

Provision of Public Services by Non-state Actors*

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1 Introduction

Effective provision of public goods is one of the key determinants of quality of life that not measured in per capita income, and also, an important plank of poverty reduction strategy. Improving public service delivery is therefore one of the biggest challenges the world over. Organizing public service provision is deemed to be a core function of government. However, exactly how that responsibility should be discharged is open to debate (see, for example, the World Bank's 2004 World Development Report).

This mirrors the broader "market failure" vs. "government failure" debate in economic policy. It is well known that the market underprovides these goods as prices do not fully reflect marginal social benefit. Also, in the presence of contractual and informational problems, reliance on markets can lead to suboptimal quality of services. Finally, left to itself the market will serve only those who have purchasing power. These arguments make the case for public intervention compelling. But governments are not typically social-welfare maximizing planners, as was assumed in classical public economics. Evidence on government failure is fairly compelling. The World Development Report 2004 points out that governments spend on average 1/3 of their budget to health and education but little reaches the poor. Even when it is

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targeted to the poor, there is leakage. In addition, there is rampant absenteeism and poor quality service (e.g., 74% doctors absent in primary health care facility in Bangladesh, 25% teachers in India, 40% health providers in India) . Political economy considerations, as well as contractual and informational problems limit the effectiveness of direct public provision. The traditional view equated public goods to government provision and ignored the issues of government failure as well as the role non-state non-market institutions such as non-profits and community organizations.

In this paper we discuss some ideas from the emerging literature on public organizations and political economy that breaks out of the standard market-government dichotomy with a special focus on the role of non-state actors, such as NGOs. Instead, our starting point is two key features of public services. First, these are goods and services which have important social benefits that are not captured in market returns. This includes classic public goods, goods with important equity dimensions, and merit goods. Second, for these goods and services, measuring and evaluating quality is difficult which raises important issues in organization design. Our goal is to understand what institutional arrangements have a comparative advantage in providing these public services. We will also review the empirical literature, focussing on health and education.

There are two broad categories of public goods that are needed to strengthen the position of the poor in developing countries:

- **Market supporting public goods** – those state interventions that make it feasible for the poor to participate in markets and hence benefit from gains from trade.
- **Market augmenting public goods** – which deal with cases where even a well-functioning market will not provide the correct level of the public good.

The key is what organizational structures for funding and delivery are likely to yield good effective services. Our understanding of these issues is comparatively recent. The new political economy literature is providing a better understanding of how government works. It is crucial also to understand incentives in public organizations, such as bureaucracies. We also need to think about organizations that belong neither to the government nor to the market such as NGOs and where they fit into the picture. The standard

public economics approach of twenty years ago had almost no discussion of organization design and incentive issues. In this paper we will focus on the following key issues: the role of incentive pay, the role of competition between providers, the role of ownership, and the role of non-profits.

The challenge faced in public service provision is both theoretical and empirical. We need good theory to structure our empirics and to think through the logic of cases where evidence is limited. We need evidence to evaluate the relevance of our theoretical framework, and also to see what works at the ground level.

2 The three main problems in service provision

In this section, we discuss three main issues that arise in designing effective public service provision – (i) the problem of ignorance, i.e. not knowing how policies work and which policies are most suited to any particular context, (ii) the problem of finding sufficient resources to fund services and (iii) finding a system for deciding on spending priorities and methods of delivery that work. We review each of these issues.

2.1 Ignorance

At the heart of public service delivery is knowing whether policies have the desired impact and how citizens respond to them. The main tradition in the analysis of public service provision has been to study how people respond to policies and to gauge who are the beneficiaries from various public programs. There are some areas of economic policy where there is a fair degree of consensus on what constitutes good policy. For example, in macro policy, there is broad consensus that very large budget deficits, overvalued exchange rates and very high inflation rates have no rationale. Even then, the means to achieving this remains open to debate. For example, whether central banks should be independent is still debated.

