

# **Citizens in charge? Reviewing the background and value of introducing choice and competition in public services**

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## **Abstract**

Introducing choice and competition in public services was supposed to put citizens in the “driver’s seat”, making them in charge of their service provision. Introducing choice often is indeed beneficial for citizens. However, it sometimes also leads to increased inequality among citizens. This chapter provides an overview of the background, facilitators and pitfalls of choice, illustrated using empirical studies from various sectors (such as education, healthcare and utilities) in various countries. We conclude by arguing that policymakers should make informed decisions regarding choice. Introducing choice can benefit public services, but one should remain cautious for its potential negative effects.

## **Key words**

Choice, Competition, Public services, Public sector, Client choice, Voice, Marketization, Inequality, Market power, School choice, Personal care budgets, Direct payments, Bounded rationality, Switching costs, Monopoly, Gaming, Performance information, Work conditions, Health care Utilities, Social security, Exit, voice, loyalty, Incentives

## **1 INTRODUCTION**

Marketization, the process of integrating market elements into the public sector, has been one of the core objectives of public management reform in many countries (Pollitt and Bouckaert 2004). Offering choice between providers to citizens is an essential element in this marketization. It is assumed that by introducing choice there will be less need for hierarchical steering. Instead of this, citizens would act as customers and send market signals to providers through either exercising choice or expressing voice. As a result, a better match between client preferences and services offered would emerge (Van de Walle 2010). Based on this logic, reforms aimed at increasing choice opportunities have been introduced in various countries.

Introducing choice in public services was supposed to put citizens in the “driver’s seat”, making them in charge of their service provision (Kremer 2006, 385). Many scholars have argued, however, that introducing client choice in public services may have had unintended negative effects, and that citizens do not always act as empowered public service customers (Hsieh and Urquiola 2003; Van de Walle and Roberts 2008; Wilson and Price 2010).

This chapter provides an overview of the background, facilitators and pitfalls of introducing client choice and competition. To date, there have been a number of studies on introducing choice in specific sectors, such as healthcare (Glasby and Littlechild 2009), utilities (De Bruijn & Dicke, 2006) education (Teske and Schneider 2001). Next to this, general works about choice have been written, which are often normative being either somewhat pro-choice (Le Grand 2007) or more critical (Dowding 1992; Greener, Simmons, and Powell 2009). This chapter aims to provide a balanced overview view on choice examining its facilitators and its pitfalls.

Throughout the chapter we will illustrate the background, facilitators and pitfalls with real-life examples from choice-related innovations in various countries, and examine available evidence on their effectiveness. In this way, we aim to increase our understanding of choice in various countries and sectors.

We start by providing a background of choice (Section 2). In this section, we will first focus on the important question: what is choice and how does it work? Following this, we will discuss the reasons why the choice movement has become so influential in public services in various countries. Section 3 then discusses potential facilitators of choice, such as the need for a good functioning market of demand and supply. Despite the high-minded rhetoric about choice it does not always function as desired. In Section 4, we therefore address some potential pitfalls of choice, such as the games played by suppliers, and increased disadvantages for citizens from lower socioeconomic classes. The chapter ends with a conclusion on the values of choice in public services.

## **2 BACKGROUND OF CHOICE**

### **2.1 Exit, voice and loyalty**

Before going into the facilitators and pitfalls of choice, we discuss what is meant by the term ‘choice’, and the related term ‘voice’. This discussion draws on the classical Exit-Voice-Loyalty framework of Albert O. Hirschman (1970). Hirschman developed this framework in order to understand the decline of public organizations, private organizations and states. According to him, there are basically two options when you are unsatisfied with a situation: you can either leave the situation, choice/exit option, or you can attempt to repair the situation, voice option.

The degree of loyalty can influence choosing for exit or voice. Imagine for instance your relationship with a particular postal service organization in a liberalized postal market. When you experience the costs and speed of their postal delivery as unsatisfying you can either stop using the services of the organization and go to a competitor, or you can express your concerns to this organization, in order to improve the situation. When you are loyal to the postal service organization the voice option might be more rewarding in first instance than the more definitive exit option.

