (from Montessori to Islamic) to satisfy their needs. So even if case student achievement does not improve, the reform may still improve welfare, but do so in other ways (Hsieh & Urquiola, 2006).

Despite these restrictions, our case study was able to serve our main purpose. Following inconclusive results regarding effects of market forces on quality improvement, the research on markets in education can move ahead by putting the focus on necessary conditions for well-functioning markets. Research on conditions, may help us understand why market forces improve educational quality in one context while almost similar regulations have no or even negative effects in another context. We summarised the neo-classical framework in two basic conditions: (1) real competition between schools on relevant educational features, and (2) real choice for parents, also based on relevant features. To further our understanding on how conditions can be met in practice, detailed studies are needed. We conducted a case study of a local secondary school market in Stockholms Water Quarter. The case study illustrates how fruitful an analysis build around conditions can be, in an attempt to understand market dynamics and its effects on quality. Our analysis also indicate that the two basic conditions may be very difficult to meet. In a living market, paradoxes seam to appear. The character of education as an experience good hampers market dynamics. In Sweden an attempt is made to remedy this drawback by putting safety-measures in place such as giving pupils a right to attend the local school at any time. While these safety-measures may cure one problem, they simultaneously cause others. The quest for necessary conditions for well-functioning education markets continues.

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[2] Website Skolverket, statistics section: www.skolverket.se/sb/d/1638, read at September 2, 2008. The total number of pupils has decreased with 100.000 in the last six years.

[3] On the basis of our research we are unable to tell whether profit making serves as incentive for for-profit companies. Research by King (2007) suggests this may not be the case.

[4] The Salsa database provides information on performance of every secondary (6-9) school in Sweden (see http://salsa. artisan.se). Unfortunately, the results are not reliable, because the outcomes are not controlled for all intake-indicators. The proportion of special needs pupils in a school is unknown. This is highly relevant to make reliable estimates for schools in the Water Quarter as we learned that special needs pupils shifted schools regularly.