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The nature of a public service

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Public services have been misunderstood. They are not simply services in the public sector, they are not necessarily there because of “market failure”, and they cannot be analysed by the same criteria as market-based provision. They have four defining characteristics. They exist for reasons of policy; they provide services to the public; they are redistributive; and they act as a trust. They consequently operate differently from production for profit, in their priorities, costs, capacity and outputs.

Key words: public services, market failure, social services.

Public services

The definition of any term depends on the way it is used and understood in practice, and so the process of understanding what a “public service” is must begin with an examination of its use. When the UK Cabinet Office published its recent review of public service reform, it did not explain directly what a “public service” is, but it did claim:

“we have restored our nation’s pride in our public services and they are more firmly than ever part of the fabric of British national life. Some of our public services have done even better. Our top schools, hospitals, universities, and police forces – as well as our armed forces - are admired around the world. But we should also not shy away from the fact that in some places public services are still not good enough ...” (Cabinet Office, 2008, p 5)

There is clearly a sense here of what the public services include: they cover education, health, policing and defence. In another document, the focus extends to social housing, income maintenance, community and family services. (HM Government, 2007) It seems possible to say that the term “public services” is typically applied to

- activities of government in the public domain, such as policing and public health;
- activities done for the benefit of the public, like public service broadcasting or rubbish collection; and
- ‘social services’, like medical care, housing, education and social care.

This might seem to imply a definition by function, but public services cannot be identified simply in terms of the things they do. Services like energy supply, medical care or transport can be public services, but they can also be commercial activities. Some public services deliver

things that might, in other circumstances, be considered to be part of industrial production - communications, roads, or water. Government support for industry or agriculture is not commonly thought of in terms of public service, but it could be: crop insurance has been treated in some Southern European countries as a form of social security. Many public services have developed organically - or haphazardly - rather than by design. That could be taken to imply that the distinctions are conventional, and irrational; it may not be possible to apply firm, clear criteria to justify the identification of a service as "public".

The term "public service" is used not just descriptively, but normatively. Saying that something is a public service makes a moral claim about the way that organisations should behave. So, for example, there have been claims that "public services" might include:

- Post Offices: "Britain is a place where the Post Office cannot be understood merely as a business seeking profits: it should be understood like sanitation or public parks or the NHS, which are things that make life liveable and which are maintained for the public good. We are happy to pay for them, both at the counter and via the tax system, but they must at all costs be understood as services." (O'Hagan, 2008)
- Banking: "The Canadian banking system ... has always been considered as a public service." (Canadian Parliament, 1998)
- Public telephones: "This phone box is needed in case of emergency and regarded as an important public service" (Waverley Council, 2008); or
- Pharmacies: "Is the pharmacy a public service? The answer to this question is: yes! And how could it be otherwise?" (Cini, n.d.)

The claim to be a public service is being used in these examples to make a case, that there is something about these issues which cannot be determined simply by commercial criteria. By contrast, it is also possible to see the opposite claim:

"The railway serves the public, but that does not make it a public service" (Hibbs, 2007)

These statements seem to be directed to the role and function of services, not to questions of definition. To say that something is a public service is to make a value judgment about the nature and character of the activity which is being undertaken.

The substantial literature on the public services - covering issues like public service implementation, finance delivery, motivation, management or accountability - largely passes over the question of what a public service is. A clutch of books with "public service" in the title either assume we know (e.g. Common, Flynn, Mellon, 1992; Pollitt, 1993; Lawton, McKevitt, 1996), or take it that discussion of public services is equivalent to the role of the public sector (e.g. Willocks, Harrow, 1992; Farnham, Horton, 1996). The very fact that they are using the term so prominently implies that there is something different, distinctive and recognisable about the term. This paper is concerned with definitions, because understanding what public services are, and how they are different from other kinds of agency, is the key to understanding normative arguments associated with the idea. There are three main stages to the argument. The first is to consider what a public service is. The second is to review the main normative arguments in the light of that discussion. The third is to examine the implications of those arguments for the operation of the services.

Understanding the public services

Public policy

The first question to address is: what is ‘public’ about the public services? I need to begin by clearing up a common confusion. The public services are not the same thing as the public sector, despite their identification in standard texts (e.g. in Bailey, 2002, ch 2, of Flynn, 2007). The public sector is owned or at least controlled by government; the public services may not be. Some public services are instituted, developed and operated by independent, voluntary and non-profit organisations. They include, for example:

- Independently provided libraries: “(Carnegie) Public libraries have served the community well for generations. They have been providing a public service though a period which has seen major lifestyle changes in society.” (Southern Education Library Board, 2006)
- Public service broadcasting: “We are fully committed to providing a public service without public funding” (The CEO of Setanta, in the Irish Independent, 2009)
- Voluntary emergency services: “organisations that are, in effect, providing a public service when responding to emergency circumstances ... such as Mountain Rescue and the Royal National Lifeboat Institution, which are not part of the public sector but, as we all understand, effectively perform a public role and a public duty.” (Hansard, 2007)

Other examples might be universities, which are in the public sector in some countries but in others are independent non-profit organisations; social housing, often administered by voluntary housing associations; or job centres in France (the *Assédics*) which were developed and are run by a convention between employers and trades unions (Bolderson, Mabbett, 1997).