The distinction between choice (or exit) and voice can be applied to public services (Le Grand 2007; Greener, Simmons, and Powell 2009; SIX 2003). Here, choice often means that dissatisfied service users will opt out and move to providers perceived as better performing. In this way, providers have a strong incentive to deliver more value for money in order to keep their customers and attract new ones. The second mechanism is 'voice'. Dissatisfied citizens will express their discontent, and in this way will force providers to improve on aspects of service delivery. When the public service provider is a monopolist, voice will often be the only viable option given moving out of the country or stopping to use the service are often impossible.

In public services, we can differentiate between three different types of choice (see Dowding and John 2007). 1) Physical relocation, or Tiebout exit; 2) switching between private and public providers; and 3) switching among public providers only. Firstly, a Tiebout exit occurs when service users purposefully change their residence in order to receive better public services, or lower taxes (Tiebout 1956). One popular example is parents who move to a new house in a different school district to give their children a better quality education. Another, very recent,

example is Gérard Depardieu, one of France's best-known actors, who is leaving France in order to evade the high income taxes. The second option is to switch between private and public providers. This happens, for instance, in healthcare, when patients leave a public hospital for a private hospital or clinic expecting for instance better healthcare, or the same healthcare quality without waiting lists. Another example might be parents who send their children to private schools or universities (such as Harvard or Yale), instead of the (cheaper, but less prestigious) public institutions. The third choice option is to choose between various public providers. Choosing solely between public providers may be the case when citizens switch between different public schools, or health services. Citizens then stay within the public system of service provision. In this chapter we will focus on all three types of client choice.

## **2.2 Introducing choice can facilitate voice**

Next to choice, citizens can also use the voice option by expressing their discontent (Jilke and Van de Walle 2012). When choice is introduced, voice can become more important. Prior to marketization of public services such voices were often unheard or ignored. Providers did not have a strong incentive to react, as citizens could not move to another provider. Voice allows providers to anticipate future exits and change service levels accordingly. Voice, in this way, is an early warning of exit, or even a threat of exit. Failure to deal with voice means providers will be confronted with a loss of their clients. Since funds now tend to follow clients rather than being paid as a lump-sum to providers, service providers will try to take the needs of their clients into account in order to stay in business. Thus choice and voice send signals to providers that complement each other in improving public service performance. As service users are prone to

choice *and* voice, the autonomy for choosing resides then with the service users themselves and no longer with the provider (Wilson and Price 2010; Clarke et al. 2007).

### **2.3 Introducing choice in public services**

The former two sections introduced the related concepts of choice and voice. A number of countries have enacted reforms aimed at increasing the choice opportunities of citizens (Dowding 1992; SIX 2003; Fotaki et al. 2008). In order to understand why this happened, we will provide a short background of the introduction of choice in public services.

The introduction of reforms focused on increasing choice can be linked to the development of the public choice field of economics that started in the 1940s-1950s (Hayek 1944; see for instance Black 1948; Friedman 1955). Public choice scholars analyzed the behavior of civil servants and politicians in public decision-making (Buchanan and Tullock 1962). For instance, Downs (1967) looked at the behavior of civil servants in his book “Inside bureaucracy”. He noted that “[...] *every official acts at least partly in his own self-interest, and some officials are motivated solely by their own self-interest*” (1967, 83). Based on the motives of the civil servants, he developed various ideal types, ranging from purely self-interested civil servants, motivated almost entirely by goals that benefit themselves, to statesmen, loyal to society as a whole. Related to this, Niskanen (1971) developed the ‘budget maximizing model’. Using this model he argued that bureaucrats ultimately aim to maximize their own self-interests, which results in maximizing their agency’s budgets and authority.

