

# 'To Join Interest with Duty'

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**A**ROUND the same time as the Pitt administration in England decided that it would deal with its prison overcrowding by sending large numbers of convicts to Botany Bay, the political philosopher Jeremy Bentham came up with an alternative solution.

Bentham proposed that a prison be constructed in London using the very latest technology. It would be commissioned by central government and managed by a private contractor. The father of Utilitarianism named his imagined prison 'Panopticon' and he recommended that Jeremy Bentham himself be appointed as its operator.

Bentham argued that well-written and well-enforced contracts could be used to align the self-interest of the private sector with the public interest—'to join interest with duty, and that by the strongest cement that can be found.'

Two hundred years later, contracting has made a strong return. Public-private partnerships are now being actively pursued in much of the English-speaking world and in a number of countries in Europe and Asia as well.

And, once again, the question is being asked: Are private companies capable of having a public service ethos?

## TRUST IN PUBLIC SERVICES

What are the concerns with private sector involvement in the delivery of public services? By and large, the problem is not efficiency or effectiveness but public trust. This is an extraordinarily complicated subject, so let me simplify it massively by reducing it to three issues:

### *People versus systems*

There is a natural tendency of human beings to recognize and identify with other human beings. People are inclined to trust other people in preference to institutions or systems. And they are more inclined to trust people who work with people (doctors and nurses) than people who work with systems (managers and bureaucrats).

As a result, individual public service workers are usually more trusted than the institutions for which they work—in the UK, doctors are trusted much more than the National Health Service, judges and police officers more than the criminal justice system.

This preference for people over systems is probably very old, but over the past 50 years, right throughout the Western world, there has been a marked deterioration of trust in large-scale institutions.

### *Performance versus motives*

The public generally believes that the private sector is more efficient than the public sector. By and large, they don't need to be convinced that—where performance can be measured—the private sector delivers better outcomes than government, particularly when it is exposed to competition.

But in many public services, judgements about performance are difficult for ordinary folk to make, since outcomes are complex, contingent or inherently conflictual.

In these circumstances, the public tends to rely more on the motives of people and organizations rather than measured performance. Monsanto may be highly effective in developing genetically-modified foods, but since it is virtually impos-

sible for me to understand the long-term consequences, I am inclined to place much greater reliance upon their motives.

### *Public accountability*

There is a very close association between accountability and trust. At the most basic level, the public sector is seen as being more transparent and more open to external scrutiny.

Public services are also thought to be more accountable because they simplify an otherwise complex world and, in some cases, provide us with agents to negotiate with the system on our behalf. They are also seen as part of a wider democratic system which increases the likelihood that service providers will reflect the values of the diverse range of citizen/users.

## THE PUBLIC SERVICE COMPANIES

The real question is whether it is possible to create conditions under which private sector providers will pursue the public good in the normal course of business. Public-private partnerships are such a recent phenomenon that one might conclude there are not enough case studies to undertake such an inquiry. And yet there is a long history of what might be called 'public service companies' from which lessons might be learned.

*Settlement companies:* Joint stock corporations were widely used in governing the British Empire, starting with the East India Company which, from 1834 until 1858, had no business other than that of public administration. At the close of the nineteenth century, southern Africa, east Africa, the Niger and parts of Borneo were at different times administered

by joint stock corporations under parliamentary supervision.

*Company towns:* These experiences contributed to a rich British and North American tradition of proprietary towns and suburbs—well-to-do urban communities (Leicester Square in London and Gramercy Park in New York), nineteenth century company towns (Bournville and Saltair in England and Pullman in North America), and the garden cities of early twentieth century England (Letchworth and Welwyn).

*Infrastructure companies:* Throughout Britain and in parts of Europe and North America, private firms played the leading role in the development of urban gas and water, street lighting and lighthouses, roads and bridges, canals and waterways, railways and tramways, telegraphs and telephones.

The first public railway in the world—privately owned but public in the sense of taking passengers for a fee—was the Stockton and Darlington Railway in northern England. The motto of the Stockton and Darlington was ‘periculum privatum, utilitas publica’ (‘at private risk for public service’).

*Public services:* A diverse range of public services have been delivered by profit-making enterprises over the years or by non-profit organizations established by groups of profit-making firms. One could mention police patrols and environmental regulation, criminal detection and prison management, fire-fighting and ambulance services, tax collection and postal services, road management and municipal services.

The East India Company set new benchmarks in public administration. The term ‘civil service’ is itself taken from the East India Company, as are principles such as merit selection.

## **WHY DO PRIVATE COMPANIES DO PUBLIC GOOD?**

As it turns out, the notion that self-interest can be made to serve the public interest is not such an unfamiliar concept after all.

This was Adam Smith’s great insight—that when markets work well, self-interested individuals will serve the good of the wider community without ever intending to do so. Of course, there are numerous conditions under which markets fail, but even among the most cynical of observers, there is recognition that society as a whole has profited from the self-interest of entrepreneurs such as Thomas Edison and John McAdam.

We are also familiar with this concept in government. The checks and balances of the Westminster system do not depend on a wide dissemination of the higher virtues, but merely on the self-interest of competing ministries, competing political parties and, in federal systems, competing governments. Out of this contest and challenge comes greater transparency and a greater responsiveness to the rich variety of interests in society.