The public sector, by contrast, includes many activities which would not usually be considered to be public services. Examples might be

- operating the functions of government (e.g. the legislature, the civil service or the courts),
- making money for the government (including nationalised industries), or
- providing services to government agencies, the role in the UK of bodies like the Defence Procurement Agency or the National School of Government.

The movement to privatise services to government - examples in the UK include the former Information Technology Services Agency, the Recruitment and Assessment Services Agency and the Buying Agency - has meant that the remaining government action is increasingly focused on core public services. That is not the same thing, however, as saying that public services are public sector activities.

The European Union has framed its policies on the basis that public services are in the public sector: “in principle, public services are the responsibility of public authorities.” (European Commission, 2005, p 25) The *Public Services Directive* (European Union 92/50/EEC), so-called, is actually about public service contracts, or procurement, rather than public services. The public services are not about provision by the state, or provision on behalf of the state, but provision for the public, whether or not it is done by public authorities. They may be linked to government activities, but they are not confined to government, and government does not cover the full range of such activities. Some public services are in the public sector, some are independent, and many straddle the boundaries - there is a complex

interplay of different approaches to regulation, finance and provision (Judge, Knapp, 1985). The terms, and the concepts, are distinct.

The kinds of services identified above as public services - policing, education, defence or the establishment of communications – look, and feel, different from commercial activity. The public services might be generally supposed to improve the public welfare. The identification with “welfare” is clumsy, however; it might imply that an activity like defence is a public service when it increases welfare and that it is not a public service when it decreases it. Conventionally, in public sector economics, imposed preferences which are taken to represent the interests of the public are identified as “merit wants” (Musgrave, 1959) or “merit goods” (Bailey, 2002): goods which are chosen because of normative judgments about value, rather than the exercise of individual choice. But the terminology is misleading: merit wants or goods are not necessarily wants or goods at all. The judgments that are being made are decisions in public policy.

Perhaps a better way of saying that services are “public”, then, is to say that they are developed for *reasons of public policy*. Public services are intended, not to meet the objectives or preferences of consumers or producers, but to further objectives that policy-makers consider desirable - whoever those policy makers may be, because the term might include not just government, but governing bodies, voluntary organisations, mutualist societies, philanthropists and others. Bozeman suggests that “publicness” is “a characteristic of an organisation which reflects the extent the organisation is influenced by political authority.” (Bozeman, Bretschneider, 1994, p 197). Both public services and the public sector are public in this sense. However, the influence of policy only offers a limited explanation for the differences between public services and other kinds of organisation; public services have characteristics that other public organizations do not, and private industry is also influenced by political authority (Boyne, 2002, 98). To understand what makes public services different, we need more than publicness alone.

Public service

The second key question is: what is it about the public services that identifies them as “services”? Public services “serve” members of the public - they provide goods or services to individuals, families and communities. This is not about the distinction between the production of “services” and “goods” (as in Jordan, 2006). The public services are not services in the sense of the term that distinguishes “services” from manufacturing industry, construction or energy production, or the sense in which the European Union has distinguished services from other aspects of production. McKevitt identifies public services with professional and personal services, where “the product and the activity of production are identical” (McKevitt, 1998, p 8) That is appealing, because it clearly applies to medical care, social work or education, but the idea of public services is wider than that; it also includes issues like communications, roads and sewers. The idea of service is contained in the relationship between the activity and the public, rather than the form of its production.

There are publicly sponsored activities which do nothing directly for the public, such as nature reserves which protect species by excluding human beings. They can be argued to provide some public benefit, but what they are doing is not a service to members of the public. This is just the debate that has been conducted in English Nature:

“Staff were asked what they did, and some said they were there to provide a service to wildlife. I said: ‘Well, actually, English Nature is a public service. We serve people.’”
(Davies, 2003)

The same sentiment helps to explain why some public sector activities, like services to government, are not usually thought of as “public services”: their service is not for the public. The provision of goods and services to agencies, organisations, or government is a different kind of activity.

As I have already commented, the idea of ‘service’ is not just descriptive. The public services are supposed to have, as in the claim made above for lifeboats, “a public role and a public duty”. Some writers emphasise the values of providers – the “public service ethos” – as a characteristic element in the provision of public services (Farnham, Horton, 1996; Flynn, 2007). Public services are supposed to be motivated by a sense of mutual responsibility - a sentiment often referred to in the European Union as “solidarity” (Spicker, 2006a, part 3). The examples of claims given so far seem to suggest that being a public service is something praiseworthy, other-regarding (if not actually altruistic) and inclusive.

It is difficult to identify a clear expression of these principles in recent literature on the public services, but Richard Titmuss, writing in the 1960s and 70s, focused his argument on the admittedly hazy distinction between public and social services (e.g. Titmuss, 1974, ch 9). The crucial difference between public and social services was that the clients of social services were considered dependent in a way that did not apply to people who receive public services. For Titmuss, the public services were a model of what he came to call “institutional” welfare, where provision for socially recognised needs was accepted as an institutional part of social life. (Titmuss 1968, 1974; Reisman, 1977) The patterns of public service represented an expression of “gift-reciprocity” in society through the development of universal provision. (Titmuss 1971) Titmuss’s work is one of the strongest expressions of public service as a normative position.