Although the field of public choice analyzes what governments do (descriptive analysis, ‘what is’), public choice scholars are also often concerned about what governments should look like (normative, ‘what ought to be’). For instance, based on the work of Downs and Niskanen, it has been argued that governments should be small and controlled tightly. This is because the behavior of civil servants ultimately leads to a public sector, which is too large and therefore inefficient (Lane 2000). Furthermore, public choice scholars noted that as many civil servants were self-interested, they were less occupied with the interests of the citizens they were supposed to serve (Egeberg 1995; Acemoglu and Verdier 2000). Given this situation, it was argued, power should shift from civil servants to citizens wherever possible and introducing provider choice was seen as a proper way make this transition/shift.

Hayek, who can be considered to belong to the Austrian school of public choice (McNutt 2002), also developed views about how the government should look. He was very critical about the role of the government. In his seminal work “Road to Serfdom” (1944), he argued that all forms of collectivism, government control of economic decision making through central planning, ultimately leads to tyranny. He noted that central planning is an inferior method of regulation given it’s ineffectiveness due to being carried out by a limited number of people who possess limited information. Furthermore, it is undemocratic given the will of a small minority of people in power is imposed upon a large group of relatively powerless citizens. Hayek, strongly opposing Keynes, claimed that governments should have only a very limited role in the society and should only intervene when markets fail, such as in the case of negative externalities, the classic case being the factory which pollutes the environment.



The political (mis)use of public choice theory started roughly in the 1970s and 1980s, when economic crises and the collapse of the Communist bloc fuelled political opposition to state interventionism in favor of free market reform (Tummers, Bekkers and Steijn 2012). Politicians like Margaret Thatcher in the U.K. and Ronald Reagan in the U.S. were heavily influenced by public choice theory and the related ideology of neoliberalism. Neoliberalism is “[...] *the idea that the market offers the best solutions to social problems and that governments’ attempted solutions, in contrast, are inefficient and antithetical to the value of freedom*” (Holland et al. 2007, xi). Based on the ideology of neoliberalism, several countries enacted reforms for the modernization of government, such as introducing choice by denationalization, disaggregation of public-sector units, and more explicit performance measures (Clarke and Newman 1997; Harvey 2007). In these ways, the ideology of neoliberalism, combined with the introduction of business-type managerialism, led to a number of public sector reforms under the label ‘New Public Management’ (NPM) (Pollitt and Bouckaert 2004; Hood 1991; Savas 2000; Osborne and Gaebler 1992).

One of the core New Public Management reforms focuses on the introduction of choice in public services (Dowding 1992; SIX 2003; Fotaki et al. 2008; Hood 1991). The introduction of choice into public service delivery aims at remedying the undesirable effects of state monopoly provided public services (Le Grand 2007; Ostrom and Ostrom 1971). This is done via the introduction of (quasi)-markets into public service delivery where providers compete for customers (Bartlett and Le Grand 1993). There are many examples of the introduction of choice in public services, but possibly the most visible change is seen in the utility sectors (electric, gas and water services) where monopolized provision has been replaced by a system in which many

providers compete for customers (De Bruijn and Dicke 2006). Other sectors where choice has been introduced include healthcare (Glendinning 2009; Tummers, Steijn and Bekkers 2012), education (Godwin and Kemerer 2002), social security (Sol and Westerveld 2007), or postal services (Schulten, Brandt and Hermann 2008).

In sum, it is clear that the notion of choice has become an important aspect in public services. Hence, it is of paramount importance that we gain an understanding of this phenomenon. In the remainder of this chapter, we will first concentrate on the structural conditions, or facilitators, for choice to work as intended. We subsequently address some pitfalls of introducing choice in public services.

### **3 FACILITATORS OF CHOICE**

For choice to function, citizens need to be able to act as consumers. This requires the presence of a functioning market, market information in order to make informed choices, and the presence of payment tools. This may require governmental intervention to create market information, and to determine how citizens pay for the services (funding mechanisms), especially in a situation where public services have recently moved from monopolistic public provision to a quasi or full market. We label these ‘facilitators of choice’: they make choice possible. We will focus on three important facilitators: 1) market making, making sure enough providers are present, 2) providing market and service information, and 3) providing funding mechanisms.

