# How to Improve the Provision of Global Public Goods

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The studies in the volume suggest that the world is at a turning point in the provision of global public goods. There are many signs of adaptive inefficiency, with institutional change lagging far behind rapidly evolving realities.[1] So, even the best-intentioned policies often lead to limited or distorted results. But incipient institutional reforms are discernible: existing molds are becoming brittle, and policymaking and public management patterns are being reconfigured. There is a clear window of opportunity for further change. Based on the analyses in the volume, addressing the following problems seems especially urgent:

- Standard concepts and theories on public goods are inadequate for understanding current realities, capturing the growing phenomenon of global public goods, and providing effective policy guidance.
- Decisionmaking systematically excludes some of those affected by global public goods.
- Financing often comes out of international development assistance.
- The organization of production is compartmentalized and scattered.

[1] The term *institution* refers to the rules and norms of behavior that structure the incentives of economic and social agents, in the sense proposed by North (1990). As North (1998 [1995], p. 26) notes, "allocative efficiency is a static concept with a given set of institutions; the key to continuing good economic performance is a flexible institutional matrix that will adjust in the context of evolving technological and demographic changes as well as shocks to the system"—that is, adaptive or dynamic efficiency.



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Most of the chapters' suggestions on how these problems could be solved build on current reforms and are aimed at nudging forward ongoing change—toward a more adequate provision of global public goods. The case studies, in particular, provide more detailed and issue-specific analyses (see the annex for a brief summary of the case studies). The policy recommendations emanating from the entire volume can be summarized in four parts: refurbishing the analytical toolkit, matching circles of stakeholders and decisionmakers, systematizing the financing of global public goods, and spanning borders, sectors, and groups of actors.

## REFURBISHING THE ANALYTICAL TOOLKIT

Public goods are usually defined as goods with nonexcludable benefits and nonrival consumption. Nonexcludability means that it is technically, politically, or economically infeasible to exclude someone from consuming the good. Nonrivalry means that one person's consumption of the good does not detract from its availability to others. If a good is nonrival, it can be made available to additional users at zero—or close to zero—cost. It need not be reproduced for each new consumer. So, the only costs involved in making it more widely available would be those that its further distribution might entail.

Knowledge is an example. Think of the many generations that have benefited—and continue to benefit—from indigenously developed medicines in developing countries. Or consider the incalculable increase in human welfare due to the diffusion of mathematical and scientific knowledge—such as the Pythagorean theorem—since ancient times. It is usually inefficient to exclude someone from the consumption of nonrival goods.

Knowledge is also a useful example for illustrating the issue at the center of the chapters by Desai and by Kaul and Mendoza (in the volume): differentiation between a good's potential and actual properties. Some types of knowledge, notably knowledge with potential commercial value, are not in the public domain but instead are made exclusive through instruments such as intellectual property rights.[2] At the same time, essen-

[2] Knowledge is often made exclusive for good reason. As Correa (in the volume) discusses, there is a tradeoff between static efficiency (the gains from sharing existing knowledge as widely as possible) and dynamic efficiency (providing incentives for innovators to generate more knowledge). The objective is to strike the proper balance so that welfare gains are maximized within the current generation and across different generations.



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tially private goods such as basic education are made public by design. They are often publicly provided in such plentiful measure that there is no need for rivalry among potential consumers.[3] As brought to light by the previous chapter's reexamination of the notion of publicness and analyzed in detail by Desai in his historical review of the concept of public goods and public provision, the properties of goods are variable and subject to change—over time and across regions, cultures, and population groups. And as Desai adds, the issue of what goods to make public or private continues to generate fierce debate.

These insights, in conjunction with the challenges posed by current political realities, inspired the formulation of four analytical tools that could improve the understanding of public goods and support decisionmaking on issues of privateness and publicness. The four tools, which no doubt require further research and debate, are an expanded definition of public goods and global public goods, the triangle of publicness, the inherent connection between equity and efficiency in the provision of global public goods, and the concept of adequate provision (as opposed to optimal supply) of public goods.

### An Expanded Definition of Public Goods and Global Public Goods

Kaul and Mendoza propose expanding the standard definition of public goods on two levels. On one level they build on the standard definition of public goods, adding that any goods characterized by nonrival or nonexcludable properties are potential candidates for actually being public and available for all to consume. On the next level they expand the definition to identify goods that are de facto public or inclusive. The revised, two-level definition is as follows:

- *Definition 1:* Goods have a special potential for being public if they have nonexcludable benefits, nonrival benefits, or both.