In the area of public service delivery, there is broad consensus of the main policy objectives – to have a well educated and health population. Again, the question is what is the best of delivering this end. Consider the case of primary education. Here there are debates about the best way to incentivize teachers whether to prioritize textbooks etc. For this to be

debated, it is necessary to have some persuasive evidence on the costs and benefits of particular intervention strategies.

One of the main difficulty in studying this area is that take-up of public programs is endogenous. If individuals choose to participate then it may be difficult to know what determines this decision as against the pure effect of the program. Related to this is also the problem that the placement of public programs is endogenous. Frequently, analysts will exploit the fact that a program is present in one place rather than another to look at its impact. However, there may be good reasons for such placement such as the wealth or an area or its political power which can also contaminate estimates of the program's impact.

In response to these problems, there has been a recent upsurge in the use of evaluations of randomized policy interventions to look at specific dimensions of policy intervention. The evaluations work by collecting appropriate survey data. Below, we discuss some examples of useful evidence generated by such surveys in the areas of health and education.

2.2 Resources

A key issue in service delivery is deciding how much to spend on provision. It is next to impossible to find reliable figures on private spending on social services. Many low income countries also have a good deal of support from aid finance and it is also difficult to find any reliable data on this.

One interesting issue concerns what determines these different levels of spending. Obviously richer countries are in a position to devote more public spending in the social sectors. That said, poorer countries tend to obtain greater aid finance. There are also issues of whether decision making institutions affect social provision. For example, countries have different constitutions and some are democratic while others are autocratic. There is now a vast political economy literature which studies these issues.

Recent work by Persson and Tabellini (2004) argues that there are substantial differences by type of democracy. They differentiate between countries that use parliamentary and presidential constitutions. The defining difference is that parliamentary systems can bring down the executive by a vote of confidence procedure whereas in a presidential system the chief executive is directly accountable to the voters. Persson and Tabellini argue that this direct accountability will sharpen incentives for chief executives. This will tend to lead to less corruption and lower public spending. They find

support for this proposition in the data.

Persson and Tabellini (2004) also contrast majoritarian and proportional systems of democracy. Here the argument is that proportional representation will tend to lead to broad based targeting whereas majoritarian systems target towards marginal districts. This should lead to larger government under proportional systems. The data support his proposition.

Another important issue for resourcing public services is the choice between centralized and decentralized provision. There are a number of theoretical reasons why provision may differ in centralized and decentralized systems of finance and provision. This in turn depends on the nature of the service and in particular the extent to which there are spillovers between provision in different localities.

2.3 Delivery

The 2004 World Development Report put the issue of service delivery at centre stage in understanding the capacity of government to deliver effective public services to its citizens. The concerns how any given budget designated for public service delivery is utilized in practice. This encompassed issues of efficiency in service delivery, problems of corruption in which resources intended for delivery are siphoned off to other uses, and service priorities – deciding what the pressing needs are for beneficiaries.

Services are delivered by a nexus of relationships between beneficiaries, politicians and service providers (bureaucrats, doctors, teachers etc). A key issue is how the obligations of these parties is defined and enforced. This may differ quite a lot by type of service and provider. The role of formal contracts is frequently quite limited in public service delivery when compared to the market. If an individual buys a service, say to build a building, then there is frequently an effort to specify formal contractual terms and to have this enforced by the law. In the case of public services, such contracts are typically entirely absent. For example, parents have almost not formal contractual relationships with teachers and patients have similar standing with respect to doctors.

In thinking through the nexus of public service arrangements, it is useful to differentiate broadly between political and bureaucratic relationships. The former are the fiduciary relationships enforced through electoral sanction in democracies. A politician is typically not contractually obliged to very much – promises during electoral campaigns are not binding *ex post*. The

only way to guarantee that politicians behave well is either to select good politicians – those who are sufficiently publicly spirited or else to use sanctions against them if they under-perform. Legal sanctions are only viable in quite extreme circumstances – for example if a politician is tried for grand corruption. The main mechanism for enforcing good performance is holding frequent elections.