### 3.1 Market making

Moving from monopolistic government-led service provision to a market for public services in which citizens can exercise choice requires that several suppliers actually enter the market.

Without more than one supplier, marketization and (semi-)privatization will by definition not lead to more choice, but instead to a new dependence on one monopolistic provider.

In some sectors, there is substantial competition available. For instance, in an OECD paper of 2006, it was shown that the energy, transport and communications industries have become more opened to market mechanisms by reducing, among others, price controls and entry barriers (Conway and Nicoletti 2006). However, there were substantial differences among countries. English-speaking countries and Germany had relatively open markets, while markets for energy, transport, and communications were more adverse to competition in France, Ireland and Greece.

When governments try to open up markets for choice and competition, two main approaches can be distinguished: a) taking measures to stimulate the emergence of new providers and b) protecting the market against predatory practices and market concentration. First, we will examine measures to stimulate the *emergence of new providers*. When a public service market is opened for competition this means that most service providers have to start anew. Such new providers may be former non-marketized services, or collaborations of former employees of such services. Working in a new market is a risky undertaking. This also explains the rise of large multinational (public) service provision conglomerates; they have specific competences and skills to open for business in newly opened areas, as well as sufficient capital and resources to carry the burden and risk of these new enterprises (Clifton and Diaz-Fuentes 2007). In order to

offer choice, governments need to intervene to make sure that the new market will actually have a sufficient number of providers, rising from a monopoly, via an oligopoly to possibly a near-perfect market. This can be done in various ways (Savas 2000). One is through good management of the transfer of public companies or assets to the market, through privatizing them, either as a whole, or through splitting them into separate lots. Alternatively, this can be done via supporting providers that want to start from scratch, for instance by establishing training schemes, attractive legal and fiscal conditions, or investment support.

A second market making task for government is to *protect new markets against abuse and market concentration*. This is generally done through governmental regulation. In the utility sector, universal service obligations are a typical measure taken by governments to make sure the market will function as intended. Just as is the case in many other markets, governments also typically intervene in public service markets to avoid concentration, through, for instance, establishing specific regulatory bodies, or by strengthening competition authorities. In these ways, governments can make use of market making to facilitate choice in public services.

### **3.2 Providing market and service information**

The second intervention governments can apply in order to increase choice opportunities, is to assist citizens in exercising choice and especially, assist them in making the ‘right’ choices by providing them with easily *accessible and clear information* on different service offers. Access to objective measures of service providers’ performance supports not only service users’ choices, but also provides an incentive to providers to improve the quality of their services (Le Grand 2007). The same holds true for comparisons of prices. Citizens are expected to act as customers and use performance information to guide their choice of service providers (Coe and Brunet

2006). Examples include league tables of school performance, and published performance data of hospitals, including waiting times for certain types of surgeries, or even mortality rates.

Examples of providing market and service information abound. For instance, from the U.K., *uSwitch* compares gas and electricity suppliers. *NHS choices* facilitates comparing service offers in health care. Another example from the U.K. healthcare are Patient Care Advisors (PCA). They not only act as suppliers of relevant information, but also give case specific advice, as well as help clients in making the necessary organizational arrangements with hospitals and other service providers. Recent evaluations on the use of PCAs indicate that they are highly regarded and frequently used by patients (Coulter, Le Maistre and Henderson 2005). Furthermore, in the Netherlands, the website *www.kiesBeter.nl* ('choose Better') provides information on healthcare providers. On this website, it is noted that it "[...] is designed for all adult residents of the Netherlands who have questions in the field of healthcare, health insurance and health. The information on *kiesBeter.nl* is reliable and can help make choices in this area." The National Institute for Public Health and the Environment, part of the Ministry of Health, Welfare and Sports, developed this website. Hence, in this way, the Dutch government aims to provide better market and service information in Dutch healthcare. More in general, Damman & Rademakers (2008) analyzed over 50 websites from different countries concerning choice information for customers in healthcare. They noted that many countries do indeed provide such websites and that countries like the U.K. and the Netherlands are frontrunners in this respect.