[3] Beyond ethical and moral reasons, this may occur with education because consumption of this private good generates such large and important positive externalities (an example of "joint products" in the public goods literature) that a decision is made to make it not only free of charge but often compulsory. Most countries have public systems that make education accessible to the general public. International efforts to enhance the provision of basic education may elevate this national public good to the status of a global public good. See the Millennium Development Goals at http://www.un.org/millenniumgoals/.



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- *Definition 2:* Goods are de facto public if they are nonexclusive and available for all to consume.

The difference between the two definitions is based on the distinction between a good's potential for being inclusive (a potential shared by all goods that are nonexcludable, nonrival, or both) and its actually being inclusive (which may mean that the good is rival or excludable but has been made nonexclusive). Taken together, the definitions clarify how the inclusiveness and publicness of goods may change even though the goods do not. Whether goods become de facto public often depends on technology and on policy choice.

By analogy, de facto global public goods are defined as follows:

- *Definition 3:* Global public goods are goods with benefits that extend to all countries, people, and generations.

Just as goods can be potentially public, they can be potentially global. And public goods can be made global. For example, national postal systems have been harmonized and linked to form a global postal system. Definition 3 refers to a good that is actually global in its publicness. It is a demanding definition. Some goods may be universal, but many others are not. As suggested in the 1999 predecessor to the volume (Kaul, Grunberg, and Stern 1999), a less strict definition could be that a good is globally public when it benefits more than one group of countries and does not discriminate against any population group or generation.

The expanded definition avoids the normative element that often marks discussions of public goods. Many textbooks conclude, based on the standard definition, that a good with potentially rival and excludable properties is—or ought to be—private and that its provision ought to be left to the market. This means that the decision about which goods to make private and which public is seen largely as a technical rather than a political matter. The state's role becomes one of providing "market rejects"—nonrival and nonexcludable goods that do not fit the conditions of market transactions. Partly because of this standard definition, there is a widespread misconception that public goods are state-provided.

The expanded definition proposed by Kaul and Mendoza proceeds in a positive way and defines public goods as what they are: goods in the public domain, available for all to consume and affecting all. A wide range of things occur in the public domain, including potentially excludable public bads such as crime, noise, violence, pollution, and computer viruses.



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Furthermore, the expanded definition allows for a much clearer identification of various global public goods—often moved across the private and public domains according to policy choice (see examples in box 1).

Looking through the lens of the expanded definition at the issues discussed in the case studies in part 4 brings out the socially determined character of many public goods, including global public goods. The chapter by Mehta (in the volume), for example, shows how water is being pulled along the public-private continuum by different societal forces and interests. Recognizing the social mantle of goods also makes it possible (as seen below) to better understand why some of these goods are engulfed in controversy.

### The Triangle of Publicness

Placing public goods back in the public domain and reintroducing a notion of policy choice raises the question of how well publicness in consumption is matched by publicness in decisionmaking and in the distribution of net benefits across various parts of the global public. Publicness in decisionmaking and distribution does not form part of the definition of a public good. The intention here is to examine goods identified as public in greater detail across these dimensions.

Kaul and Mendoza (in the volume) offer a simple framework for such an analysis: the triangle of publicness (see case A, figure 2). The vertical axis measures publicness in consumption, the left side of the base publicness in decisionmaking, and the right side publicness (or equity) in the distribution of a good's benefits. The triangle makes it possible to examine how various public goods fare along these three dimensions.

The triangle of publicness raises a host of conceptual and methodological issues. Yet its potential usefulness is clear even at this early stage. It could eventually be used to draw attention to one of the key imbalances considered in the volume: the discrepancy between the full publicness in consumption that typically marks global public goods and the limited publicness of the decisionmaking through which these goods are selected and placed in the global public domain (see examples in figure 2). The triangle could help policymakers and the public identify issues that require review of current institutions and ways of managing globalization.



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**Box 1**

**The De Facto Mix of National Goods and Global Public Goods**

Figure 1 classifies global public goods primarily according to their humanmade (social) properties. On the one hand are national goods that are private in the sense that they are not global in scope. On the other hand are global public goods with benefits and costs that have a wide cross-national impact.

The goods in quadrants 2 and 4 require harmonization of national policies. Policy harmonization is often intended to encourage countries to internalize cross-border externalities: to help generate positive ones and to take back negative ones. Several goods in quadrant 2B involve such efforts. Efforts to increase the inclusiveness of such goods as international communication and transport systems are aimed at improving the worldwide availability of network externalities. The same intention usually drives initiatives to increase adherence to norms and standards, including for human rights, and foster respect for national sovereignty. Most of the goods in quadrant 2B are oriented toward unleashing what various national and transnational actors perceive as global benefits.