Redistribution

Another of the normative elements seems to be that public service is either non-commercial or, in some sense, beyond the commercial. For McKevitt, this is about “non-marketability” (McKevitt, 1998, ch 1); for Flynn, it is about finance, that services are not evidently for sale (Flynn, 2007, p 8). This is suggestive, but neither identifies the issues clearly. One of the recurring clichés in claims for public service is that they are concerned with “a public service, not a business” (there are over three hundred examples of that phrase on Google). The key to being non-commercial is that public services are *redistributive*, in the sense that those who pay are not necessarily those who receive. A firm which sells soup to the public is not providing a “public service”, even if it is very good soup, but an agency which distributes soup to homeless people is. A commercial theatre is not providing a public service, but “public service” broadcasting can carry a transmission of the play they put on to a non-paying audience. Commercial organisations that are placed under a “public service obligation” are being asked to provide services regardless of their commercial priorities. If a public service charges for its services, the charge is not intended to be proportionate to the benefit. This means that the benefit which people receive is paid for by others, either individually or collectively.

Redistribution may be an objective of public services, a point I will return to later, but the intention to redistribute is not the defining principle: rather, the process is that public services allocate resources. Redistribution is an inevitable concomitant of that process. (Musgrave sees

redistributive allocation as a function of government: Musgrave, 1959, pp 6 ff. However, the allocation does not have to be done only by government: any charity, any mutual insurer, is also redistributing resources.)

Operation as a trust

These three elements - public policy, service and redistribution - lead to the fourth. In economic terms, the policy-maker, not the consumer, is the purchaser of services. Conventional economic analysis depends largely on an understanding of the relationship between supply and demand, between the producer and consumer. In the development of public services, however, there is a disjuncture between these different elements. Schools, prisons, hospitals and residential care homes are often developed in a quasi-market, where mechanisms which may seem at first blush to be like the operation of market but are marked by a disconnection between demand and service receipt. That disconnection is one of the reasons why so many governments have developed provision in these fields; they are areas where, even if the market operates, it does not necessarily operate in the way that textbooks suggest a market might be expected to work.

The characteristic nature of public services is that such services are *operated as a trust*. What these examples all have in common is a mechanism in which A pays B to provide a service for C. Although A and B are often parts of the government, this mechanism is not unique to government: it is also the standard pattern of operation for voluntary and charitable organisations. Examples include voluntary hospitals, independent schools and various exercises in corporate social responsibility. However, a voluntary trust which did not have the other characteristics of public services, such as service to the public or redistribution, would not be a public service. (An example might be a closed religious foundation.)

The operation of a public service is sometimes described as the action of an agent on behalf of a principal (Millward et al, 1983; Besley, Ghatak, 2003, 238-9), but that is not a particularly helpful formulation. Agency is usually seen as a process where the principal has the primary responsibility for action, and discharges it by commissioning an agent or delegating authority. That is true of some activities funded by the state, but it does not apply in many other cases. Many voluntary trusts, performing a public service, do what they do because they were set up to do it long ago. In several of the examples considered earlier - such as lifeboats, libraries, or public service broadcasters - there is no evident principal, while in others, like housing associations or universities, it can be unclear who the supposed principal is. The normal pattern of trusts is that the trustee - the provider of the service, not the funder - bears the primary responsibility, and determines the pattern of service provision.

There are, then, four defining characteristics of public services. Public services exist for reasons of public policy; they provide services to the public; they are redistributive; and they operate as a trust. All four elements are necessary to the definition. Many nationalised industries, like state-run coal production or car manufacture, can be said to have been based on public policy, but they are not necessarily delivered on non-commercial criteria, even when they have elements of subsidy; in those cases, they are not thought of as public services. Public sector activities which are not services to members of the public, like services to government, are excluded because they do not meet the second criterion. Activities which are not redistributive and which charge commercial rates to consumers, like publicly provided car parking, are excluded because they do

not meet the third. A public lottery might arguably meet the first three criteria (though the characterisation of a lottery as a “service” is uncertain), but it does not meet the fourth. It follows that people who claim that something ought to be a public service, like posts, or telecommunications, or transport, are drawing on a complex construct, with several elements. They seem to be saying that these issues should be guided by public policy rather than commercial considerations; that they should serve the public; that they do not exist only for customers with the ability to pay; and that they should be prepared for some people to pay for the benefit of others.

Justifying public services

Public policy

The case for public service depends crucially on the proposition that a policy decision has to be made. What happens when decisions are left to the spontaneous interaction of individuals and groups - the “market” - are not satisfactory. Social criteria have to be applied instead.

Justification of this position typically takes three forms. One is purely normative. Some things, and some states of being, are better than others. Morality is not subjective or individual; it is social in nature, and for it to work there have to be some shared values. Flynn emphasizes the importance of the values guiding the public service, citing Patricia Hewitt:

“we do ourselves a disservice when we use the jargon of markets, instead of coming back to our values, the values of public service.” (Flynn, 2007, p 99).