### **3.3 Direct funding mechanisms: Money follows clients**

Introducing choice also requires a different way of funding service providers. Traditionally, public service providers have been funded through lump-sum funding. As a result of further marketization, funding has become increasingly tied to client numbers. An even more fundamental change related to the introduction of more provider choice has been to transfer funds directly to citizens. This facilitates choice opportunities for clients as they now have more power to choose. According to Baxter et al. (2011, 91), the aim of transferring funds directly to clients is “[...] *to move away from service-led arrangements and give users more direct control over the resources available to them, so that services can be better tailored to their individual needs and circumstances.*” Providing citizens with vouchers or budgets can lead to ‘real’ empowerment (Morris 1993). Giving citizens budgets can be seen as one of the most extreme forms of choice. It can mean choice on multiple dimensions, such as choice of location (where), choice of professional (who), choice of service (what) and choice of time (when).

In various sectors, experiments have been set up to transfer funds directly to clients, most often via vouchers or via direct budgets. Considering social security, Sol and Westerveld (2007) note that reintegration services often provide job seekers a grant or, more indirectly, a voucher, which can be cashed at the counter of various service providers. This incentivizes service providers to improve their services. In the U.K., people living in so-called ‘*Employment Zones*’, areas with high long term unemployment, are able to receive a direct budget to set up in business, improve their skills or even buy clothes for a job interview. These Zones are managed by the Department for Work and Pensions. The Netherlands also experimented with reintegration budgets for partly disabled people. Here, this particular group of unemployed people could develop their own

reintegration plan and make decisions regarding the reintegration companies from whom they wanted to purchase activation services (Van Berkel and van der Aa 2005). Finally, Germany also introduced placement and training vouchers for job seekers (Sol and Westerveld 2007).

Next to social security, vouchers systems are also often used for school choice. This has been initiated by the work of Milton Friedman (1955). He wrote a seminal essay on the role of the government in education, in which he argued in favor of the use of school vouchers. Based on, among others, the pioneering work of Friedman, a large body of literature developed concerning the advantages and disadvantages of using school vouchers (Godwin and Kemerer 2002). In the United States, there is a large market concerning school vouchers, or scholarships, for private schools, and evidence suggests small positive achievement gains for students (Howell et al. 2002; Mayer et al. 2002; Rouse 1998). On the other hand, evidence from other countries, such as Chile and New-Zealand, suggests that school vouchers have only limited positive effects, and can even have substantial negative side effects, such as harming disadvantaged students and low-income families (Hsieh and Urquiola 2003; Ladd 2002).

A final example of the use of direct funding mechanisms is the introduction of personal care budgets in home care. Personal Care Budgets give citizens money directly to pay for their own homecare, rather than the traditional route of providing services through regional health insurance carriers. Users are, for example, citizens with physical and sensory impairments or parents of disabled children. The U.K. was one of the first countries to introduce so-called ‘cash-for-care’ schemes (Glasby and Littlechild 2009). Following the British example, many countries introduced Personal Care Budgets, such as France, Germany, Finland and Australia (for an

overview, see Lundsgaard 2005). These budget schemes all compensate care financially, aiming to give a stronger ‘voice’ to the client. The following quotation by a care client illustrates a vivid example of this (cited in Ungerson 2004, 203):

*“I mean, we have to have these carers and it’s better than having social services that come in at a certain time and treat you like you’re robots – you get up at a certain time, go to bed at a certain time and you function at a certain time. Whereas [with] your own carers, to a certain extent you have got control of what time you want to get up, what time you go to bed, things like that.”*

However, giving citizens budgets, and choice more in general, can also have substantial pitfalls. In the next section, we will focus on these pitfalls of choice.