By contrast, many of the goods in quadrant 4 involve the internalization of negative cross-border externalities. These spillovers can be diffuse, emanating from almost all countries—as with carbon dioxide emissions, which combined create the risk of global warming. Or they can originate in certain countries but potentially affect all, as with the outbreak of a new contagious disease. The policy response to diffuse externalities could be to establish an international regime that all countries would be expected to comply with. The promotion of basic human rights, shown in quadrant 2B, is an example. But depending on the public good under consideration, alternative policy options might be preferable, as shown in quadrants 4A and 4B.

Quadrant 4A lists goods with policy responses that involve defining and assigning new (national) property rights, such as national pollution allowances or the exclusive economic zones created by the 1982 United Nations Convention on the Law of the Sea. Quadrant 4B includes goods involving measures similar to those in the national context and are aimed at making certain crucial goods—such as basic education and health care—universally available.

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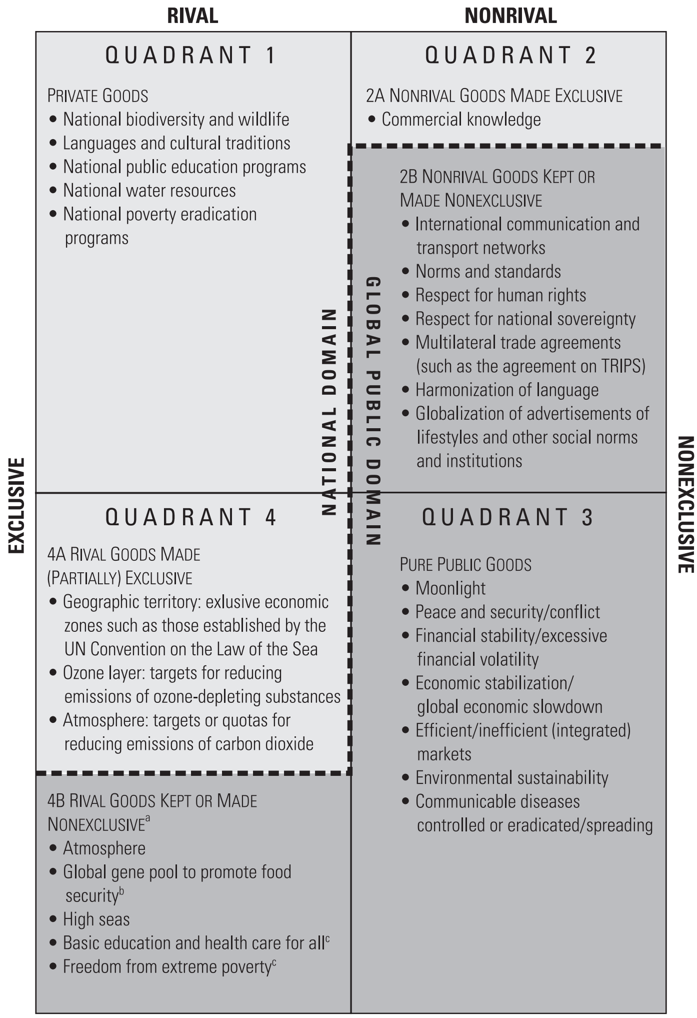
## Figure 1

### The de facto mix of national goods and global public goods




a. The goods in this quadrant are kept or made nonexclusive to current generations (as with education) and future generations (as with the atmosphere).
b. Refers to the International Treaty on Plant Genetic Resources for Food and Agriculture (see http://www.fao.org/ag/cgrfa/).
c. These goods are included in the Millennium Development Goals (to be achieved by 2015) adopted by the UN General Assembly (see http://www.un.org/millenniumgoals/).

*Source:* Kaul and Mendoza (in the volume)



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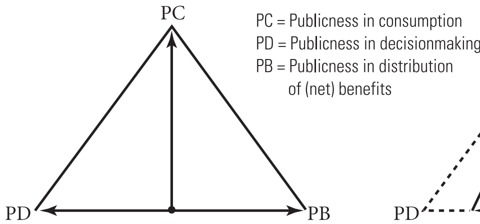
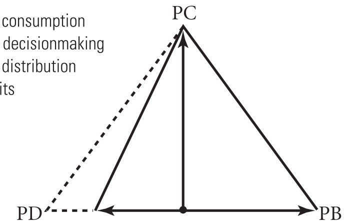
**Figure 2**