The case of service providers is quite different. These individuals can be held to account using more formal contracts and standard methods used in the private sector. This, in principle, the contracts can be detailed with use of incentive pay as a carrot and performance targets as the basis of job retention. There has been much more interest recently in the potential for such formalized incentive arrangements to improve the quality of public service delivery. For example, a number of countries have experimented with incentive pay for teachers conditioned on test scores or attendance. One of the big policy issues right now is how far such initiatives work and should be extended more broadly into all areas of the public sector. This is a controversial topic and needs sound arguments and evidence to be resolved.

The so-called “New Public Management” was first developed in New Zealand and the U.K., but elements of its philosophy of incentives and targets now affect debates in all parts of the world. Many have argued that it is not a helpful development leading to an erosion of the notion of public service careers as a calling.

Sometimes the vocabulary of public service reform focuses too narrowly on issues of corruption. While this is a very real problem in many areas of public service delivery, and the main problem in some, it is essential to realize that combatting corruption is no panacea. Many important issues of service delivery remain in a world where corruption has been expunged.

Consider the example of health care provision. Do doctors have good incentives to focus on the most socially worthwhile treatments? For example, are preventative measures in health care given sufficient priority. If no, then what is the best organizational structure to deliver health care that achieves this priority?

3 The Bureaucratic Sphere

Whether provided in state or private organizations, individuals needed to be motivated to provide goods that achieve collective benefits. There is plenty of

evidence that some individuals are motivated to contribute to the collective good. There are a number of different explanations for this. Individuals could be altruistic caring about the benefits that they achieve for others. This could also be ideological, with individuals believing that their private actions fulfil some wider objective (religious or political). Outside of economics, this is given the general label of “public service motivation” (Francois (2000)). Behavioral economists have urged going beyond the narrow conception of a self-interested economic agent, and emphasized the importance of the motive to reciprocate and the desire for social approval (Fehr and Falk, 2002). The role of incentives is to harness these feelings and to put them to the social good in an efficient manner.

The traditional model of state provision assumes away incentive problems, assuming that the government can stipulate and enforce a level of provision. It implicitly assumes that individuals who work in the public sector needed little direct motivation to pursue the social good. Rewards depended little on performance. The implicit assumption was that teachers, health care professionals and bureaucrats are publicly spirited and that this was enough (see Legrand, 2002).

Under the billing of the “New Public Management”, there is now much more attention paid to incentives in the public sector. The two central propositions are: (i) that beneficiaries need to be given more say in the provision of public goods and services and (ii) incentives for public servants needed to be more high powered – explicitly linking outputs and inputs. At some level, this is compelling. After all, it seems to mirror the model that prevails in the private sector. Beneficiaries or consumers have the right to choose among different providers, and workers and managers receive bonuses for generating higher profits.

But before embracing this new paradigm, it is important to remember where it came from. It was born out of efforts, most notably in the U.K. under Margaret Thatcher, to decrease the size of the public finances going to public goods and services while preserving service levels. The prevailing view was that the public sector was getting rents which could be extracted and converted to better service levels.

There are some important differences between public and private goods which imply that incentive issues are somewhat different and a mechanical application of what is efficient in the private sector is likely to be misleading. Also, it is important to note that this has nothing to do with who owns or operates the organization that provides the public good, public, private

for-profit, or non-profit. These issues are fundamental to the technology of public goods production and consumption.

First, in many cases the goods are complex and as a result the objectives of the relevant organizations are somewhat imprecise. For example, the objective of a school is to provide “good education”, but this is much harder to define compared to say, production of rice or provision of banking services or even some public services such as garbage removal or power supply. This means that in these cases it would be hard to find good performance measures.

Second, the reason why such goods are complex is because they involve several dimensions. For example, good education involves students being able to achieve high scores in standardized tests, but also encouraging a spirit of creativity, curiosity and inculcation of good values. The former is easy to measure but if teachers are rewarded just on the basis of the performance of students in tests, this might lead to an excessive focus on test-taking skills at the expense of the other components of a good education. This makes provision of incentives hard when employees have to perform multiple tasks (Holmstrom and Milgrom, 1991). Similarly, if hospitals are given incentives to cut costs, they are going to sacrifice quality by refusing to treat certain types of illnesses or being excessively selective in using expensive medical procedures.

