

## Self-Provision of Public Services: Its Evolution and Impact

*This article establishes a framework for explaining the ways in which citizens, as clients of public services, attempt to deal with situations of combined market and government failures. Under certain conditions, citizens are driven to create self-production mechanisms that often are extralegal or illegal. When faced with such social initiatives, politicians often support them, either passively or actively, by institutionalizing the new mechanisms. The article explains the evolution of the self-provision model and its implications. The analysis includes a theoretical framework and a practical intervention scheme.*

Recent decades have been characterized by significant changes in the roles, functions, and scope of activities of the modern state and government agencies. In analyzing processes of change and transformation, public administration research tends to focus on the organizational level, where three main sectors operate at the macro level: the public, the private, and the third (not-for-profit) sectors. However, when these sectors fail, as often occurs in the provision of public goods, citizen dissatisfaction may grow. There are various ways in which citizens who are dissatisfied with the quantity or quality of services provided by one (or all) of these sectors may attempt to improve their outcomes and satisfy their needs. One dominant strategy is to turn to another sector (e.g., the private sector) when one sector (e.g., the public sector) fails to provide services, thus adopting an exit strategy. Another strategy is the voice option, whereby citizens demand service improvement (Hirschman 1970). However, when citizens feel that both the exit and voice options have been exhausted, they attempt to find alternative provision methods, which often include the self-provision of services.

This article suggests a theoretical framework for explaining the conditions for the evolution of

self-provision mechanisms and justifications for their continuation. Self-provision mechanisms are defined here as informal methods and strategies used by individuals and groups to satisfy their immediate interests and need for services. By choosing self-provision strategies, individuals and groups use none of society's established institutional settings (i.e., the formal rules and laws), whether these are dominated by the public, the private, or the third sector. Rather, they attempt to improve their outcomes through extralegal or illegal strategies. Self-provision strategies may belong to one of two categories: informal (or under-the-table) payments for services and self-production of services. Informal payments to providers of public services change the incentive scheme, meaning that the payer actually creates alternative production channels as compared to the established legal mechanisms in society. The two categories require self-financing and hence may contribute to welfare state retrenchment as well as increase social inequalities.

Examples of self-provision strategies are numerous. We may consider the large number of informal payments in public health care systems in many democracies a type of extralegal provision of gray market health care (Gaal et al. 2006). Similar mechanisms of informal payments, whether illegal, extralegal, or legal, also characterize educational systems in many democracies (Noguera 1994; Savas 2000; Swirski 1999). Internal security is another area in which a high level of demand for high-quality services meets a shortage in supply, leading to the development of extralegal, alternative initiatives for producing services (Savas 2000). Parents forming private schools and the creation of other nonestablishment services in welfare, transportation, infrastructure, and culture are further examples of extralegal self-production strategies (Savas 2000; Swirski 1999).

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The framework established in this article suggests a set of variables to explain the evolution and persistence of self-production strategies. At the core of the explanation are citizens' perceptions of the political system, especially perceptions regarding the actual effectiveness of influence options. When influence options are perceived as ineffective, citizens will be inclined toward self-provision strategies. However, this mode of behavior differs significantly from the traditional pluralistic model (Dahl 1961; Dalton 2004, 2005). The second layer of the framework considers the possible response of the government to such initiatives and the impact that self-provision strategies may have on society and on the institutional setting. It will be argued that although such strategies may have certain advantages in terms of citizen involvement in public life, they also have significant disadvantages, both in terms of distributive outcomes and in terms of internalization of nondemocratic norms.

The article proceeds as follows. In the next section, we first discuss the ways in which inefficiencies in service provision influence citizen dissatisfaction and the response that may follow. We then discuss how citizens' perceptions regarding the effectiveness of influence channels may affect their strategies. In the third section, we suggest a framework to explain the conditions under which self-provision is more likely to evolve and present it in the form of testable hypotheses. In the fourth section, we discuss the advantages and disadvantages of self-provision mechanisms, followed by a discussion of empirical concerns and normative implications. This section also suggests an intervention scheme to deal with the challenge posed by citizen self-provision of services.

### **Inefficiencies in Service Provision, Citizen Dissatisfaction, and Perceptions of Influence Channels**

The modern state includes three types of service providers—the public sector, the private sector, and the third sector—which operate in institutional settings. However, any one of them may fail in providing the quality and/or quantity of services demanded by citizens, thus increasing citizen dissatisfaction. In this section, we introduce this problem and then discuss how citizens may try to deal with it.