## Examining global public goods through the triangle of publicness

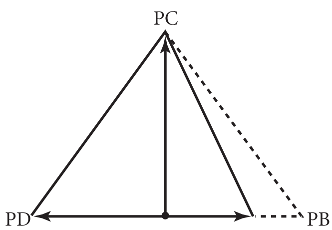



**Case A:** The ideal triangle of publicness



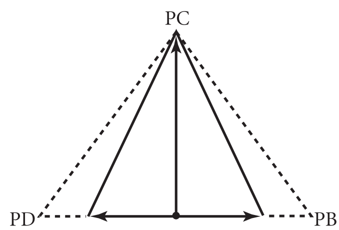

**Case B:** Decisionmaking is not completely public, but consumption and the distribution of benefits are.

Example: G-7 stabilization of major currencies.



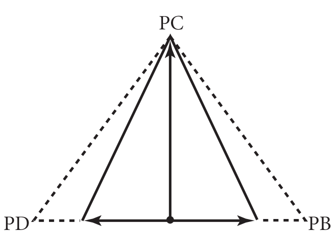

**Case C:** The distribution of benefits is not completely public, but consumption and formal decisionmaking are.

Example: The multilateral trade regime. The World Trade Organization (WTO) follows a one-country, one-vote procedure and so appears to satisfy publicness in decisionmaking. Yet many developing countries have limited influence in the trade negotiations process.

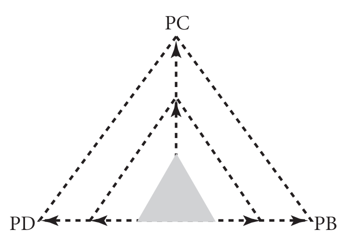



**Case D:** The distribution of benefits and decisionmaking are not completely public but consumption is.

Example: International financial architecture.




**Case E:** Public goods—including global public goods—often have limited benefits for women. Furthermore, there are very few women in leadership positions, leading to limited publicness in decisionmaking.




**Case F:** The shaded area represents a regional public good with growing externalities—making this good more public in consumption, globally. It would be interesting to examine if it also becomes more public in benefits and decisionmaking. Example: Water management.

*Source:* Kaul and Mendoza (in the volume)



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## The Connection Between Equity and Efficiency in the Provision of Global Public Goods

Another conceptual issue related to the provision of public goods involves the tradeoff between equity and efficiency. This issue is controversial enough at the national level—but what about in the international context? Sandmo (in the volume) extends Samuelson's (1954) treatment of optimal public spending to the international level. Sandmo's two-country (rich and poor), two-good (public and private) model introduces the concept of varying cost efficiency across countries in the production of a pure public good, implying the possibility of efficiency gains from comparative cost advantages in its production.

Suppose that there is a certain level of total output of private goods in the world today. Now suppose that a global public good (such as climate stability) needs to be produced and that its production requires private goods as inputs. If it is cheaper (that is, more cost efficient) to produce the good in a poor than in a rich country, it would make sense for a poor country to produce more of it. But in the absence of international income transfers, contributing more to the provision of the global public good would require the poor country to reduce its consumption of private goods, of which it has fewer than the rich country to begin with. Thus the pursuit of more efficient production of the global public good could generate an inequitable outcome: the poor country could be made worse off.[4] Without international income transfers, it is difficult to achieve efficient and equitable provision of global public goods. This provides theoretical support for the assertion that the criterion of cost efficiency alone cannot guide international cooperation. If no country is to be made worse off as a result of cooperation, equity considerations have to be borne in mind.

## From Optimal Supply to Adequate Provision

Policymakers have made good use of the "Samuelson condition" on the optimal provision of public goods (Samuelson 1954). This condition states that a public good is optimally provided when the cost to society of an additional unit of the good equals the amount that society is willing to

[4] Furthermore, since income transfers could make everyone better off, the situation is not Pareto optimal.



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pay for that unit. Sandler (in the volume) discusses the many conceptual and methodological problems that arise when attempting to empirically assess this notion of optimality. Because of these measurement problems, Sandler proposes an interesting innovation: an index of optimality based on the insight that club-provided public goods (goods that are relatively nonrival and excludable) tend to be provided efficiently. In simplified terms, the index suggests that the larger is the number of club-provided goods—relative to the total number of public goods—the smaller is the risk of underprovision.

Samuelson's optimality condition was formulated in the context of the theory of public finance and thus as a tool for determining the balance between public preferences and public expenditures. But today public goods are not necessarily state-produced and are often multiactor products. They depend on public and private spending. So, a balance between public preferences and public expenditures could coincide either with overprovision, if private spending is adequate, or with abject underprovision of many public goods, if private resource allocations are insufficient. Taking a good—partly or fully—out of the fold of government requires rethinking the notion of adequate provision.