The second main justification is that there is social value which is not accounted for by individual preferences. An example is the “herd immunity” that can be obtained through vaccination of a population - an example, simultaneously, of social value and externalities which are not otherwise accounted for in individual actions. (Musgrave refers to these aggregate preferences as “social wants”: 1959, p 13.) This is partly covered by the arguments about social or public goods and market failure, which will be discussed later, but it extends beyond that. This is related to the idea of “social capital”, which suggests that something about the character of society itself is lost when people act exclusively in accordance with individual interests (Putnam, 2000, ch 19). Social capital refers to the value of networks of social interaction. The economic market depends on a social infrastructure, like support for children and old people, relationships in communities, or interpersonal trust; where these things do not exist, or more typically where they are impaired, it has substantial implications for the viability and costs of private enterprise. Social capital is not truly a form of “capital”, then - it cannot be accumulated or transferred - but it has economic consequences. A further, different kind of example might be the protection of human rights - an issue which is often interpreted in individualistic terms. Although human rights often operate at the level of the individual, they invite a broader question: what kind of society do people want to live in? That question is asked because the broader issues of principle are taken to be no less important than the position of individuals. Issues like the rule of law, the protection of minorities or the moral status of a society are issues of social value, and steps to protect them commonly fall within the remit of public services.

The third justification is more complex. Musgrave’s distinction between individual and social wants is still a difference between individual and aggregate objectives. However, there are also collective social objectives, and the results of collective decisions may legitimately look

different from aggregate individualised preferences. “The whole purpose of public services”, Flynn suggests, “is ... to collectively provide protection, help, restraint, education, recreation and care outside market relationships.” (Flynn, 2007, 5)

It is a familiar proposition, from much of the economic literature, that it is not possible to derive a social preference simply from the sum of individual preferences, or vice-versa (see Sen, 1979). It is much less common to see the corollary: that in some cases individual perspectives might be preferable, and in other cases social ones might be. Social objectives might be preferred because the objections to the outcomes of individual choices are moralistic - for example, complaints about the consequences of alcohol, which result from the voluntary behaviour of informed individuals. Galbraith’s condemnation of “private affluence and public squalor” (Galbraith, 1958) is partly a complaint about the elevation of individual priorities over shared ones. But there is another rationale. The consequences of legitimate and rational individual decisions, may, when viewed in aggregate, imply different choices from the position preferred by a collective perspective.

The principle can be illustrated by the case of Jaymee Bowen, “Child B”. She was a young girl suffering from leukaemia, whose prospects of recovery were very limited. Jaymee was denied further treatment by the local health authority on the basis that treatment was painful and outcomes were poor; the odds of her surviving were about 1%. Her father pressed for treatment, on the basis that she had no other options. From her father’s point of view, the choice for his daughter was either to take a treatment with a limited chance of success, or to die. The view from the health authority was significantly different. Odds of 1 in 100 do not mean that a health authority is gambling with a single child’s life; they mean that when the health authority has 100 children to serve, the likelihood is that one will live and 99 will die. In order to achieve that result, the health authority has to be prepared to put all 100 children through a painful, distressing programme of treatment. This is a different kind of decision, both morally and practically, from the one that individuals have to make. In the case of Jaymee Bowen, both the responsible medics, and the health authority, felt that they could not justify treating her in these circumstances. (Ham, Pickard, 1998, pp 20-1).

Now, it is open to anyone, looking at this example, to say that the father’s decision was the right one. That is what the court decided. However, it cannot be supposed that this is the *only* possible basis for a decision - or, as some individualists seem to argue, that such an issue can only be considered legitimately from an individual perspective. Nor can this be seen simply as the imposition of government preferences on individual choice: the dismissal of collective social perspectives in the economic literature as “merit wants” is a misunderstanding. The consideration of “public policy”, or of the social consequences of combined individual decisions - which are, incidentally, admissible arguments respectively in English and US law - make it possible to take into account other considerations besides the outcomes of aggregate individual decisions. If it is right to argue that the collective consequences of decisions have also to be taken into account, there has to be some mechanism by which those consequences can be considered.

The provision of services

The establishment of social or collective objectives is not equivalent to the claim that services ought to be provided. Public policy is often realised through some of the other mechanisms of

government - regulation, incentive, subsidy, bargaining and so forth. There needs to be a further stage in the argument.

Services are provided in the public sector when they cannot be done adequately in the private sector (Atkinson, Stiglitz, 1980, 5-6). The core problem, consequently, could be understood as “market failure” (cf Connolly, Munro, 2006, ch 9). The association of public services with deficiencies in the market is routinely cited as one of the characteristic purposes of public services (e.g. McKeivitt, 1998; Bailey, 2002); the UK Treasury’s guidance suggests that this is the primary justification for the establishment of public services. (HM Treasury, n.d., ch. 3) Market failure in the technical sense means that markets are unable to work as they should. This happens, typically, because of asymmetric information, externalities or the argument relating to public goods - that some goods have characteristics, such as non-divisibility, which interfere with their distribution in the market (e.g. in Bailey, 2002; Flynn, 2007, p 8).