Third, there may be many competing views on the right way to provide public goods – not just on the optimal level of provision, but crucial aspects of project design. For example, should a school run by a non-profit be allowed to teach religious material or just science and mathematics? This affects the extent to which agents working together to produce public goods and the beneficiaries have congruent objectives.

What do these considerations imply about how agents providing public goods should be rewarded?

In terms of standard incentive theory, it is well-known (see, for example, Dixit, 2002) that in these environments, low powered incentives are likely to be optimal. If performance measures are noisy, then making rewards very sensitive to performance does not give effective incentives, and imposes unnecessary risk on the employee. If the employee has to do several tasks, and some of these have good performance measures and not others, then making her pay sensitive to the good performance measures will cause her to substitute effort away from the other tasks, and could result in a loss of efficiency.

The fact that providers may be motivated is also very important. This may reinforce the tendency towards low powered incentives. If the employee receives a non-monetary reward from doing her job well, then clearly she can be paid both a lower wage and her pay does not have to be made very sensitive to her performance. Of course, the incentive structures offered for providing public goods may affect who chooses to work within the public goods producing sector. Lower wages may act as a screening device: attracting only those workers who have a desire to achieve the social good.

However, there are important caveats to this strategy. First, there may be a trade-off if individuals differ also in their abilities. With lower wages and low-powered incentives, the public sector may end up being a haven for well-meaning but incompetent individuals. There may also be an adverse selection problem if there are some dishonest individuals who will use the public sector to pursue private ends. Besley and McLaren (1993) refer to the strategy of paying ultra-low wages since these agents are expected to take bribes as “capitulation wages”. Under this strategy the public sector may end up being a haven for dishonest individuals.

4 NGOs

There are two main kinds of formal institutions for provision of public goods: governments and non-governmental organizations (NGOs). Above we discussed the issue of incentives and organization design in the context of bureaucracies. NGOs are private organizations funded by private donors and governments that are typically run on a non-profit basis. Whether provision is public or private, incentive problems abound in formal provision of public goods. These are concerning how projects are selected and employees are motivated to provide goods with wider social benefits. These issues have received only limited attention in existing analyses. But recognizing this may go to the heart of what form of provision is optimal

The above discussion gives some insights into the possible success of NGOs in developing countries as an alternative to state provision (Besley and Ghatak, 2001). In the last two decades NGOs have been increasingly involved in the provision of relief and welfare, social services, and various development projects (e.g., agricultural extension, micro lending) in less de-

veloped countries.¹ Even in the U.S. George W. Bush has been advocating the advantages of faith based organizations in the provision of public goods.

What explains the relative success of NGOs?

First, NGOs may find it easier to screen on motivation than the government.

Second, NGOs may also foster public service motivation by providing a better match between the ends of the organization and its workers. A government that is buffeted around by electoral concerns may result in some public servants having to carry out policies which they do not believe in. This undermines public service motivation.

When governments use NGOs to deliver some services what are the key organizational issues that arise? The complexity of service provision decisions imply that contract for the provision of public goods are likely to be highly incomplete. It is almost impossible to specify in detail how a school is to be run. It is now well-known that contractual incompleteness can serve as a foundation for a theory of property rights – in this context a theory of who should own a public project (see Hart, 1995). The prevailing view of this for private goods is that it depends on the production technology and the degree of complementarity in input decisions for a vertically integrated production process. This is because the technology determines the nature of the “hold-up” problem – the fact that one party can take advantage of the incompleteness of contract to renegotiate the terms of the deal.