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So what are the conditions under which the self-interest of the private sector can be harnessed to serve the public good?

### *In Markets*

*When the public interest largely coincides with the interests of the consumer or service user.* When the interests of the consumer or service user are dominant, then the wider public interest

can largely be addressed through taxation and regulation. The public does worry about the profit-motive even in market transactions, although in the UK, research has consistently shown that some private sector organizations (such as Halifax Building Society and Marks & Spencer) command higher levels of public trust than some governmental agencies.

*When government fails to respond adequately to the public interest.* When government fails to recognize the public interest in a particular service or for other reasons fails to adequately respond, private firms have sometimes been able to fill the gap. The ‘penny post’—usually regarded as a groundbreaking initiative of the British Post Office in the nineteenth century—was first introduced by a private entrepreneur, William Docwra, in the late seventeenth century.

In the United States, Wells Fargo provided a competing postal service throughout much of the American West between 1855 and 1895. The customer willingly paid more knowing that he was getting greater speed, greater security and greater convenience.

*When there is large-scale risk or investment in technological innovation.* There has also been much less concern about private sector involvement in the delivery of public services when bold technological innovations have been made and where public service companies have been prepared to accept high levels of risk.

That is the reason why the private sector has played such an important role in the development of new infrastructure. Today, we are inclined to take reliable street lighting and urban water supplies for granted, but in seventeenth century London, these were frontiers of technological innovation.

### *Communities*

*When the ‘public’ consists of a small enough community to capture the benefits of investment indirectly.* In some cases, the ‘public’ in question is a relatively small community and investors

are able to capture sufficient returns through indirect benefits. This is the reason why local landowners, merchants and manufacturers were prepared to invest in turnpikes and railways, and urban gas and water supplies, particularly in the early years.

It is also the reason why ship-owners invested in lighthouses, insurance companies set up their own fire brigades, and fishermen on the Hudson River established their own 'river-keeper' to track down and prosecute industrial polluters (including state and municipal enterprises).

*When free-riders can be excluded and costs can be recovered for local public goods.* It has often been argued that local public services must be financed out of general taxation because of the problem of free-riding. And yet there is a rich history of company towns and private neighbourhoods where remoteness (as in the case of mining towns), the ability to exclude (as in gated communities) or the imposition of rental charges by a residual property owner have enabled communities to overcome this problem.

### **Contract**

*When self interest happens to coincide with the public interest.* In some cases, the self-interest of a public service company just happens to coincide with the wider public interest.

One of the best explanations as to why the management companies have had such a major positive impact on the 'decency agenda' in UK prisons, is that it was in their commercial interest. As it turns out, it is less expensive to treat prisoners decently.

For example, in the privately managed prisons, prisoners are given the keys to their own cell. This increased the prisoners' sense of self-worth—their privacy and security—but it also brought down costs since officers did not have to spend as much time locking and unlocking cells.

*When performance incentives work.* Performance incentives are what Jeremy Bentham was talking about when he wrote of joining interest

with duty. Through a well-written and well-managed contract, government can make the public interest my private interest. The reason why the corporate finance division of a City bank is acutely interested in the welfare of prisoners hundreds of miles

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away is that there are serious financial consequences if their clients fail to measure up.

*When there is commercial value in having a reputation for public service.* Public service companies tend to have little by way of tangible assets, so that to a very large extent, the value of the company is determined by its reputation. If it were to compromise that reputation, the company would fail to win new contracts or renew existing ones and the capital markets would quickly discount the value of its shares.

*When employees are motivated by a professional ethos.* One of the mistakes that critics often make is to assume that front-line workers engaged by the private sector are strongly motivated in their day-to-day activities by concerns about profit and loss.

A couple of years ago, the Institute for Public Policy Research (a centre-left think-tank in the UK), conducted qualitative research with a number of front-line workers in public and private hospitals, in an at-

tempt to get a better understanding of the public service ethos.

Nurses employed in private hospitals were deeply offended at the suggestion that they behaved differently because they were not working for the NHS - 'You nurse exactly the same in the private sector'; 'To me the patients were patients, that's it. You nurse them all the same'; 'It doesn't matter where we work now—a nurse is a nurse. You're a caring professional.'

It is this sense of public service and professionalism that motivates the nurse in a private hospital (or in a privately-managed public hospital). Quality private sector managers understand this and seek to harness that ethos to deliver better services.

### **CONCLUSION**

One of the many reasons why governments have turned to the private sector over the years was 'plausible deniability'—government could take the credit if things went well, but if anything went wrong then the private sector would wear the blame.

There is little doubt that profit-making firms are capable of having a public service ethos. And there appear to be a number of conditions under which the self-interest of the private sector can be harnessed to serve the public interest on an ongoing basis.

But in order to capture these benefits, governments must step away from a narrow procurement agenda and look to the much more interesting challenge of building a diverse ecology of socially-responsible public service providers. In the UK, the Blair Government has begun to take up this challenge. I would submit that if they wish to secure the full benefits of public private partnerships, governments in this country must do the same.

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