Improvement of Public Provision of Goods and Services
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The aim of this chapter is to criticize the methodological foundations of the dominant thinking about existing modes of provision of goods and services and to make some suggestions for the improvement of public provision on the basis of the results of this survey. In the public debate of the 1980s, the explosive expansion of the public sector is considered to be an enormous problem, which threatens the achievements of the welfare state and the survival of the democratic political system. Public choice theory can explain how this point has been reached and what can be done to solve some of the problems.

Some suggestions for improvement

Using the paradigm of 'consumer sovereignty in politics', the only criterion for over- or underexpansion of the public sector lies in the individual preferences of the citizens. It is not clear how individual preferences relating to the public sector should be interpreted at the present time. Some indicators point in the direction of overexpansion, such as the popularity of 'reaganomics' and 'deregulation', the existence of the 'black circuit', mass tax avoidance, evasion and fraud, and increasing civil disobedience in the economic relation between the state and the individual. Other indicators point in the direction of underexpansion, such as the ongoing cry for government intervention as the one and only 'problem-solving method'.

However, we notice that the political process as a transformation mechanism between individual preferences and policy output also has its serious defects, by which individual preferences as well as
policy output are distorted. On the demand side, every decision-making model, be it a democracy or a bureaucracy, influences in some way individual preferences. On the supply side, problems of government intervention mainly arise because of the technical characteristics inherent in the public goods which are provided and because of the organization of the provision. It can be argued that the mere existence of these problems leads to overexpansion of the public sector, but one need not draw that conclusion in order to make suggestions for the improvement of the functioning of the public sector in Western democracies. The following suggestions for improving public provision need further exploration: (a) the application of the benefit-principle in financing, (b) competition in production through self-management by civil servants and (c) competition in consumption through exit options.

The benefit-principle in financing

The benefit-principle for taxation was originally developed by classical public-finance theorists such as Lindahl and Wicksell (in Musgrave and Peacock, 1967). The principle can also be derived from Bowen's vertical addition of demand curves for collective goods, as used by Samuelson in his famous polar presentation of the collective good/individual good dichotomy. Musgrave and Musgrave (1976: 55–6) add a caveat to the usefulness of this principle for taxation of 'pure collective' goods. In their opinion, it is misleading to suggest that the provision of collective goods might be implemented by a market mechanism of demand and supply, with equilibrium at \( E \), as in the case of an individual good. This interpretation implies that consumers will bid as they do for individual goods and thus overlooks the crucial fact that preferences for collective goods (or willingness to bear sharing of the cost in line with marginal benefits) will not be revealed voluntarily in the absence of exclusion possibilities.

Where the number of participating consumers is large, it is in their interest to act as free riders and the action of the market breaks down, as is demonstrated by Olson (1971). Where a small number is involved, bidding will indeed occur, but the outcome will be determined by bargaining and may deviate from the competitive result. The demand schedules of Samuelson's representation do not come into play. They are so-called pseudo-demand schedules, based
on the unrealistic assumption that individual preferences are revealed. A political approach, that is a kind of voting system, must be taken to compel preference revelation. Individuals, knowing that they must comply with the decision made by the collective choice via the voting process, will find it in their interest to vote for that solution which will bring the outcome closest to their desires. In this way they will be forced to reveal their preferences. By serving as a mechanism for preference revelation, the voting process connects tax and expenditure decisions with each other.

The voter must be confronted with a choice between budget proposals which carry a price label in terms of his or her own tax contribution. This price label will depend on the total cost for the community as a whole as well as on the share to be contributed by others. The individual's choice is thus contingent on his own knowledge that others must also contribute in line with the adopted tax plan. It is this mandatory nature of the budget decision which induces preference revelation and permits the determination of collective good-provision. Wolfson (1979: 193-5) goes a step further. He stresses the point that the benefit approach to distributing tax burdens considers the relation between taxpayer and government in quid pro quo terms.