The weakness of this model is that one of the defining characteristics of public services is the service they offer to people directly. Rather than being non-divisible, many public services – like health, social care or pensions – are quite the opposite. Market failure may be a possible argument for developing public services, but it is only part of a much wider case. For Atkinson and Stiglitz, the key arguments concern imperfect competition, the failure of markets to achieve full equilibrium, the lack of a futures or insurance market, and distributive issues (Atkinson, Stiglitz, 1980); for Bailey, the main issues are public goods, merit goods, externalities and transaction costs (Bailey, 2002); while Besley and Ghatak “suggest that public services are goods that an unregulated market will tend to under-provide”, because of external benefits, egalitarianism and merit goods. (Besley, Ghatak, 2003, p 236). These formulations mix market failure, then, with a more general normative concern with public policy objectives. There are things which we may wish to do which are decided by other criteria than the market. Whether this is determined by the demands of morality, religion, humanitarianism, human rights, citizenship, security, defence or the national interest, there may be reasons for doing things that have nothing to do with the preferences of consumers or producers or the aggregate choices of individuals.

The issue is not that markets work imperfectly; that might be a reason to get them to work better. It is that if even they do work perfectly, they will not produce the desired effects. Services like the armed forces, universal education, fire fighting, roads and drainage have developed in most countries not through the vicissitudes of the market but through acts of public policy. This is not a response to “market failure”, because in the terms of economic analysis the exclusion of some people or the acceptance of risk, or non-provision where there is no demand, is not a failure. The problem is more fundamental: there is simply no mechanism in markets to make it all happen.

Redistribution

The redistribution which characterises public services is mainly an expression of collectivism rather than egalitarianism: as soon as collective provision is made, it will have some redistributive implications. The redistributive character of collective provision might be seen as an objection to public service: if governments have no legitimate basis on which to redistribute income, they cannot legitimately undertake measures which have redistributive effects (Nozick, 1974). Even Nozick, however, who holds that all redistribution is illegitimate, still does not wish to defend the existing distribution. The collectivist response is that the way things are is not

the way that they have to be, and there is no reason why any government, or any society, has to accept that the initial distribution of property arising from history, inheritance, legitimate transactions, violence, fraud and luck should override every other sort of moral consideration.

There are many different kinds of argument for redistribution. Some are functional: public goods are provided for by pooling costs, and social protection and insurance work by pooling risks. Some are humanitarian: redistribution is the way in which poorer people can be supported. Some are universalist: if provision is to be made for everyone without exception, for example for education or public health, it can only be done redistributively. And some (though by no means all) are egalitarian: many commentators have argued that the dispersion of rewards and resources is unjust or divisive, and the reduction of that dispersion is itself desirable.

The argument for redistribution does not in itself justify public services. Arthur Seldon argues that if one desires to redistribute resources, such redistribution can still be done within the framework of the market. (Seldon, 1977) The only service that is needed, in that approach, is the service of redistribution itself. This is the approach behind income maintenance or social security - paying people so that they can buy food or other necessities, rather than providing them with food, is an approach which intrinsically favours the operation of the market. The egalitarian case for redistributing via public services, rather than through the redistribution of resources, comes in two varieties. The core argument is that it is difficult to meet egalitarian criteria relating to access, rights or universal coverage by market distribution. The pursuit of efficiency in the private sector generally requires some degree of adverse selection, or exclusion, by independent providers. This implies a two-tier system: private services have to be supplemented by residual protection for those who are left out. This is intrinsically unequal: residual welfare has been regarded as intrinsically stigmatising, socially divisive and associated with inferior services (e.g. in Townsend, 1976).

The other main egalitarian argument for the provision of public services rather than redistribution is instrumental rather than principled. The provision of public services has been seen in itself as an important instrument for achieving equality. Tawney argued that expenditure on public services was the most effective way of achieving equality in the ways that mattered. The strategy of equality he favoured was

the pooling of its surplus resources by means of taxation, and the use of the funds thus obtained to make accessible to all, irrespective of their income, occupation or social position, the conditions of civilisation which, in the absence of such measures, can only be enjoyed by the rich. (Tawney, 1930, p 122)

This approach guided the Labour Party in the UK for much of the period immediately after the World War 2. (Le Grand, 1982) It is important to recognise, though, that although egalitarian arguments may support the development of public services, the arguments for public services are not dependent on such arguments.

Operation as a trust

One of the most obvious justifications of the operation of services as a trust is also one of the most controversial - the idea that people should be provided for although they have not made the choice themselves, an approach often castigated as “paternalistic”. The key justifications for paternalism, Dworkin suggests, are that people may not appreciate the consequences of their actions; that they may not act responsibly otherwise; or that they lack the capacity to make a decision.(Dworkin, 1981) These arguments are tainted with a fairly negative view of the

capacity of citizens; there are other, less judgmental, positions. Paternalism, in the sense of provision without prior consent, can increase freedom, for example by mitigating the negative effects on freedom of remote risks which individuals might otherwise have accepted. (Spicker, 2006a, ch 1) Paternalistic action may be a convenient delegation of general authority to government - unless one begins from the position that all actions affecting the public have to be approved through a process of direct democracy, someone is going to be making a decision on other people's behalf. Paternalistic action may supplement people's capacity. Extending collective insurance on a compulsory basis has proved to be necessary to extend protection to those who are most disadvantaged; the compulsion which operates for inclusion of the lowest paid workers in social insurance is principally a compulsion on their employers. Voluntarism only works if people have the power to act.

The most fundamental reason for operating public services as a trust, however, is done without reference to individual choice. It stems from their character as a form of collective provision. It is in the nature of collective provision that the individuals who pay for services, who make administrative decisions, who receive services or who are affected by collective measures are not necessarily the same people. That is not an objection to collective provision. A focus on individuals, central as it is to political and economic critiques of collective provision, is not the only way that activities can be justified.