#### ***Market Failure, Government Failure, and Voluntary Failure***

Students of public administration have explored the problems of market failure and government failure, as well as the trade-offs between them, in great depth (Weimer and Vining 1998; Winston 2006). Market failure is an equilibrium allocation of resources that is not Pareto optimal because of market power, natural monopoly, public goods, externalities, or imperfect information (Gruber 2006; Ostrom 1991; Weimer and Vining 1998; Winston 2006). Government failures are caused by problems that are inherent in direct and representative democracy, interest group activities based on attempts to promote narrow interests, and problems that are inherent in bureaucratic supply (Bendor 1990; Mitchell and Munger 1991; Weimer and Vining 1998). These factors usually entail significant social costs for government intervention and often lead to distributional inequalities.

Market and government failures may coexist, thus intensifying citizen dissatisfaction with the quality and quantity of services. A possible solution in such cases is to turn to third-sector

organizations to provide services. Indeed, the common view of the relationship between the government and the third sector justifies the enlargement of the third sector by the coexistence of market and government failures (Salamon 1995). However, Salamon (1995) suggests that there is a potential for voluntary failure in the third sector as well, meaning that there are serious difficulties in mobilizing resources for providing services. Specifically, Salamon points to four types of voluntary failure: philanthropic insufficiency, philanthropic particularism, philanthropic paternalism, and philanthropic amateurism. For the purposes of our discussion, voluntary failure means that the institutionalized (organized) nonprofit sector may fall short in providing services that the market and the government have failed to supply.

Thus, there are several sources of inefficiency in the provision of services that may intensify citizen dissatisfaction significantly. Furthermore, when these failures occur at the same time, citizens also may be very pessimistic about the chances of improving their outcomes through the established institutional and legal framework.

### ***Political Participation and Public Policy: The Traditional Pluralistic Model versus Antipolitics***

The traditional pluralistic model suggests that in democracies, citizens have various channels through which they can influence political decision making, including voting in elections, taking part in demonstrations and other protest events, forming interest groups, and getting involved in political and civic life (Dunn 1994; Truman 1951; Weimer and Vining 1998). All of these actions are considered traditional modes of political participation, which, according to the pluralistic model, have a significant impact on political processes and policy-making mechanisms (Dahl 1961; Dalton 2004, 2005).

However, in recent decades, these traditional modes of participation have been transformed in parallel with the transformation of the modern state and the processes of globalization (Peters and Pierre 1998; Pharr and Putnam 2000; Wattenberg 1994). Dalton (2004, 2005) argues that the modern state has been transformed significantly by complex processes, resulting in the emergence of antipolitics in many sectors of Western societies. The trend of antipolitics includes the retreat of many citizens from any kind of civic engagement because of a loss of trust in government, on one hand, and the application of alternative strategies of influence, on the other (Dalton and Wattenberg 2000; Norris 1999; Nye 1997; Rose and Mackie 1988). Such strategies may include various activities in the social sphere that are not necessarily directed toward influencing political decision making (Beck 1994, 1997). We suggest that the self-provision of public services by citizens falls under this category. In the following subsection, we discuss citizen self-provision of services as an exit strategy.

#### ***Citizen Self-Provision of Public Services as an Exit Strategy***

Citizen self-provision of public services occurs primarily when there is a high level of demand for services, but citizens are not satisfied with the quality or quantity of goods and services provided by the public sector. Therefore, they attempt to find a strategy that will improve their outcomes.

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To explain such strategies, we may consider Hirschman's seminal work *Exit, Voice, and Loyalty* (1970) as a theoretical point of departure. The core idea in this work is that dissatisfied players may perform either exit or voice strategies depending on the level of their loyalty. In fact, Hirschman developed a model for explaining why, contrary to conventional wisdom, the competitive provision of services actually might provide poorer services than those offered through monopolistic provision. In the latter case—especially in the public sector—if the service is poor, people have the incentive to voice, which could improve services. However, once there is competition, exit might be made easier, so people will stop voicing and leave. Private provision then will not improve. Market theory suggests that competition should make services better as providers compete with each other. While this may be in the case in perfectly competitive markets in which complete information about private goods is available, this might not be the case in imperfect markets.