## **4 PITFALLS OF CHOICE**

Choice does not always function as desired (see also Savas 2000). We discuss and present empirical evidence of : 1) too much market power, 2) increasing inequality among citizens, 3) problems with using performance information and 4) worsening work conditions. These pitfalls are naturally often highly related to the facilitators of choice.

### **4.1 High market power**

Dowding (1992) argued that at least two positive alternatives are required for choice to be meaningful: a client should be able to choose between minimally a and b. For instance, you should be able to choose between going to a school which is close by or a school, which is



further away, but with a better reputation. This is completely different from a negative choice between a or not-a; such as going to a school which is close by or not going to a school at all. This condition is not always fulfilled. One important situation in which this condition is not fulfilled is when there is high market power by providers. Market power can therefore be seen as an important pitfall when introducing choice (Baxter, Glendinning, and Greener 2011).

As noted, the success of choice depends on market mechanisms. Hence, (quasi)-markets are created or stimulated in order to facilitate choice. Citizens are supposed to have power in such a market when they are able to shift their expenditure between suppliers as they choose (West 1998). As a result, a better match between supply and demand and, subsequently, improved public service performance emerges. Empirical evidence indeed suggests that user choice has been found to be positively associated with greater public service performance. For instance, Walker and Boyne (2006, 387), analyzing the impact of the U.K. Labour government's program, showed that "[...] *user choice has a significant positive effect on internal perceptions of service responsiveness, outputs, and outcomes*". Savas (1977), using a case of increased competition in refuse collection services in the city of Minneapolis, showed that competition increased productivity and resulted in a more cost-effective service delivery for citizens. Furthermore, evidence from the health care sector showed that mortality rates fell in more competitive markets (Cooper et al. 2011).

However, markets do not always operate in the way they are ideally supposed to. One important characteristic is that citizens do not have options to choose from as organizations have considerable market power. The most extreme and visible option here is a monopoly, where one

organization provides all services. However, there are also more subtle forms of market power. For instance, little choice will be available if the form of care is under-supplied, such as in Dutch marketized child care (Kremer and Tonkens 2006). As almost all organizations have waiting lists, parents do not have real choice or voice options. Related to this, local monopolies may exist. These can also be created, for instance when hospitals merge, giving citizens less options and results in higher prices (Le Grand 2007, 116).

#### **4.2 Increasing inequality among citizens**

A crucial concern of the opponents of the choice-movement is that introducing choice into public service delivery is increasing inequalities in service provision (Butler 1993). However, on the supply side, evidence does not suggest that competition between service providers increases inequality. For instance, Cookson et al. (2010) analyzed hospital competition in the U.K. and concluded that the behavior of hospitals and doctors was not increasing socioeconomic health care inequality. Lacireno-Paquet et al. (2002) analyzed school choice in the U.S. and showed that market-oriented schools were, contrary to expectation, *not* focusing exclusively on an elite clientele, although they did serve high need populations somewhat less. However, evidence from the demand side points in the direction of making informed choices strongly depends on socioeconomic status and service users' experiences in making choices. In the end, this may indeed lead to *increased inequality*.

In the education sector, it has been found that school choice has social segregation effects, leading to children from lower socioeconomic backgrounds being worse off (Hsieh and Urquiola 2003; Musset 2012; Howell 2004). Within the healthcare sector evidence is more ambiguous

(Dixon and Le Grand 2006; Dixon et al. 2007). In the area of utilities it has been noted that potential vulnerable service users are not only less likely to switch their provider, but are also less satisfied with the services they receive (Wilson and Price 2010).

Why do lower socioeconomic classes have more problems in exercising choice? First of all, we must state that lower socioeconomic status groups face a number of related constraints when exercising choice making it hard to pin-point one particular factor (Hsieh and Urquiola 2003). However, considering choice options, the notion of switching costs can partly explain the differences (Arksey and Glendinning 2007; Lent and Arend 2004). Switching costs are the monetary and non-monetary expenses that a citizen has to pay when he or she changes providers (Burnham, Frels and Mahajan 2003). The higher the switching costs, the more difficult it becomes for citizens to exercise choice.