How public services operate

It used to be axiomatic in studies of public administration that public administration is different from private management (Boyne, 2002). That proposition has taken a battering, partly because of the translation of private sector models into public administration, but also because attempts to capture the difference between the models has been disappointingly elusive. Coursey and Bozeman, for example, found only that the explanatory power of publicness, understood either in terms of ownership or in terms of public policy, was limited. (Coursey, Bozeman, 1990) Boyne's review of the impact of publicness (understood as the influence of public policy) on public organisations identifies a series of issues relating to organisation and management. The ways in which public organisations differ from private ones include

- The organisational environment – issues of complexity, openness to external events, instability and the absence of competition;
- Organisational goals, such as issues of equity and accountability
- Organisational structures, such as bureaucracy, red tape and the reduction of managerial autonomy, and
- Differences in managerial values – the “public service ethos”. (Boyne, 2002)

The implication of this analysis is that public policy, at least, has an effect on the pattern of behaviour of a public organisation. However, the relationship between ‘publicness’ and the distinctive pattern of public organisations seems tenuous. In this section, I want to argue that there is a structural relationship between the character of public services and the evidence that public organisations behave differently.

The most obvious difference between public and private is accounted for by responsiveness to public policy. This implies differences in organizational goals and potentially in managerial values. Basing decisions on public policy, rather than the aggregation of individual preferences, leads to different allocative decisions. Because the priorities determined by public

policy are intended to produce outcomes which have not otherwise been produced, it is fairly safe to say that they will never be equivalent to the processes or outcomes of the kind of market represented in textbooks of economic theory - a system based on aggregated individual preferences. Kaplow and Shavell argue that the provision and distribution of resources determined by public policy cannot be Pareto-optimal. (Kaplow, Shavell, 2001) That is probably right, but it misses the point. There is no particular reason to suppose that the effective demand for public services is supposed to reflect, or to be influenced by, the aggregate preferences of individuals. Pareto optimality is a greatly overrated principle: it is probably not compatible, Sen suggests, with general principles like individual freedom or human rights. (Sen, 1979, ch 6) The choices made in the formation of policy are not determined in the same way, and not necessarily even concerned with the same issues.

There are three main objections to taking this as a sufficient explanation for the differences between public services and other organizations. The first is that there is not one thing called “public policy”. Policy is not necessarily made because outcomes are being chosen, explicitly or even implicitly; it is as likely to be based on the development of legitimate processes and procedures, on symbolic action, on negotiated compromise, or on “path dependency” - doing things because that is the way they were done previously. Policies for education, public health or child protection depend on a complex set of political contexts and policy rationales, and policy-makers are not simply acting as consumers: policies have to be negotiated, constructed and developed. Most contemporary models of policy emphasise its contested, political character, rather than the exercise of choice (e.g. Stone, 1997; Colebatch, 1998; Sabatier, 1999). There is not, then, a single, simple model of public policy; public policies are diverse. If there are conflicting signals, there should be a disparate set of behaviours.

The second objection is that there is no obvious explanation here for the differences in organizational structures. The economic analysis of public services usually depends on the same concepts and techniques as those used to analyse market-based transactions - considerations like cost, choice and efficiency (e.g. Connolly and Munro, 2006; Millward et al, 1983). If the difference between public and private services was only a matter of public policy or “publicness”, a conventional economic analysis would still hold good; differences between preferences shape the choices, but the process of balancing choices against constraints is one which every producer has to deal with. Boyne considers the argument, from public choice theory, that the influence of public funding makes producers responsive to funders rather than to service users (Boyne, 2002). That is plausible, but leaves it unclear why services that are not dependent on public funding should do likewise.

The third problem is that the explanation is focused on the public sector rather than the public services. The claim that public organizations operate in a distinctive, non-competitive environment is not necessarily true; many voluntary services, and hybrids like posts and telecommunications, share an environment with commercial competitors. The empirical studies tend to dilute the evidence by mixing up public services with publicly owned organizations, and not considering public services that are not in public ownership. If the distinction between public and private organisations is a “puzzle” (Bozeman, Bretschneider, 1994), it is perhaps because it has been under-conceptualized. “Publicness” is not enough.

Public services have three other features apart from their responsiveness to policy: the service relationship, redistribution, and their operation as a trust. Redistribution, and the non-commercial character of many transactions, reinforce the sense of difference, but those features

may still be contained within a model of economic preference. The implication of the service relationship is that they will serve users; but the operation as a trust implies that this will not be through a financial relationship with users as consumers. It is in the nature of public service that demand is separate from purchase, and it follows that the signals which economic markets depend on are not available.

The general test that is applied to the operation of trusts, and to public services, is consequently different from a commercial activity. Trusts are not necessarily profit-maximising, because the terms on which the trusts are established tend to distinguish providers of public service from commercial operations (cf Besley, Ghatak, 2003, 238); nor are they predictably utility- or preference-maximising. That is not what they are set up to do. The key issue is effectiveness - that is, whether or not the trust has achieved its specified aims (cf Boyne, 2003). There may be public services where allocative decisions are based on a trade-off between marginal costs and marginal benefits, as economists suggest (e.g. Eckstein, 1967, p 24; Connolly and Munro, 2006), but this is not the normal expectation of public services. Rather, they are typically supposed to deliver a specified set of services, inclusively, to a population. The criteria by which they determine the required quantity and level of service are decided not by their discretion or choice, but by their terms of reference - to meet, for example, the entitlements of the population which is to be served or the requirements over a geographical area.