The public sector is seen as a market for (quasi-)collective goods where taxpayers offer user charges for the exact quantity of goods and services demanded. As a theory of exchange, the benefit approach has the conceptual advantage of providing for a simultaneous determination of public services and tax shares, thus combining both sides of the budget. Unlike the ability-to-pay approach, which considers taxes as compulsory payments and the revenue-expenditure process as a planning problem to be solved by policy makers, the benefit-principle ties the choice of public services to the preferences of individual members of the community. In this way, the benefit approach would not be restricted to distributing the financial burden of a given budget, but would also provide a vehicle for determining the size of the budget. On the basis of comparable arguments Bird (1976) concludes that the theoretical case for the benefit-principle of taxation would be far stronger than that for the more favoured ability-to-pay doctrine (Bird, 1976: 10).

Although the point is well taken with regard to quasi-collective goods, the contribution of the benefit approach to determining the size of the budget remains only notional where pure collective goods are at stake. Wolfson also points out the problem that, since nobody
can be excluded from the benefits of a pure collective good, consumers will be most unlikely to reveal their true preferences. Thus, the entire intellectual effort of Wicksell, Lindahl and others to specify an optimal size for the public sector and to design tax prices equal to marginal benefits, provides in his opinion no more than a useful heuristic model. Besides the logical problem of application of the benefit approach to pure collective goods, it is generally argued as a major objection that benefit taxation is fair only in so far as the primary distribution of income is acceptable, since benefit taxation would, at best, have no progressive redistributive potential and, at worse, might be outright regressive. But this position is exaggerated, since user charges, like excises, can be structured to have a progressive incidence.

On the other hand, there is the danger of allocative efficiency-distortions. However, it must be granted that benefit taxation, with its incidence mostly on the user's side of income, generally cannot take account of needs that arise from taxpayers' family circumstances and individual conditions in a way that taxes at source, based on the ability to pay, can (with school fees as a notable exception). It seems on balance that systems based on the ability to pay leave more scope for upward graduation (by raising progression for redistribution purposes) than systems based on the benefit-principle. And if economic theory cannot provide much guidance in identifying the conditions for equal proportional sacrifice (see Keller and Hartog, 1977: 321–32), that cannot be helped.

In spite of the logical problem of application to pure collective goods and the empirical observation that it has regressive effects on income distribution, which arguments are excellently treated in Haselbeke (1981: 125–55), there remains a considerable number of public goods which are not pure collective and thus are suited for the application of a kind of benefit financing. Musgrave and Musgrave (1976: 212–15) give a brief overview of the possibilities. After rejecting, on logical grounds, a general benefit tax, they see the possibility of practical applications of benefit taxation where particular services are provided on a benefit basis.

This may be the case where direct financing is made via fees, user charges, or tolls. Alternatively, certain taxes may be imposed indirectly in lieu of charges, as is done on the taxation of gasoline and other automobile products for purposes of highway finance. This technique is feasible and desirable where the goods or services provided by government are in the nature of individual goods, that is
where consumption is wholly rival. Where benefits are internalized, the government may act in a capacity similar to that of a private firm and the same pricing principles are appropriate. In other instances, where imposition of direct charges is desirable but too costly (perception costs, collection costs), a tax on a complementary product may be used in lieu of charges. Gasoline or automobile taxes may be viewed in this light. Other illustrations are certain uses of the property tax and social security taxes. By using a market mechanism, a more efficient determination of the appropriate level of supply becomes possible.

*Competition in production: self-management by civil servants*

The problem that the bureaucracy, according to the analysis of Niskanen (1971), does not work at an optimum, is further explored by van den Doel (1979: 133–43). He explains the bureaucratic oversupply by two factors: on the one hand the aims of leading bureaucrats, on the other the possibility of realizing these aims, which results from the monopoly position of a department. If remedies are to be found, they must be sought in the removal of these causes. In order to start the discussion on this subject, van den Doel launched the revolutionary idea of self-management by civil servants in 1973 (van den Doel, 1973: 28–30). In the same year Faludi (1973: 250), too, had concluded 'that departments formulating programmes, instead of being hierarchically structured, ought to be of a collegiate, self-directing type'.