The strategy of citizen self-provision of public services poses a challenge for Hirschman's model. In such cases, citizen dissatisfaction with the public provision of services leads them to exit rather than voice even though a public/government monopoly exists. Thus, citizens make an exit by creating their own alternatives. While such actions create informal competition, they do not guarantee that public services will improve. In fact, when citizens provide their own services, voice mechanisms are marginalized completely, thus limiting the possibility of improving services—either public or private ones. The core question, therefore, is under what conditions are citizens more likely to prefer exit through informal self-provision of services to voice? This question is explored theoretically in the next section, which posits six propositions.

### The Sources and Outcomes of Citizen Self-Provision of Services: A Theoretical Framework

The evolution of citizen self-provision of services usually begins with the insufficient provision of public services, which gradually increases citizen dissatisfaction. The government may fuel the process by neglecting the maintenance of public services because of a poorly managed public sector combined with market and government failures. As noted by several researchers, informally neglecting the maintenance of public services also may result from a strategy of reducing government intervention (Pierson 1995; Savas 2000). Given these initial structural conditions, we suggest a set of six hypotheses. These hypotheses are summarized in figure 1.

Citizen dissatisfaction with the quality and/or quantity of public services is a necessary condition for the development of the self-provision of services. Thus, our first hypothesis posits the following:

Proposition 1: As the level of citizen dissatisfaction with the quality and/or quantity of a government service grows, citizens' preferences for alternative sources of that service are strengthened.

In addition, self-provision will develop only if there is strong demand for a specific type of service. For example, citizens may be dissatisfied with the poor maintenance of public roads or public

beaches, but because there is no strong demand for such services, dissatisfaction will not be transformed into social action to improve the service. Hence, our second hypothesis is as follows:

Proposition 2: As the level of demand for a government service grows, citizens' preferences for alternative sources of that service are strengthened.

While these are necessary conditions, we cannot infer that any dissatisfaction combined with strong demand will lead citizens to consider providing these services themselves. Rather, there are additional conditions for such a mechanism to evolve.

Lehman-Wilzig (1991) suggests that there may be a strategy between exit and voice that was missed by Hirschman in his seminal work. Such a strategy, which he terms "quasi-exit," includes bypassing the traditional system of government services and establishing alternative social and economic networks to offer what the official political system cannot, or will not, provide. Lehman-Wilzig argues that a country's population would need a fairly high level of education to know how to set up, coordinate, supervise, and maintain alternative systems, as well as enough economic resources to finance such systems. Given these conditions, quasi-exit behavior will materialize when the political system is largely unresponsive to the wishes and demands of citizens.