Important switching costs in the choice debate are *procedural switching costs*. Procedural switching costs consist of economic risk, evaluation, learning, and setup costs, and primarily involve the expenditure of time and effort (Burnham, Frels and Mahajan 2003). These procedural switching costs are higher for less educated, older and the mentally handicapped; thereby increasing social inequalities (Arksey and Glendinning 2007; Lent and Arend 2004). Meinow et al. (2011) found that older people do not have the necessary capacity to collect and evaluate information for making choice decisions. Lako and Rosenau (2009) found that most patients do not independently choose a hospital based on available performance information. Rather, they rely on other sources, such as recommendations from their general practitioner, hospital reputation in general, or the distance from their home to the hospital. They base their information on so-

called information networks. However, such networks vary in accordance to its members' socioeconomic class, with lower socioeconomic groups having poorer networks. Furthermore, evidence in the US education sector points to introducing choice having a positive effect on the nature of information networks; however, they were associated with higher levels of class stratification and racial segregation (Schneider et al. 1997).

Related to this are *risk-averse switching costs*. It is evident from various studies that people tend to stick with the default, the service provider they are already using (Wilson and Price 2010; Jilke 2013). The status-quo is a safe haven, a so-called satisficing option. Higher educated service users are more likely to exhibit greater risk seeking behavior, while their lower educated counterparts are risk avoidant (Dohmen et al. 2008) and thus tend to stick with their current provider.

#### **4.3 Problems with using information: Bounded rationality and gaming**

Another, related pitfall concerns the way in which performance information is presented. A major problem of using performance information is the *bounded rationality of clients*. Service users are rational bound, even if the full information was available to them (Simon 1947). Parents, patients, clients, or service users employ the same heuristics and mental shortcuts when making choice decisions as they do during their daily process of decision making. This includes information overload, simplification heuristics, risk aversion, or status-quo bias, among many others (see for an overview Kahneman, Slovic and Tversky 1982). Too much information may confuse service users and result in oversimplification, using other, seemingly irrational, criteria than quality or price to determine their decisions reflecting the choices within their social

networks. Service users rather than rely on hear-say than on league table figures (Marshall et al. 2000).

One example of bounded rationality is that providing greater opportunities to choose from does not necessarily lead to more active choice behavior. Studies in the area of applied psychology indicate that the effects of increasing ones' choices on buying decisions follows an inverted U-shape (Shah and Wolford 2007). In other words, increasing the number of alternatives has first a positive effect on buying decisions in general, but too much choice may overwhelm service users resulting in choice avoidance and dissatisfaction (Schwartz 2005). In a famous experiment, Iyengar and Lepper (2000) showed that people are more likely to purchase gourmet jams when offered a limited array of 6 choices rather than a more extensive array of 24 choices. Moreover, people actually reported greater subsequent satisfaction with their selections and wrote more positive reviews when their original set of options had been limited to 6. Hence, increasing opportunities can become 'too much of a good thing'. While one may argue that the number of alternatives is not as pronounced in public service provision as it is the case for private goods, the first evidence is available from the field of liberalized infrastructure services, which suggests just the opposite (Jilke 2012). The application of these results in the area of healthcare, social service provision or education should be examined.

Next to bounded rationality, a second problem with using performance information is the games suppliers' play. Service providers sometimes engage in playing with figures (De Bruijn, 2007). Hood (2006) shows that suppliers in British public services indeed played extensively within the targets set by Tony Blair's New Labour Government. For instance, he noted that "*In studies of*

*an eight-minute response time target for ambulances dealing with Category A calls (life-threatening emergencies), there were large and unexplained variations in the proportion of calls logged as Category A, and ambiguity over when the clock started”* (2006, 517). Hence, it seems that suppliers manipulate (play with) performance information making it less reliable.