The characteristics of self-management by civil servants, are defined by van den Doel as follows: (1) all civil servants in a department are equal from an organizational point of view in so far as they choose representatives on a majority vote, who decide on the department's policy and on the appointment of departmental heads; (2) the department is financed exclusively by a budget authorized by the politicians; (3) the politicians negotiate with the departmental representatives about the tasks to be performed for the budget to be provided, and they secure the co-ordination between the departments; (4) no single department has the exclusive right to provide specific public goods.

The fact that the aims of departments are directed at expansion results, according to this model, from the hierarchical structure of a
department. The prestige, the salary or the power of the head of the department are increased by raising the output or the budget. Irrespective of idealistic considerations, it is also in his own interests to maximize the output or the budget. The pattern of behaviour of the department in the model changes radically if the hierarchical structure is destroyed. In so far as the civil servants are motivated largely by selfish and not altruistic considerations, the decisions will be made to suit the interests of the lower-ranking rather than of the more senior civil servants. An increase in output or in the budget will have consequences for a lower-ranking civil servant different from those which would have applied to his seniors in the previous hierarchy. An expansion of a department will inevitably mean that the work can no longer be overseen and that there will be a loss of social contacts for the lower-ranking civil servant. On the other hand, he can benefit in three respects from expansion. First, the number of supervisors per civil servant will grow so that the freedom for the individual to pursue his own policy increases. Moreover, he will have more chance of promotion. Finally, the existing amount of work can be divided among more civil servants.

However, in the opinion of van den Doel, many of the advantages of expansion will be lost in a model of self-management by civil servants. For a lower-ranking civil servant the gain in policy freedom is wholly compensated for by the loss of power, because he must share his authority with his colleagues when his section is expanded. In a model of self-management of civil servants, 'promotion' occurs mainly when some civil servants are elected as representatives. It is probable that a civil servant who desires such a 'promotion' will hold up expansion because he fears competition from his new colleagues. When departmental expansion is not expressed in a greater output but in less effort per civil servant, this will be punished in the model of self-management not only by politicians but also by competing departments. The managers appointed by the civil servants will also strive for expansion in a situation of self-management. But within their departments these managers do not possess the monopoly of information about the real cost schedules. Thus the stimulus for a large departmental expansion will be reduced if it does not disappear altogether.

Vanek (1970, 1977) analysed the economic consequences of self-management within the firm. In a firm with a hierarchical structure, too, the benefits (that is, the financial benefits) of the production process will primarily be of advantage to the managers and the
shareholders. As soon as there is a workers' autonomy, however, the benefit will be shared among all participants in the firm. A number of hypotheses are possible in respect of a workers' collective in such a situation (Vanek, 1977: 30, 32). In a wide, but vague, concept the workers' collective has many aims as regards income, effort, collective consumption, the environment, and community service. In a less wide, but more operational, concept, the members of the workers' collective strive after their own interest, confining themselves mainly to matters connected with their income. In this last concept, profit (or output) is not maximized, but the profit (or output) per worker (Vanek, 1970: 2).

However, an increase in profit (output) is not possible without an increase in the number of workers. The extra profit must therefore be divided among more workers. This leads Vanek to the conclusion that a self-managing firm does not tend towards overexpansion (Vanek, 1970: 119). By changing some mathematical equations in Vanek's model, Meade (1972: 417) has shown that lessening of the tendency to expand is solely the result of the introduction of a cooperative element in the aims. The simple mathematical model which was at the basis of van den Doel's idea about self-management was published by him in 1974. We do not represent it here. The conclusion of that model is that after self-management has been established, the civil servants no longer strive to maximize the total output or the total budget, but to maximize the output or the budget per civil servant.