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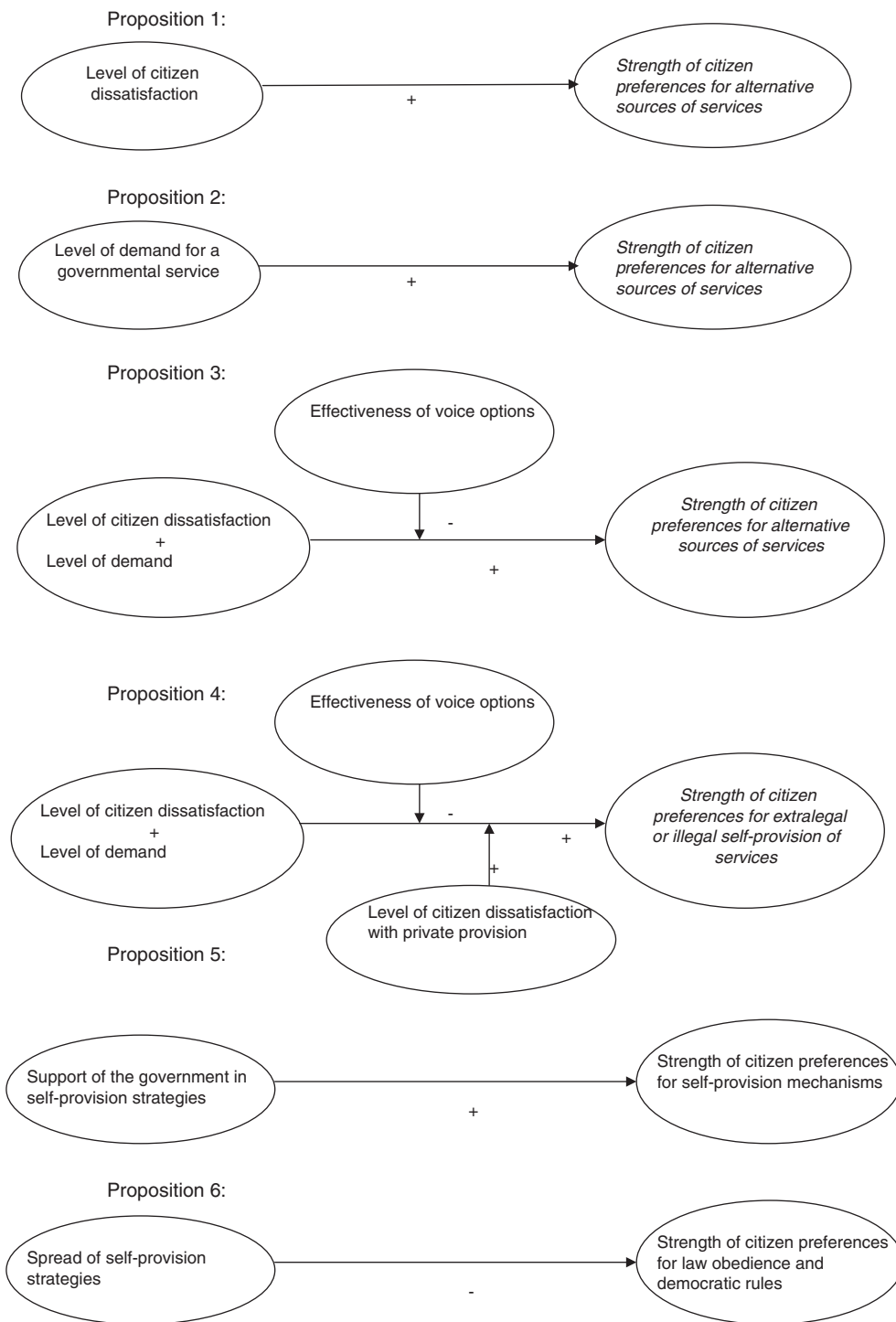
In particular, citizen self-provision of services usually involves extra payments in addition to regular tax payments. Naturally, most people prefer to avoid extra payments and receive the services they pay for through taxes. Thus, dissatisfied citizens are expected to use voice in order to improve the services they pay for rather than exit to some kind of alternative

provision that requires extra costs. Exit, including the costs associated with it, will be preferred only if the cost of voice strategies is very high or the probability of success is extremely low.

Based on this analysis, we can suggest an additional variable that can explain the development of self-provision mechanisms, namely, citizens' perceptions of the political system. Specifically, in deciding between exit and voice, citizens evaluate the effectiveness of voice mechanisms for influencing public policy. If citizens believe that voice mechanisms are very effective, they are most likely to choose the voice option to express their dissatisfaction. However, if voice strategies do not succeed in improving public services, citizens have to reconsider the structural conditions that they face.

When voice mechanisms are overloaded to the extent that citizens regard them as inefficient or essentially closed, they come to believe that the chances of successfully influencing public policy are extremely low (Tarrow 1994). Therefore, they are more likely to try to maximize their utility through an exit strategy. Citizens may exercise one of two basic exit strategies—turning to the private market or to self-provision strategies. These two options give rise to the third hypothesis:

Proposition 3: Given a high level of demand for a government service and a high level of citizen dissatisfaction with



**Figure 1 Propositions of the Theoretical Framework**

the quality and/or quantity of that government service, as the effectiveness of voice options decreases, citizens' preferences for alternative sources of this service are strengthened.

The private market usually provides a wide variety of services and thus may be regarded as a good alternative to government provision of services. This is especially true when there is strong demand for high-quality services, a demand that encourages the evolution of entrepreneurs. Indeed, when private options for service provision exist, citizens are likely to adopt them. If these mechanisms prove

successful, the outcome is the privatization of government services. However, there may be various reasons for citizens to ignore market mechanisms and prefer to provide services for themselves. First, as explained earlier, the combination of continuous market failure and government failure often leads to ongoing deterioration in the quality and quantity of public services. Thus, prior experience with market mechanisms may discourage citizens from embracing such mechanisms. Second, there are policy areas that are natural monopolies or pose moral hazard problems. In these areas, such as infrastructure and welfare, providing services is less profitable for private



firms than other investment options and offers poorer alternatives (Gruber 2006; Marmor 2005; Weimer and Vining 1998). Third, although the private market may provide efficient services as an alternative to those provided by the government, the cost is usually high, meaning that private provision creates distributional inequalities. Because the costs of the private provision of services in areas such as health care and education are quite high, large sectors of society may feel deprived of essential services. Fourth, for the reasons mentioned earlier, private market mechanisms are likely to produce market failure and hence citizen dissatisfaction, especially in areas related to essential social welfare services such as health care, education, housing, labor and training, and social insurance.