Conceição (in the volume) focuses on this issue. He suggests a definition of deficient provision that differentiates among provision problems—underuse, underprovision, undersupply, malprovision, overuse, and various access problems. Based on this definition, he offers profiles of the provision of selected global public goods. The profiles start with technical assessments of the goods' provision status, attempting to answer such questions as these: How close has the world come to controlling polio? And do all countries benefit from the multilateral trade regime? The consequences of provision problems are then translated into economic terms and, in some cases, human development terms.

Though preliminary, the profiles illustrate the usefulness of this approach. Such profiles could be helpful when searching for opportunities where additional investment in global public goods offers high social—and global—returns. The profiles are intended to encourage further analysis, yet even in their present state they convey a sense of urgency. In many cases the data show that the costs of deficient provision are extremely large—and growing—and clearly outweigh the costs of corrective actions (see box 2).



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## Box 2

### The Provision Status of Some Global Public Goods Today

Because the provision profiles provide measures of corrective action costs and estimates of benefits, a natural next step would be to compare the two, with adequate discounting over time of future benefits, and perform a cost-benefit analysis. Goods promising high social returns would be prime candidates for investment. Cost-benefit analysis has long been used to assess the provision of public goods. But taking this step requires considerable effort and deep analysis of concepts, measurements, and data. It also requires identifying the goods to be produced with great precision and, especially, decomposing them into manageable components. The profiles are intended to illustrate the type of assessment that could facilitate policymaking on global public goods. They go in the direction of cost-benefit analysis, but they are not there yet. Still, it is interesting to juxtapose the estimated costs of underprovision and corrective actions (table 1). For the trade regime and reduction of excessive disease burden, the costs of inaction are about 100 times the costs of corrective actions.

**Table 1**
**Annual Costs of Inaction and Corrective Actions for Provision Problems of Selected Global Public Goods**
*(billions of U.S. dollars)*

| *Type of costs* | *International financial stability* | *Multilateral trade regime* | *Reducing the excessive disease burden* | *Climate stability* | *Peace and security*[a] |
|---|---|---|---|---|---|
| Inaction | 50[b] | 260[c] | 1,138[d] | 780[e] | 358 |
| Corrective actions | 0.3[f] | 20[g] | 93[h] | 125[i] | 71 |

a. The costs for peace and security refer to just nine conflicts in the 1990s. These estimates are not annual costs—they are the costs incurred over the duration of the conflicts.
b. Includes only banking crises in developing and transition countries; excludes currency and twin crises.
c. Net benefits from removing distortions in goods markets of industrial and developing countries.
d. Refers only to Africa's excessive burden of communicable disease (relative to the burdens in Europe and North and South America) in 2000.
e. Indicates the midrange potential reduction in global GDP if the atmospheric concentration of carbon dioxide reaches twice the level of the pre-industrial era.

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**Table 1** *(continued)*

f. This is a partial estimate; includes only technical assistance spending by the International Monetary Fund (IMF).
g. The estimated costs of corrective actions for the multilateral trade regime are not annual, and involve mostly one-time costs associated with capacity building.
h. Estimated funding required by 2007 for the interventions proposed in CMH (2001), including commitments by both industrial and developing countries, to scale up existing interventions. Annual commitments would have to increase to $119 billion by 2015. The interventions would significantly reduce the excessive disease burden in developing countries. There are no estimates of how long this level of commitment would have to be maintained.
i. Annual costs to industrial countries, over 10 years, of meeting Kyoto Protocol targets for carbon dioxide emissions. (Estimate assumes full emissions trading and a 0.1 percent annual loss in GDP from meeting the targets.)

*Source: Conceição (in the volume)*

Box 3 recaptures the main suggestions of this section. It shows that from the suggested expanded definition of public goods flow a number of possibilities for the development of analytical tools that could help generate new policy insights and support decisionmaking on issues of privateness and publicness.

## MATCHING CIRCLES OF STAKEHOLDERS AND DECISIONMAKERS

Because the provision and even the public and global properties of global public goods are often contested and a matter of choice, the volume devotes considerable attention to analyzing the structures and processes of political

**Box 3**

**New Analytical Tools for Understanding Public Goods**

- Expanding the definition of public goods and global public goods.
- Assessing goods using the triangle of publicness.
- Recognizing the link between efficiency and equity in the provision of global public goods.
- Complementing the concept of optimal supply with that of adequate provision.