The second main problem of bureaucracy is the monopoly position each department has. This monopoly position makes it possible for bureaucrats to make politicians choose between all or nothing, thus forcing them to buy their services at a loss. Political reformers, confronted with the power of a bureaucracy, are always trying to solve this problem by making proposals to tighten the external control of the bureaucracy. Van den Doel summarizes such devices: organization of parliament should be improved, members of parliament should concern themselves more with their departments, ministers should give more guidance, an ombudsman should be appointed, systematic policy analysis should be applied. These measures will have little effect: internal control is limited. So is external control. Only by stimulating competition between bureaucrats can the foundations of bureaucratic power be demolished. For this reason, the fourth characteristic of self-management by civil servants is that no single department should
have the exclusive right to provide specific public goods. This implies that other departments will have free entry or that existing departments can take over the tasks of other departments on condition that the government finances these initiatives. This condition allows a government to pursue a policy of entry which makes it possible to avoid waste from duplication.

Under conditions of perfect competition in the administration, politicians are able to confine their executive task to comparing the various plans drawn up by a number of competing departments and choosing the best: they have an exit option (Hirschman, 1970). In practice, competition will never be perfect because it is difficult to set up a new bureaucratic department. Yet the possibility that a new department can be set up will work preventively. For fear of a potential competitor the existing departments will be more sensitive to the wishes of the politicians. The market for administrative services will no longer be characterized by a bilateral monopoly between the politicians and the bureaucrats, but will become an asymmetrical structure because one group of politicians will be able to negotiate with competing departments.

In the second characteristic of self-management it is laid down that in such a market structure the politicians will be the sole buyer (monopsony) which will give them a strong bargaining position. Although van den Doel himself admits that the significance of the model of self-management by civil servants is largely heuristic, the model indicates the direction in which bureaucratic reforms for securing optimal supply of public goods and services should go. More internal and external control, which do not change the hierarchical organization structure but strengthen it, will not solve the problem but will make it worse. Only the building-in of competitive elements in bureaucracy will improve its performance from the viewpoint of the individual preferences of citizens.

*Competition in consumption: the exit option*

The model of ‘perfectly competitive capitalism’ can only work in a market with separable, per unit divisible goods. Goods which technically cannot be split up in separate units for reasons of non-exclusiveness and non-rivalry, are not marketable: prices cannot be calculated, the rational price system is not possible and exclusion of consumption cannot be imposed. Subsequently the classical argu-
ment concludes with the impossibility of any competitiveness in the public provision of these goods. But in this conclusion two analytically completely different features are mixed up: on the one hand there is the technical characteristic of pure collective goods, on the other hand there is the political decision of public provision of goods. And, as we have seen, there is no logical relation between both features. Technical characteristics can be used as arguments for public provision, but welfare economics offers more arguments. In reality, all goods which are provided publicly are public goods, but not all public goods are pure collective goods! Many public goods contain elements of divisibility, and if this is the case, the conclusion of complete non-competitiveness in public provision breaks down. Elements of competition, price-calculations and marketability have to be considered then. Even competition in consumption of public goods becomes possible in the presence of elements of divisibility.

We start the argument with the so-called ‘exit option’, which concept has become well-known from Albert Hirschman’s book Exit, Voice and Loyalty (1970). In this book the useful distinction is developed between processes in which individuals express their preferences via entry or exit decisions, and processes in which some form of written, verbal or voice communication is employed. An example of the first is a market for a private good in which buyers indicate their attitudes toward the price-quality characteristics of the good by increasing or decreasing (entry or exit) their purchases. An example of the exercise of voice to influence a price-cost nexus would be a complaint or commendation of the product delivered to the manufacturer. A necessary condition for the effective use of exit is that the potential users of this option be mobile. Full mobility of both buyers and sellers (free entry and exit) is an assumption underlying all demonstrations of market efficiency in the model of fully competitive capitalism.