Thus, in the absence of sufficient public or private provision of services, people are left without a social safety net, and therefore they turn to self-provision, meaning that citizens act individually or in very small groups to find solutions to the service shortages they face. This situation leads to our fourth hypothesis:

**Proposition 4:** Given the conditions specified in propositions 1–3, as the level of citizen dissatisfaction with the private provision of a service increases (i.e., market failure), citizens will be more inclined toward extralegal or illegal self-provision of this service.

Self-provision strategies have several characteristics that distinguish them from other forms of service provision. First, they usually include attempts to bypass the formal systems that provide poor services. Examples may be informal payments in health care and education, as well as using personal connections or informally paid contact persons to expedite bureaucratic processes related to welfare payments, employment and training, housing, and infrastructure maintenance (Atkinson 2002; Gaal et al. 2006; Lehman-Wilzig 1991; Swirski 1999). Another example is the establishment of pirate services in the areas of media (cable networks), infrastructure, special schools, and illegal employment. Second, self-provision usually is based on a combination of public and private resources and mechanisms, meaning that people attempt to use available public resources but direct them toward their own purposes. Examples are informal payments in health care and education aimed at redirecting the activities of public organizations, usually toward the specific interests of those who pay more. Another example is the operation of privately financed special education programs within public schools (Swirski 1999). Third, people engaged in self-provision usually seek an immediate improvement in the services they receive rather than long-term or fundamental changes in the system. Fourth, self-provision usually requires additional payments and thus may be costly for individuals (Atkinson 2002; Lehman-Wilzig 1991; Steinbrook 2006). As a result, the spread of this phenomenon may increase social inequalities and thus pose a social and political challenge. Fifth, as exemplified earlier, many of the self-provision strategies are either extralegal or illegal. Illegal strategies actually may be preferable to legal ones because of the higher costs associated with the latter. Many of the examples mentioned earlier operate on the margins of law, thus creating a gray or black market for services. Therefore, the

spread of this phenomenon may pose another significant social and political challenge. Sixth, self-provision often results from the weakness of the political system as well as state consolidation and decline, which significantly limits politicians' ability to engage in stalling tactics. Under such conditions, politicians tend to accept and support such strategies rather than object to them, thus further encouraging citizens to adopt such strategies. Two additional hypotheses are derived from this analysis:

**Proposition 5:** As the support of the government for self-provision strategies increases, citizens' preferences for such mechanisms are strengthened.

**Proposition 6:** As the spread of illegal self-provision strategies grows, citizens' regard for obeying the law and following democratic rules is weakened.

To conclude, the self-provision of public services is a choice that citizens make when they face the failure of private and public mechanisms, not only in terms of obtaining sufficiently high-quality services, but also in terms of utilizing political channels to influence public policy. Such strategies, especially when they spread into many policy areas and sectors in society, pose major challenges to the political system.

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### **Citizen Self-Provision of Services: Empirical Issues, Normative Aspects, and an Intervention Scheme**

The framework elaborated in the previous section suggests a set of testable hypotheses as a basis for empirical research. At the core of the framework is the subjective perception that citizens have about the reality they face. Accordingly, an empirical application of the framework should concentrate on measuring the attitudes and preferences of the citizenry. In this section, we first discuss some empirical concerns regarding such measurements and then discuss the normative implications of the framework.

#### ***Citizen Self-Provision of Services: Empirical Issues***

As noted earlier, many self-provision mechanisms involve extralegal or illegal activities. Therefore, they are likely to be difficult to detect through empirical observations and citizens' self-reports. People are likely to attempt to hide such strategies or gloss over their illegal aspects. When asked about the scope of such activities, people will tend to minimize them and provide partial information. However, as self-provision mechanisms spread to various sectors and levels in society, they are transformed from informal (under-the-table) payments for services into the actual self-provision of services and thus become much more visible. Therefore, self-provision behavior may be easier to detect, while declared preferences for the self-provision of services may be relatively weak.