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decisionmaking on global public goods. These decisionmaking structures and processes correspond to the political side of the provision process (as opposed to the production side). Ideally, an examination of the political process should start from the national level. But such an approach requires detailed country studies that are beyond the scope of the volume, though certainly desirable as follow-on research. Thus the analyses in the volume focus on how decisionmaking on global public goods works internationally.

According to Desai (in the volume), political decisionmaking on the provision of global public goods has two important aspects:

- *Preference revelation*—what goods the public wants in the public domain and what it is willing to pay for them.
- *Political bargaining*—how decisions are made on which goods to include in the public domain, how much of these goods to include, and how to make them accessible to all (including through such means as logrolling, "pork barreling," free riding, and other strategies that negotiating parties may pursue).

In addition, other chapters discuss another, more problematic aspect of decisionmaking:

- *Political participation*—of different groups of actors and stakeholders.

Broad representation in political decisionmaking is not yet a reality at the international level. Inadequacies in the political process result from a mismatch between the decisionmaking circles represented in international arenas and the range of spillovers associated with specific global public goods. The decisionmaking circles for some globally *inclusive* public goods are *exclusive* in the sense that not all the people affected by a good's spillovers are included or, if they are, the decisionmaking process does not ensure their fair participation in the decisions made.

## The Forgotten Principle of Equivalence

Given the mismatch in decisionmaking, it is not surprising that protesters have been marching outside the conference halls of the Group of

Eight (G-8)[5] and Bretton Woods institutions (World Bank and International Monetary Fund). Inside these halls issues are being negotiated that are likely to affect the protesters' lives and those of future generations.

By the same token, it is appropriate that representatives of emerging and yet-to-emerge market economies be included in some of the (so far highly exclusive) meetings dealing with international financial issues, such as the Financial Stability Forum (http://www.fsforum.org). Regardless of whether they are engaged in international financial markets, all countries are affected by international financial instability: the ripple effects of these markets' boom and bust cycles reach into every corner of the world.[6] Moreover, it is not by chance that women's groups seek to add a gender-sensitive perspective to all major policy debates, particularly since men and women are often affected differently by various aspects of globalization—as with international trade.[7]

These developments at the international level are somewhat surprising, since at the country level this mismatch has been solved—at least in theory, if not always in practice—through the well-established principle of fiscal equivalence or subsidiarity. This principle, based on important work by Breton (1965), Olson (1971 [1965]), and Oates (1972), suggests in simplified form that those affected by a good should have a say in its provision. So, it is desirable to align as much as possible the structure of political

[5] Since 1975 the heads of state or government of the major industrial democracies have met annually to deal with the major economic and political issues facing their societies and the international community. The six countries at the first summit, held in Rambouillet, France, in November 1975, were France, Germany, Italy, Japan, the United States, and the United Kingdom. They were joined by Canada at the San Juan, Puerto Rico, summit of 1976 and by the European Community at the London summit of 1977. Starting with the 1994 Naples summit, the G-7 and the Russian Federation have met as the "Political Eight" (P-8) following each G-7 summit. The 1998 Birmingham summit saw full Russian participation, giving birth to the G-8, although the G-7 continues to function alongside the formal summits (http://www.g7.utoronto.ca/g7/what_is_g7.html).

[6] Moreover, economic policies in industrial countries, made individually or in concert (such as through the G-8), often have a substantial impact on developing countries. For example, Esquivel and Larrain (2002) find that a 1 percentage point increase in exchange rate volatility in the G-3 (Germany, Japan, and the United States) reduces real exports from developing countries by 2 percent.

[7] See Cagatay (2001) for a discussion on the impact of trade liberalization on gender inequality and on the impact of gender inequality on trade performance. For a broader discussion of global issues and gender, see the Web site of Development Alternatives with Women for a New Era at http://www.dawn.org.fj.



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decisionmaking (particularly different levels of geographic jurisdiction) with the range and type of a good's spillover effects. This implies that a local public good would best be provided at the local level and that a good with benefits extending throughout a region would best be provided at the regional level.[8] When it comes to global public goods, these principles often seem to be forgotten.

In many cases issues that concern all people are discussed by only a few decisionmakers, operating as "clubs" of technically specialized negotiators (Keohane and Nye 2000). And decisions on dimensions—or building blocks—of global public goods that would best be dealt with at lower levels are often made internationally, through an approach that is overly standardized and oblivious to local realities (for examples, see Castro and Cordero, Correa, Griffith-Jones, Mehta, Mendoza, and Perrings and Gadgil in the volume). This approach is disconcerting because it curtails the role of political decisionmaking as a means of revealing the demand for global public goods. The lack of effective representation may translate into a lack of political pluralism. And this lack of political pluralism may limit competition between alternative goods in assigning spending priorities or between alternative ideas about policy and strategy (see Breton 1996 for a discussion on this point in reference to the national level).

