Elinor Ostrom argued that co-production of public services by government and society is economically meaningful only if the inputs of government and society complement each other. We argue that such complementarity is also important politically, as it ensures that societal involvement in co-production strengthens government’s performance incentives and increases the political cost of misappropriation of public resources. However, in many instances, grassroots communities step in to fill void left by government in health care, safety and security, disaster relief, social safety nets, local infrastructure, etc., in which case societal inputs make up for the insufficiency of government’s ones. Such substitution weakens government’s performance incentives, and in a political equilibrium, co-production could leave the society worse-off. We present a theory and evidence from Russia to explain and illustrate this pattern. We also discuss the interplay of different stripes of social capital required, resp., for collective voice and collective exit into government-substituting co-production, and present evidence of regime’s manipulation by costs and benefits of political and apolitical collective action to suppress the former and encourage the latter.

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