A commercial enterprise is generally constrained in a free market to perform efficiently, in the sense of reducing the average cost of producing each unit to a minimum; competition between services drives suppliers towards that point. The utility of a trust, by contrast, is optimised through cost-effectiveness - achieving its aims at the lowest possible cost. The difference between the two is shown in figure 1, which is based on the standard economic model of a production curve l (reproduced from Spicker, 2006b, p 133).

[Insert Figure 1 about here]

Productive efficiency occurs at the bottom of the curve, where marginal cost equals average cost. Cost-effectiveness can occur anywhere along the production line, depending on the objectives of policy, but wherever services are inclusive and universal, it tends to be located well up the rising part of the curve. The criticism is often made of public services that they are “inefficient”. Public services are not trying to be efficient; they are doing something different. (That makes it difficult to be fully appreciative of the considerable expertise that has been devoted to the empirical analysis of productive efficiency in the public services: e.g. Smith, Street, 2005. It is quite possible to identify issues relating to efficiency, but the discussion is puzzling: it is focusing on the wrong criteria.)

It follows that the processes driving public services are structurally different from those which apply in commercial production. One tendency, which is clear from figure 1, is to produce at a higher average price than the market would, because aligning quantity to average costs is inconsistent with effectiveness. The tendency to work at higher costs is shared by a private monopoly, and in some analyses public services are identified with monopolies (e.g. Connolly, Munro, 2006, ch 9), but there is no reason to suppose that the pressure is for the same higher price as that arrived at by a commercial monopoly supplier. The response is not conditioned by profitability or by demand. In the special case where there are economies of scale, or substantial sunk costs (like a hospital), the marginal costs of responding to

predetermined objectives may be limited (Musgrave, 1959). As marginal costs increase, however, it may be inappropriate to curb activity to return to the point of efficiency.

We are now in a position to reflect on some of the patterns of behaviour identified by Boyne (2002). First, there were differences in the organizational environment. I have raised doubts about some of the propositions considered here – for example, that public organisations operate in non-competitive environments. What is true is that public services cannot adapt to competition in the same way as commercial organizations do. Public services do not usually have the option of “adverse selection” - reducing average costs by avoiding expensive cases - and it is questionable whether they should. It is not difficult to reduce the costs of running a postal service by refusing to carry mail to locations which are more remote and expensive to reach, but that is inconsistent with the role of the post as a public service. The suggestion that the UK National Health Service might fail to deal with expensive treatments on the grounds of cost has been met with outrage (cf Hawkes, 2008). (The principle of “triage”, where it is applied, is mainly justified in terms of effectiveness, not efficiency: e.g. Scottish Executive Health Department, n.d..)

The second set of differences relate to organisational “goals”, such as equity and accountability. There is some circularity in saying that public services are trying to achieve certain goals; organisations which are founded to forward policy objectives could hardly do anything else. I think Boyne is really referring under this heading to procedural norms. Accountability is a means to an end. Accountability is understood in many forms – “democratic”, financial, legal and administrative; it is emphasized in public service partly because of the need to conform with the objectives of policy, but also because many of the signals available in the economic market through the price mechanism are not available. Equity, similarly, can be understood as a procedural criterion, because although the principle can be substantive – that people are treated proportionately according to their circumstances - it is also a demand for consistency, requiring that like cases should be treated alike. The term is not without its ambiguities, and it is not taken in the same way in different contexts (Legrand, 1987), but the emphasis on consistency can be seen as a concomitant of a normative approach to service delivery which emphasises rule-based allocations.

The norms of public service also have a powerful influence on organisational structures. The key concept here is cost-effectiveness. Because adverse selection is not an option, and the quantity of service is not easily reduced, cost-effectiveness is mainly achieved through the elimination of “waste”. An example is the minimisation of unused capacity; few aspects of the UK National Health Service horrify the public and press as much as the thought of empty beds - even if maintaining spare capacity is fundamental to the efficient and responsive operation of a service.

“An empty hospital bed has been to NHS management what garlic flowers and holy water were to Dracula. All hospital beds must be occupied at all times, otherwise there was waste.” (Dalrymple, 2000)

Some commentators see the public services as intrinsically wasteful. For example, Peters and Pierre suggest that public services have been insulated from economic pressure and that they can consequently be criticized for fostering organisational slack (Peters, Pierre, 1998, p 223). The evidence for that proposition is based in the disparity between costs in the public and private sectors, and that has been explained above in different terms. Slack is supposed to mean something different: that there is a reserve of resources, which can be used to adapt to changes in