This is not just a theoretical risk. It is real, as Buira (in the volume) demonstrates. The lack of publicness in decisionmaking can weaken the technical soundness of policy choices, undermine the legitimacy and credibility of organizations, and erode the sense of policy ownership so essential for effective follow-up to international agreements. Once implementation begins, it may take years or decades to correct wrong policy choices, as the bitter and costly experiences with first-generation structural adjustment programs showed.

The right of all people to have a say in matters that affect their lives is a widely recognized basic principle of democracy and equity. So, for both equity and efficiency reasons it is important to search for ways of making political decisionmaking on global public goods more inclusive

[8] For a more detailed discussion on these principles, see the financing chapter by Kaul and Le Goulven (in the volume), especially box 1. That chapter also discusses conditions that may override the principles discussed here. Those conditions involve situations where the production of a good entails economies of scope or scale. But even then it would be important to match the circle of potential consumers with that of decisionmakers.



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and more public. The challenge is to align the circles of those to be consulted (or to take part in the decisionmaking) with the spillover range of the good under negotiation.

**New Sources of Political Power**

But where do those who seek fairer, more effective representation turn? As Held and McGrew (in the volume) argue, the world has entered a new era of politics characterized by overlapping networks and constellations of power and an increasingly dense web of international regimes and organizations—all a response to the growing cross-border policy challenges. The characteristics of today's world, Held and McGrew suggest, are markedly different from the Westphalian principle of sovereign state rule over a bounded territory. Power is now apportioned and bartered by various entities—including governments, civil society organizations, and corporations—at the national, transnational, regional, and international levels. Groups of actors and stakeholders are reaching out and linking up, creating circles of interests—whether to control corruption, improve accounting standards, promote gender issues, protect the environment, or formulate norms and standards for the construction of dams—and partnerships of all kinds (Reinicke and Deng 2000).

Nation-states—individually or collectively, as intergovernmental bodies—are no longer the sole locus of power. Summits and informal gatherings outside the multilateral system are the main and perhaps only decisionmaking bodies on global affairs. As Edwards and Zadek (in the volume) point out, civil society organizations and corporations are key players on the global stage. They have created international arenas for consultation and formation of political consensus. The World Economic Forum (http://www.weforum.org) has developed tremendous convening power. And Porto Alegre (http://www.portoalegre2002.org) and other summits of civil society have become well-established events (Pianta 2001). Moreover, business is increasingly setting norms and standards, as is civil society. Human rights are just one of many examples. This trend has led some to ask what this expansion of nonstate public policymaking means for public life (Cutler, Haufler, and Porter 1999, p. 22).

Where do these trends leave governments and intergovernmental, notably multilateral, decisionmaking bodies? It is occasionally useful to



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summarize what is emerging as a possible societal consensus from the manifold processes of political networking, debate, partnering, and alliance building. Drawing from tacit concerns and translating these into firmer, or even binding, agreements helps create a common, updated set of rules that can serve all as reference points for some time. This summing up, and the preference aggregation that often goes with it, are better accomplished by the conventional governmental and intergovernmental bodies.

Only governments have the power to turn decisions into firm and binding agreements. And only through governments can voting power temper the influence of private purchasing power. This is one reason that democracy has been promoted and spread worldwide. Balanced, sustainable development needs both the invisible hand of the market and the visible one of the state. And the visible one must be the public's hand, not a hand severed from the public.

But thinking and acting globally is not a natural strength of governments, precisely because nation-states are territorially bound. Transnational nonstate actors, such as business or civil society organizations, sometimes have a more genuinely global perspective—say, on environmental issues. That explains why intergovernmental meetings, such as the UN Earth Summit in Rio de Janeiro in 1992, attract such huge interest from business and civil society organizations. But for the relationships between state and nonstate actors to be effective, two conditions must be met: multilateral bodies must be fully representative, and arrangements must be in place for systematic dialogue and consultation between state and nonstate actors. Today's multilateral decisionmaking bodies meet these conditions only partially.

### Persistent Imbalances in Decisionmaking: *Missing Voices, Failing Rules*

The current problems with multilateral decisionmaking affect both state and nonstate actors. Among state actors, developing countries are the main concern. The imbalances among states as well as those between state and nonstate actors are not always easy to detect, because in many cases the problem is not merely a quantitative issue—whether all parties have a seat at the negotiating table. The main problem is often qualitative—how well various stakeholders are represented.