Incomplete contract theory can be applied to the optimal structure of public-private partnerships – situations where the state and private actors such as NGOs decide to work together to provide a public good. In this case, Besley and Ghatak (2001) show that how much a party values a project is critical for who should own the project, even more so than the technology. This is surprising from the conventional theory of the firm (Hart, 1995). There, if I have no useful investment to make, then making me the owner

¹According to the UNDP (1993), there are more than 50,000 NGOs working at the grass-roots level in developing countries whose activities have affected the lives of 250 million individuals. A major source of NGO funding worldwide is increasingly coming from funds borrowed by governments from the World Bank and a number of multilateral and bilateral agencies which are then channelled through NGOs. In addition, governments channel considerable sums of domestically-mobilized revenues through NGOs. In 1973 only 6% of World Bank projects had some degree of involvement of NGOs, whereas in 1993 this share has risen to 30%. See Besley and Ghatak (2001) for a detailed discussion, and references to the literature.

will only undermine the incentives of other parties, because I could hold them up after the investments have been made and try to extract some rents from them taking advantage of contractual incompleteness. But in the context of public goods, even if I have no useful investment to make, I could optimally be the owner if I value it the most.

This result reflects a key property of public goods – during the renegotiation of the project for a public good, each party values the project whether or not they are actually involved in it. Contractual incompleteness implies that ownership of a public project should reside with the party that cares most about the project being successful. This gives the best investment incentives to that party, as well as to others. This reinforces the message that, when public goods are being considered, the motivation of providers matters.

The enthusiasm for NGOs in the developing world is manifest. However, some words of caution are warranted. The prevailing view of public goods provision by NGOs has transferred the traditional model of the public sector as staffed by highly motivated staff to the private sector. Just as public sector workers were thought to be “beyond incentives” so now it is the NGO worker. The bumbling or corrupt bureaucrat looks bad indeed compared to the young and the idealistic NGO activist. However, one has to be careful about the possibility of opportunistic behaviour by NGOs.

In countries with high unemployment and bad job prospects in the private sector, NGOs often become an instrument for rent-seeking activity at the expense of donors. Also, NGOs with strong ideological views may not improve the welfare of the poor (unless they share the ideology). For example, some religious NGOs do not provide the latest medical treatment or even really rudimentary pain management, but concentrate instead on doctrinaire concepts like “nobility of suffering”.

The weak accountability structures of NGOs become worryingly apparent in this context. Unless there are many NGOs operating in the area, the beneficiaries are not in a position to vote with their feet. The same is true of government provision. But NGOs do not have to worry about getting elected. This can be a good thing in some respects, but it also means they are not accountable to the electorate.

It seems that the time is ripe to insist on greater transparency in NGOs which would include a much greater use of evaluation studies of their actions. While this is beginning and NGOs have sometimes been on the frontier in promoting evaluation of interventions, there are cases that are shrouded in mystery with myth triumphing over measurement. A glaring example of

this is micro-credit provision by NGOs which is crying out for randomized evaluation.

Finally, a few words about contracting out public services to for-profit firms as opposed to leaving the provision to NGOs or the government. The argument for government or non-profit operation stems from the fact that no one being a residual claimant leads to incentives for the manager being less sharp than in the case of a for-profit firm. A downside of this is that they have lower incentives for doing good things (e.g., supplying effort). But it also means lower incentives for doing bad things (e.g., cutting costs at the expense of quality) and under some circumstances this could have a net efficiency advantage (Hart, Shleifer and Vishny, 1997). The owner of a for-profit firm can appropriate the benefit of quality-cutting in the form of larger profits, but for the manager of a non-profit or a government agency it takes the form of perks which are of lower value than the money equivalent (Glaeser and Shleifer, 2001).

The general point here is that a system of organization and remuneration for the provision for public goods will have to take into account not only how on-the-job incentives affect how those in the sector work, but also who is attracted to work there. In this context, an important thing to note is that even if individuals are value-driven, whether they choose to exert extra effort might depend on, among other things, whether the organization is run by a for-profit firm or is non-profit (Francois, 2000).

5 The Three Ms Approach

In recent work (Besley and Ghatak, 2005) we have focused on what we call the "three Ms" approach regarding the design of public organizations: mission design, matching and motivation. Below we sketch the key ideas with some examples.

Public service provision often takes place in mission-oriented firms. The mission of the organization, displaces the conventional notion of profit maximization used in the case of private sector organizations. The idea that missions are important in public organizations is not a new idea. It is a central plank of James Q. Wilson's celebrated study of public bureaucracies (Wilson (1989)). He defines a mission as a culture "that is widely shared and warmly endorsed by operators and managers alike." (page 95). The notion that the missions of organizations is also an important is a frequent theme in

the literature on non-profit organization (see, for example, Sheehan (1998)). It is the nature of the activities in question and not whether the service is provided public or privately that unites mission-oriented organizations.