In contrast with this, the literature focusing on voting processes, public choice and political science, has, as Mueller (1979: 125 ff.) asserts, almost exclusively assumed (most often implicitly) that exit is not an option. The boundaries of the polity are predefined and inclusive, the citizenry is supposed to be fixed. A citizen is at most allowed to abstain from participating in the political process, but he cannot leave the polity to avoid the consequences of its decisions. This is an extreme case of pure collectiveness of the good involved in the decision-making process. Given the assumption of fixed boundaries and citizenry, the characteristics of a pure collective
good require that a collective voice or non-market decision process be used to reveal individual preferences and achieve Pareto efficiency as is emphasized by Samuelson (1954). For many public goods however, the non-exclusion principle and/or the non-rivalry property may not be applicable over the full range of possible production and distribution alternatives. For the quasi-collective or local-collective goods the possibility may exist for employing exit as an alternative or complement to the voice process. These possibilities are excellently reviewed in Mueller (1979: 126–47).

Following Mueller, the first exit possibility is voting-with-the-feet with regard to local-collective goods. This has to do with a relaxation of the non-rivalry property (economics of scale). Let us consider a collective good with no production costs, for example the proportion of tulips in the public square where bulbs are free. If the dimensions of the policy coincide with the population of consumers, the problem of preference revelation persists. However, let us assume that more than one polity can exist. Within any polity all must consume the same collective good (flower bed), but there are no spillovers between polities. With this limited degree of excludability, people can reveal their preferences for a local-collective good by moving into the community providing the most desirable fraction of tulips. Considering only the whole percentile options, 101 polities suffice to achieve Pareto optimality. Ballots need not be cast. All preferences are revealed through the silent voting-with-the-feet of individuals entering and exiting communities. This possibility is first noted in Charles Tiebout's Pure Theory of Local Expenditure (1956) and further explored in the theory of local-collective goods and the theory of fiscal federalism. In contrast to the disappointing promise of majority rule, unanimity and other traditional voting procedures, and the imposing complexity of newer, more sophisticated procedures for revealing individual preferences like the Clarke-tax, Tiebout's voting-with-the-feet procedure seems to accomplish the task via the surprisingly simple device of allowing people to sort themselves out into groups of similar preferences. Strategizing is eliminated and the voluntary association approach is operationalized through the assumption of full mobility between communities.

The Tiebout model is based on a number of extreme assumptions. The example above assumes no economies of scale, which is quite important to Tiebout's argument. The most important and at the same time questionable assumptions are the following: (1) full
mobility of all citizens; (2) full knowledge of all of the communities' characteristics; (3) a full range of community options available spanning the range of collective good possibilities desired by the citizens (101 different polities in our example!); (4) no spillovers across communities; (5) no geographical constraints imposed on individuals with regard to their earnings. Every assumption of this list meets severe objections. Assumptions (1) and (4) tend to work at cross-purposes: assumption (1) requires small communities and assumption (4) large ones. Assumptions (2) and (3) raise complementary issues. The basic argument assumes a full range of possible baskets of collective goods available at the start. But how is this spectrum of opportunities established (the constitutional problem)?

An additional problem arises as the number of local-collective goods is expanded. Consider the consequences of introducing a second collective good in our example above; the proportion of oaks in the public square. This issue's solution requires the further separation of individuals into groups of identical preferences, now with respect to both flowers and trees. The number of polities necessary for Pareto optimality leaps to 101 squared. Each additional collective good raises the number of communities required to a higher exponent. If the number of collective goods is very large, one ends up with a situation in which the number of polities equals the size of the population. Each community-individual becomes a polity with a basket of public-private goods (gardens, woods) tailored to his own tastes, which possible consequence Tiebout himself observed from his model. Voting-with-the-feet achieves Pareto optimality by grouping individuals together in competing polities of homogeneous tastes. At the extreme, it satisfies the severe condition for consistent majority rule decisions, that all individuals have identical indifference maps, through the imposition of a silent unanimity rule. It can realistically be assumed to come close to satisfying this condition when, in relation to the size of the population, (1) the number of collective goods is small, and/or (2) the number of distinct preferences for combinations of collective goods is small. Since the task of public choice is the revelation of differing individual preferences for collective goods, voting-with-the-feet in part solves the public choice problem by significantly limiting its scope.