This potential gap between behavior and declared preferences and attitudes poses an empirical challenge when testing the theoretical framework presented here. Such testing calls for a careful examination of consistent, declared preferences versus the preferences and choices shaped by a given reality. In discussing the intersections between

historical and rational choice institutionalism, Katzenelson and Weingast (2005) suggest a distinction between imputed preferences and induced preferences. Imputed preferences are fundamental and deeply embedded in the person. They do not arise from, nor are they caused by, a particular situation. Rather, they are inherent, stable, precise, consistent, and exogenous. Induced preferences are understood as people's preferences when interacting with others, in particular institutions. Context and situations matter deeply and the interactive play of the game itself in part affects people's preferences. These induced preferences are concerned with instruments, such as strategy choices, so at times they can be observed with a degree of regularity.

Based on this distinction, the variable *citizens' preferences* used in the theoretical framework should be understood in the context of induced preferences. The theoretical framework explains how a set of induced preferences evolve under certain conditions and transform into strategic choices. Therefore, when we observe such strategic choices, we can deduce the preferences that brought them about.

In practical terms, this discussion suggests that the measurement of citizens' preferences should rely both on interviews and questionnaires to detect imputed preferences and on observations of behavior and strategic choices to detect induced preferences. Such an empirical investigation can provide a rich understanding of self-provision mechanisms.

#### **Citizen Self-Provision of Services: Normative Implications**

In the face of the initial conditions that lead to the development of self-provision mechanisms, politicians are most likely to support such initiatives, thus encouraging the spread of the self-provision model. Such a process may have significant implications for the nature and operation of the political system in general and the policy process in particular.

First, when self-provision strategies are applied in many policy areas for long periods of time, they trigger learning processes through which people internalize the principle of do-it-yourself. This lesson may have positive effects in terms of individual entrepreneurship. Second, widespread self-provision of services often involves extralegal or illegal activities, thus potentially weakening the rule of law. This is particularly true when politicians legitimize these activities through institutionalization. Third, given that the self-provision of services requires extra payments, it is a solution that usually works for the wealthy in society, meaning that it increases social and economic gaps. Fourth, widespread self-provision of services may create the impression that major parts of society are interested in reducing the role of government in providing these services. However, assuming that self-provision is aimed at achieving immediate improvements in service, rather than indicating long-term citizen preferences, this interpretation of citizen behavior mistakenly may lead to far-reaching conclusions about social attitudes regarding the welfare state. Fifth, given the fact that citizens' strategies are formed based on short-term considerations followed by an intuitive, and not necessarily planned, political response, the self-provision model is a less efficient mechanism than the top-down policy-making model, which utilizes long-term professional planning.

Given the significant disadvantages of self-provision mechanisms, we now try to assess possible governmental responses that will

improve outcomes and, at the same time, will be applicable given the conditions that gave rise to these mechanisms in the first place.

The core problem that government faces in targeting self-provision mechanisms is the inefficiencies of the various institutional settings in providing services. These failures intensify dissatisfaction among citizens, leading to the development of self-provision mechanisms. Furthermore, the failure of the public sector in providing services indicates severe problems that are inherent in the system, to the extent that any simple intervention strategy is unlikely to work.

Under these conditions, citizen self-provision of services is not likely to disappear by itself, nor is it likely to lose its standing in society because of determined governmental response. Therefore, it is more realistic to recognize the new reality and attempt to maximize its advantages while minimizing its disadvantages.

The mechanism that can best achieve these goals includes the following components: First, self-provision initiatives tend to be very innovative and express the willingness of certain citizens to take an active part in improving the welfare of society. These are basically positive elements that can be encouraged by creating participatory programs in which citizens take an active part in planning and even delivering services. An intervention scheme that leverages citizen self-provision of services through intensive participation in decision making may help maximize the advantages of such initiatives while keeping them within the legal and democratic framework of society. However, given that the self-provision of services usually arises in response to dissatisfaction with, and lack of trust in, the government, citizens may be reluctant to take part in such participatory programs. This is especially true given the lack of trust in politicians that is evident in many democracies. Therefore, such participatory schemes should be mediated by public agencies that enjoy a measure of trust or by third sector organizations that can play a consultancy role.

The combination of these components can help in restoring trust in and satisfaction with the public provision of services and in reshaping the public sector. Furthermore, the democratic system is likely to be the main beneficiary of such actions because citizens will regain their trust in it as well. In order to move in these directions, politicians and bureaucrats first must recognize the reality. They must understand that under the conditions outlined earlier, it is better to cooperate with such initiatives in advance and leverage them for the benefit of society rather than co-opt them and legalize them after they have materialized. Such an approach can cause severe damage to the democratic system. Fostering such recognition is one of the goals of this article.

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