While the notion of mission is somewhat vague compared to more tangible notions like profit, we believe that it is an important departure when thinking about what organizations that are not directly responsive to market forces behave.² In so far as principal and agents share a view of the mission, it is likely that an effective mission will economize on monetary incentives.

We assume that the mission of the organization is determined by the principals in the organization. This can be a heterogeneous group with overlapping responsibilities. For example, in the case of a school, they are the parents, the government and the head teacher. Preferences over missions can be heterogeneous. For example, some parents may value high levels of discipline. There could also be disagreement on the right curriculum choices such as the weight to be attached to music teaching or languages. An important role of the management in a mission-oriented organization is to foster a congruent outlook. Thus as Miller (2002) argues in the context of her case studies of twelve non-profit organizations, “Non-profit board members do not expect conflict between the executive director and the purpose for which the organization was created. The board believes that the executive management will not act opportunistically and that what management actually does is ensure good alignment and convergence in its relationship with principals.” (pages 446-7).

Changing the mission of an organization in a way that is not favored by the agents can reduce the efficiency of the organization. In that sense, the approach shows why mission oriented organizations are conservative and slow moving since there is a rigidity built in from the types of agents who are attracted to the organizations. Organizations without mission-oriented agents, such as private firms, are likely to be more flexible and adaptable.

A key assumption is that the provision of public services benefits from the effort put in by these agents and that high quality public services require a high intensity of effort. It also depends on the abilities of the service providers and the quality of the capital inputs that they use. We assume that this effort is costly and that the agents in question have to be motivated

²Missions can also be important in more standard private sector occupations. Firms frequently profess that their goal is to serve customers rather than to make their shareholders as rich as possible. However, it is unclear whether these are genuine missions, or just a veil for some other underlying self-interested behavior.

to put in effort. But rewards to putting in effort are not purely pecuniary – agents could be motivated to provide high quality services because they care about the output being produced. However, the non-pecuniary rewards depend on the way in which the organization is structured. For example, teachers may care about teaching to a curriculum that they think is most conducive to learning. Thus, the mission of the organization can affect the degree to which agents are willing to commit costly effort.

When goods are produced with external benefits, then individuals who work in the production of these goods may factor the value of the output that they produce in their decision to work in that sector and into the amount of effort that they put in. This is the labour market equivalent of the idea that individuals engage in private supply of public goods and those with the highest valuation of public goods may have the greatest interest in contributing. The model could also be one in which individuals are “altruistically” motivated or that they get a “warm glow” from doing social good.³ In the former case, the level of the good being produced matters to the individual, but not who provides it. This can lead to free-riding. In the latter case, its not the level of the good, but how much the individual himself/herself contributes to it matters. It is clear that on either of these views the value of what they do should be attached to the job that they do and not the sector in which they do it. Thus, if a nurse believes that nursing is an important social service with external benefits, then it should not matter whether she is employed by the public or private sector except in so far as this affects the amount of the benefit that she can generate.

The general point here is that a system of organization and remuneration for the provision for public goods will have to take into account not only how on-the-job incentives affect how those in the sector work, but also who is attracted to work there. This might alleviate the need to give high-powered incentives. Francois (2000) has shown the fact that government bureaucrats are not residual claimants implies that they can commit to a “hands-off” policy which elicits greater effort from workers who have “public service motivation”. However, if individuals differ in terms of how motivated they are, and in addition have heterogeneous mission-preferences, it is important to examine the process by which agents are matched to an organization, a topic

³These ideas are also related to the strong professional ethics that govern the behavior of workers in the production of collective goods. Such ethical codes de-emphasise narrow self-interest.

which we turn to now.

Matching is the process by principals and agents come together to create an organization. This could be governed by choice as when a parent picks a school for their child or by government policy. Matching serves an allocative role in bringing consumers to providers (“product market matching”) and of workers to providers (“labour market matching”).