The second exit possibility distinguished by Mueller, regards the *theory of clubs*. Let us consider the effect of non-rivalry without non-
excludability. That is, assume that exclusion is possible, but addition of a new member lowers the average cost of the good to all other members, that is they are economies of scale (the case of an impure or quasi-collective good). If average costs fall indefinitely, optimal club size is the entire population and the traditional collective good problem is present again. If they eventually rise, either because scale economies are exhausted (full capacity is reached) or from the additional costs of crowding (congestion costs), an optimal club size smaller than the whole population may occur.

J.M. Buchanan was the first to explore the efficiency properties of voluntary clubs using a model in which individuals have identical tastes for both collective and individual goods (1965). Buchanan first employed the example of the formation of a swimming club. Assume first that the size of the pool, and thus its total cost, is fixed and the only issue to be decided is the size of the club. For the members already in the club, the marginal benefits from an additional member decrease and the marginal costs increase. Given identical tastes and incomes, it is reasonable to assume equal sharing of the costs. The marginal benefit to the first member from adding the second member to the club is the saving of half the cost of the pool. The marginal benefit of the third member is the additional savings of one third of the cost of the pool. The additional benefits from adding new members, the saving to the other members from further spreading the fixed costs, continue to fall as the club size increases. The marginal costs of a new member are psychic costs. If individuals prefer to swim alone, these costs will be positive over the entire range. If individuals enjoy the company of others in small enough number, the marginal costs of additional members will be negative over an initial range of club sizes. Eventually, the positive costs of crowding will dominate and the optimal club size is determined where the marginal cost of an additional member from enhanced crowding just equals the reduction in the other members’ dues from spreading the fixed costs over one more club member.

This kind of analysis can also be used for the polar cases of pure individual and pure collective goods. For a pure collective good, the addition of one more member to the club never detracts from the enjoyment of the benefits of club membership to the other members: marginal costs are zero, the optimal club size is infinity. For a pure individual good, crowding begins to take place on the first unit. If a consumer experiences any consumer surplus from the good, the utility lost from giving up half of his unit will exceed the gains from
sharing its cost and optimal club size is one. But even with pure
individual goods, as for example bread, co-operative consumption
may be optimal. If the unit price of bread is lower when sold by the
bushel, the distribution of bread will exhibit joint supply
characteristics and might dictate optimal-sized buying clubs of more
than one individual. The theory of clubs can be extended to take into
account the choice of quantity and other characteristics of the
collective good. The disutility imposed on the other club members
from the addition of one more club member, must equal the
proportion of the good's costs he pays, weighted by the marginal
utility of individual goods to the representative member. Under
normal assumptions changes in taste or technology leading to an
increase in the amount of one of the variables will lead to an increase
in the other. An increase in collective good quantity will increase
each individual's share of the costs, raise the marginal disutility from
additional club membership, and thus encourage a larger club size
(Buchanan, 1965: 6–10).

The assumption that individuals have identical tastes and incomes
is not as innocuous as it first might appear. As in the Tiebout model,
it is inefficient to have individuals of differing preferences in the
same club, if this can be avoided. If all individuals are identical but
some prefer rectangular pools and others oval ones, then the optimal
constellation of clubs will sort out individuals into oval and into
rectangular pool clubs. The ideal constellation of clubs is one in
which all members of any club have identical preferences. If the
number of differing preference functions is small relative to the
population size, this ideal can be met. An efficient allocation of these
quasi-collective goods through the voluntary association of indi-
viduals into clubs of homogeneous tastes can be envisaged. The rules
or charter of a club can be compared to a social contract unanimously
accepted by all members (Pauly, 1967: 317). Under these
assumptions, the theory of clubs is obviously much in the spirit of the
contractarian voluntary exchange approaches to public choice and
public finance. With a large number of alternative clubs available,
each individual can guarantee himself the equal benefits for an equal
share of the costs assumed above, since any effort to discriminate
against him will induce his exit into a competing club, or the initiation
of a new one.