#### **4.4 Worsening work conditions**

The last pitfall we discuss, concerning worsening work conditions, seems to attract far less attention than the previous three pitfalls (Ungerson 2004; Kremer and Tonkens 2006; Ungerson 1997). According to choice protagonists, power should shift from organizations and employees towards clients. Studying the introduction of choice in care settings, Ungerson (1997, 46) notes *“The evidence is overwhelming that disabled people have in the past been demeaned, discriminated against, abused and ignored by precisely those people funded by the state who were and are supposed to respond to their needs”*. However, this shift in power could have severe consequences for employees.

First, the introduction of (quasi)-markets needed for choice to operate successfully could lead to a ‘grey’ labor market, marginalizing employees and locking them into low-paid and transient employment (Ungerson 1997). Related to this, Knijn and Verhagen (2007) showed that introducing client choice via personal care budgets leads to increased managerial demands and work pressure for employees. This is especially true for employees who were, also prior to the introduction of choice, rather powerless. In this respect, Ungerson (1997) discusses personal assistants in care settings in the U.K. Personal assistants are carers employed on a short or permanent basis by the patient. They sometimes live in the same household as the patient in order to be readily available. Ungerson notes that with the introduction of choice, these personal

assistants work in a grey labor market, which is unregulated and underprotected. In her view, this is likely to add to poverty rather than decrease it. This is especially problematic given that female, old, or immigrant workers, who are already in a less favorable position in general, are highly likely to take up these jobs. Another example is the regulation of the postal market. Evidence from Germany and Austria shows that increased competition has led to lower wages and less job security for postmen (Schulten, Brandt and Hermann 2008).

Additionally, the introduction of choice can negatively affect the professionalization of employees (Knijn and Verhagen 2007). Firstly, it challenges the autonomy of employees. This is especially relevant for groups who are not regarded as traditional professions. For these semi-professionals, it becomes more difficult to be critical towards a citizen, when that citizen directly pays you. Secondly, there is a threat that there will be less development of professional knowledge. In the Netherlands, employees working using Personal Care Budgets note that employees are worried about their professional development. They miss direct contact with peers and complain about the lack of space for developing their knowledge and education (Kremer and Tonkens 2006).

## **5 CONCLUSION**

The aim of this chapter was to provide an overview of the background, facilitators and pitfalls of choice. As has been shown by various empirical studies discussed in this chapter, introducing choice in public services has benefits, such as increased public sector performance. Furthermore, choice can empower citizens, as the example of personal care budgets shows. However, it has been shown that choice also has pitfalls, such as worsening work conditions for employees, and

problems with appropriately using performance data. More importantly, choice can also be unequally divided; clients with lower socioeconomic status being worse off. Such a situation is especially problematic in public services. In this vein, Hood (1991, 3-19) talks about the importance of so-called ‘theta’ values in public services, such as fairness, honesty and mutuality. These can be under attack when choice is introduced.

Based on the analyses, we argue that choice is not ‘a good in itself’ (cf. Giddens 2003). In our view, choice is a means to an end. Further research could reflect on the introduction of choice, analyzing the advantages and disadvantages in particular contexts. Furthermore, much can be learned from combining evidence of various studies in different sector, using systematic reviews or meta-analytical techniques. Scholars could conduct meta-analyses on important issues in the choice debate which were discussed in this chapter, such as the relationship between a) choice, market power and performance, b) choice and inequality among citizens, c) choice and the use of performance information and d) choice and work conditions.

Based on the results presented in this chapter, we would advise policymakers to make informed decisions when introducing choice in public services. We are not saying that policymakers should never introduce choice, as it can have substantial advantages. Furthermore, policymakers could take measures to avoid falling in a pitfall. If policy makers were to do this systematically, we believe that it would substantially enhance the effectiveness and legitimacy of introducing choice in public services. As such, we promote a continuous review of the effects of choice throughout its introduction. In this way, choice can be introduced in some public services, and many can reap its benefits.



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