If consumers care about the missions adopted in public organizations, then allowing them to choose between public-service providers with different missions is a potentially important source of welfare improvements. There is no reason why a consumer could not exercise choice between two competing hospitals or schools in much the same way that they choose a TV or a car. It is true that it may be more costly to acquire information about health care services. Also relationship-specific investments may be important for health and education, making switching more costly. But these are differences in degree, not in kind. Moreover, complex choices such as provision for old age are routinely left to private decision making. This application of private good choice to public services underpins the standard argument for voucher provision of public services. The state provides the citizens with a voucher that entitles the individual to a particular service (or it could be a monetary amount) and they then choose where to spend that voucher. This is, effectively, the kind of system in place for eye tests for low income individuals in the U.K..

Principals and agents can match with one another on the basis of the perceived mission of the organization. This is a natural consequence of organizations being mission oriented. This matching increases efficiency in the operation of public service organizations since the returns from putting in effort are higher when agents share the same goals as those espoused by the organization.

6 The Role of Competition

The well known effect of competition in the context of private goods is to retain existing consumers or attract new ones, an organization has to either cut costs or improve quality. To the extent cutting costs or increasing quality is at the expense of monopoly rents, consumers are better off, even though individual members of the organization can be worse off because they lose “a quiet life”, one of the most attractive perks of a monopolist according to

Hicks. Cutting costs can be at the expense of quality. Competition works best when consumers are well-informed. If this is not the case poor quality organizations can survive for long periods even with competition. To the extent being informed is correlated with being educated or affluent, this may lead to both inefficient and inequitable outcomes. This calls for appropriate regulatory institutions, and legal protection.

Can these arguments in favour of competition for the provision of private goods borrowed in the context of public goods? According to some advocates of school competition and vouchers, such as Caroline Minter Hoxby, the answer is yes. Competition from private organizations can induce public organizations to get their act together to hold on to funding and to their clientele – competition is a “rising tide that raises all boats”.⁴ Hoxby draws the parallel between this and the effect of entry of Federal Express and DHL into the package-delivery market in the US, which forced the US Postal Service to improve quality, cut costs and offer new products such as Express Mail. Opponents argue that competition will lead to cream-skimming. New schools will attract students from higher income and education groups. As these students leave, taking with them the per-capita government funding, poorer students in old schools will be strictly worse off. However, this is not an argument against competition per se. It merely calls for "smart" vouchers whose value depend on the socio-economic background of the student, so as to make them attractive to new schools.

Also, competition in the context of public goods can take interesting forms. For example, Besley and Ghatak (2005) argue that schools can be viewed as competing by picking different kinds of curriculum and attracting teachers who are most motivated to teach according to that curriculum. One element of the curriculum could, for example, be whether religious instruction is included. Well matched schools can forego incentive pay and rely exclusively on agents' motivation. This explains why some schools (such as Catholic schools) can be more productive by attracting teachers whose mission-preferences are closely aligned with those of the school management. More generally, a decentralized schooling system where missions are developed at the school level will tend to be more productive (as measured in our model by equilibrium effort) than a centralized one in which a uniform curriculum (mission) is imposed on schools by government.

This approach is distinct from existing theoretical links competition and

⁴See Hoxby (2001).

productivity in the context of schools. For example, yardstick competition has been used extensively in the U.K. which has pioneered the use of league tables to compare school performance. Whether such competition is welfare improving in the context of schools is moot since the theoretical case for yardstick comparisons is suspect when the incentives in organizations are vague or implicit as in the case of schools (see, for example, Dewatripont, Jewitt and Tirole, 1999). The ideas of selection and incentives are key here too.

7 Concluding Comments

Any agenda for effective public service provision has to be adequately financed. This depends crucially on the institutional structure as well as technological issues. Unless provision is based on effective delivery mechanisms resources will be wasted. Providing effective service delivery certainly requires a system of delivery that works. This requires have a good evidence base to go on as well as looking at both incentives and selection in government. This will mean looking at evidence from a variety of sources.

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