If optimal club sizes are large relative to the population,
discrimination is possible, and stable equilibria may not exist. With
an optimal club size of two thirds of the population, for example,
only one such club can exist. If it forms, those not in it have incentives to lure members away by offering disproportionate shares of the benefits gained from expanding the smaller club. But the remaining members of the larger club have incentives to maintain club size, and can attract new members by offering the full benefits of membership in the big club. And so on. No stable distribution of club sizes and benefits need exist (Pauly, 1967, 1970). Analytically the problem is identical with the cycle problem in coalition-formation. The two farmers forming a winning majority constitute an optimal-sized club, but one farmer left out has an incentive to try and form an optimal club too, and his efforts to form a new club can lead to an unstable equilibrium, a cycle. Even when stable equilibria are reached, the equal sharing of benefits may no longer occur if the optimal club size is large relative to the number of people having a given preference function. The threat of exit to another club will be weak if an individual’s preferences are such that only a small and relatively inefficient club could be formed by individuals of identical tastes. Thus individuals with ‘majority’ preferences are in a better position to threaten withdrawal to optimal-sized clubs than those with ‘minority’ preferences, and coalitions with discriminatory sharing of the benefits from cooperation can be expected even when stable, Pareto-efficient club sizes are obtained.

Thus, the conclusion is similar to the voting-with-the-feet model. The voluntary formation of clubs to allocate collective goods is most attractive when the optimal size is relatively small, that is, when the quasi-collective goods have a limited degree of collectiveness. Despite this qualification, the voluntary formation of clubs is at least conceptually a more promising means for revealing individual preferences for collective goods than voting-with-the-feet, for it does not require geographic proximity of club members (Mueller, 1979: 134). In practice, most clubs do provide their benefits to a subset of a local population, as in Buchanan’s swimming club example. But even here, it is not necessary for members of the local swimming club to join the golf club, and the problems associated with voting-with-the-feet are reduced through the formation of limited membership clubs.

Nevertheless, it should be remembered that the two devices are not interchangeable. Where local-collective goods are involved (limited excludability in combination with non-rivalness), competition between providing communities, allowing voting-with-the-feet, leads to Pareto optimality in public provision. Where quasi-
collective goods are involved (excludability in combination with limited non-rivalness), competition between providing clubs, allowing voluntary membership, leads to Pareto optimality in public provision. The first refers to a geographical dimension of competition between different areas, the latter to a social dimension of competition between different clubs in the same area.

This brings us to the third possibility, the provision of local-collective goods which are produced with economics of scale. In this case it is even more unlikely that individual mobility suffices to achieve Pareto optimality. It is then necessary that there be 'just the right number of individuals' with identical preferences to satisfy the optimality conditions for each collective good. The complications of determining 'just the right number of individuals' are treated extensively by Mueller (1979: 134–42). Voting-with-the-feet in the presence of jointness of supply (economics of scale) is not discussed here further. Exit options, be it in the form of voting-with-the-feet between competing communities or in the form of voluntary membership of competing clubs within the community, are a direct and frequent response to local conditions. Further support for the Tiebout hypothesis is provided by econometric studies linking migration patterns to the levels of local public services and tax rates (Cebula, 1974, 1977). Exit options can be practised in the consumption of public goods by decentralizing public provision towards the level of local communities which compete with each other, or towards competing voluntary membership clubs. This building-in of exit options implies once more a relaxation of the budget-market dichotomy. If centralized public provision does not work satisfactorily, there are other ways out besides market provision.

Conclusion

The first policy-implication is concerned with critical examination of existing modes of government intervention and public provision, ending with a search towards possibilities for escaping from the fatal dichotomy, market-budget. The second policy-implication aims at improvement of the degree of competitiveness of the market mechanism in the private sector and at more use of the market mechanism for objectives decided upon in the public sector. The third policy-implication contains the following: the appraisal of
market price-similar pricing techniques in public provision, that is, the benefit approach; the appraisal of self-management of civil servants, directed towards more competition in thus far hierarchical, monopolistic bureaucracies employed with public provision; the appraisal of competitive devices in the consumption of public goods in the form of competing local communities or competing voluntary membership clubs.

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