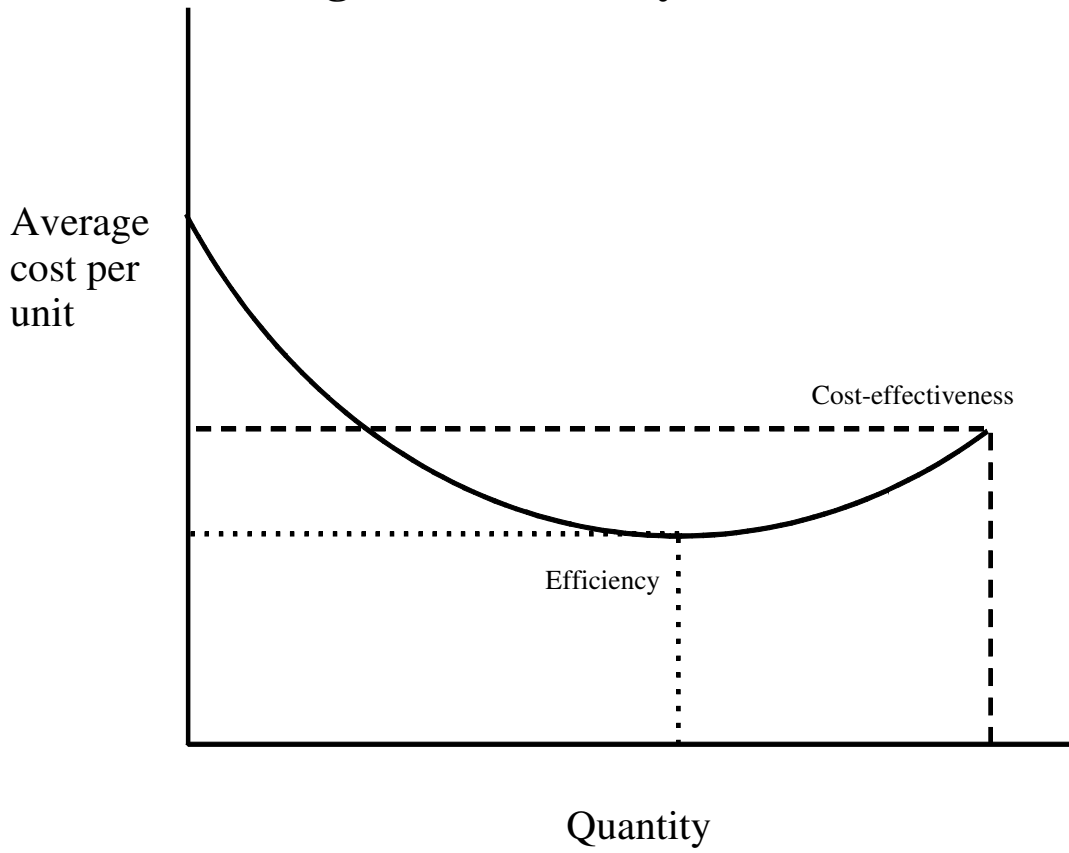
circumstances (Cyert, March, 1963). The idea has been translated in studies of the public sector into a focus on relative wages (Busch, Gustaffson, 2002), but that only converts into the idea of a reserve of resources if one takes the view that labour costs are flexible. There is in truth little tolerance of the kind of organisational slack found in the private sector. On the contrary, the refusal to allow spare capacity can lead to inflexibility, often coupled with obstructive procedural rules such as meticulous accounting for minor expenditure. The issues are not avoided when public services are sub-contracted to independent providers: contracts have to be specified and monitored to meet the criterion of cost-effectiveness, with the result that the sub-contractor, operating under the aegis the public sector, is constrained to work in the same way (Hudson, 1994).

The idea of a “public service ethos” is even more tangled than the central issues being discussed in this paper, and I cannot hope to do it justice here. Boyne refers to a limited range of values, such as service to the public and organizational commitment (Boyne, 2002), but the idea might include, for example, concepts like altruism, service, trust, integrity, impartiality, fairness and partnership. (Brereton, Temple, 1999). Part, certainly, reflects principles appropriate to the concept of a public service - for example, a commitment to public policy, to service and to equity – but this is overlain with many other values and ideas. It may be unwise to claim that the public services share many principles in common. There are distinctions between “service ideologies”: views and norms about service delivery, generally formed in response to the prevailing conditions in particular activities and professions (Smith, 1980; Spicker, 2006b). If social workers focus on risk, housing officers on equity and prison officers on security and support, that reflects the pressures, demands and expectations of the work they do. What is true in each case is that, even if the specific values differ, public service tends to be seen as a moral activity, rather than an economic one; that is consistent with the normative nature of the concept.

Several of the arguments I have reviewed about public services seem to suggest that the characteristics of public services are conventional, vague or puzzling. I have argued, on the contrary, that many of the observed patterns of behaviour of public organisations – goals such as accountability and effectiveness, organisational structures such as bureaucracy and the reduction of waste, and the values of public service - can be explained in structural terms. Public services differ from production for profit in their priorities, costs, capacity and outputs. The differences between public services and other organizations are not only due to the intervention of public policy, but to the other characteristics of such services – the relationship with the public, the element of redistribution, and the operation of services as a trust.

Whether the objectives of public services are desirable, and whether it is right to produce at a higher unit cost to achieve social aims, are questions of policy, which depend on normative arguments. They are not resolvable empirically. Measures intended to create conditions which will optimise commercial production - like European intervention to develop competition, or pressure on public services for productive efficiency - are consequently misplaced. Public services operate in different ways, and by different criteria, than commercial producers do.

Figure 1: Efficiency and cost-effectiveness



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