For developing countries, Buira (in the volume) shows that in some instances matters not only have failed to improve but have actually worsened (see box 4). The divide among member countries in the International Monetary Fund (IMF)—in decisionmaking and in access to its resources (Special Drawing Rights, or SDRs)—has widened since the IMF was created in the mid-1940s. The IMF's membership comprises a small group of creditor industrial countries with a majority vote and a large group of mostly debtor developing countries with a minority vote and limited influence over the IMF's policies. For example, on the IMF's executive board 24 industrial countries hold 10–11 seats—while 42 African countries hold only 2. As Buira (p. 235) points out,

> Only with transparency, accountability, and legitimacy can international institutions like the IMF hope to reconcile each country's political and economic objectives with the international community's wider interests, including the provision of global public goods like financial stability and market efficiency.

Even in multilateral arenas where all countries have a seat, some countries clearly form the inner circle of decisionmaking, leaving others in the outer circle, as Chasek and Rajamani (in the volume) point out. There is a vast gap in negotiating capacity between industrial and developing countries. Industrial countries generally have large delegations equipped with various kinds of negotiating and technical expertise, while developing countries often depend on one-person delegations. Moreover, a one-person delegation today does not necessarily have the same negotiating strength as a one-person delegation several years ago. The negotiating load has increased: the international policy agenda is lengthening, issues are becoming increasingly complex, organizations are multiplying, conference venues are being shifted from continent to continent, meetings are being held in parallel sessions, and "informal informals" are becoming a common negotiating tool.[9] All this stretches small delegations to the limit.

In addition, developing countries have become a highly diversified group. As a result relying on traditional alliances such as the G-77 may

[9] "Informal informals" are consultations among parties outside the formal negotiating process aimed at exploring the scope for consensus or possible bargains.



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**Box 4**

**The Decisionmaking Imbalance at the International Monetary Fund**

The IMF continues to use the original formula for determining members' quotas. It is therefore not surprising that current quotas are far from representative of the actual sizes of economies, of their ability to contribute to the Fund or of their importance in the world economy. Using 1998 data, table 2 shows how such large countries as Brazil, Mexico and the Republic of Korea with real GNPs and populations much larger than those of Belgium, the Netherlands, and Switzerland, have quotas that are only a fraction of the latter's and fewer votes. Thus their share in decisionmaking is not commensurate with the systemic importance of their economies.

**Table 2**
**IMF Quotas and GNPs for Selected Countries**

| *Country* | *Quota, effective January 1999*[a] *(billions of Special Drawing Rights)* | *Purchasing power parity GNP, 1998 (billions of U.S. dollars)* | *GNP, 1998 (billions of U.S. dollars)* |
|---|---|---|---|
| Russian Federation | 5.945 | 580.3 | 337.9 |
| Netherlands | 5.162 | 339.3 | 388.7 |
| China | 4.687 | 3,983.6 | 928.9 |
| Belgium | 4.607 | 239.7 | 259 |
| Switzerland | 3.458 | 189.1 | 284.8 |
| Brazil | 3.036 | 1,021.4 | 758 |
| Mexico | 2.586 | 785.8 | 380.9 |
| Denmark | 1.643 | 126.4 | 176.4 |
| Korea, Republic of | 1.634 | 569.3 | 369.9 |

a. Following the IMF's Eleventh General Review of Quotas.

It would be difficult to argue that the quota of China, the second largest economy in the world measured in terms of Purchasing Power Parity, should be smaller than that of The Netherlands and similar to that of Belgium. Or that Belgium's quota be 52 percent larger than that of Brazil and 78 percent larger than that of Mexico. Moreover, it appears that many of the major differences arise mainly between the

*(continued next page)*



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**TABLE 2** *(continued)*

quotas of developed and developing countries and are not simply the result of history. In the calculation of quotas for Switzerland, a recent member of the Fund, the quota was determined in line with that of other industrial countries with a similar economic structure and levels of development. As a result, the distribution of quotas is skewed as some of the more recent quota numbers show (Table 3).

**TABLE 3**
**Distribution of IMF Quotas by Country Group, 2001**

| *Country group* | *Special Drawing Rights (millions)* | *Share of total (percent)* |
|---|---|---|
| 24 industrial countries | 130,567 | 61.4 |
| Oil-exporting countries | 20,307 | 9.6 |
| Non-oil-exporting developing countries | 61,527 | 29.0 |
| Total | 212,401 | 100.0 |

*Source: Buira (in the volume)*

not be the best coping strategy for small delegations to pursue.[10] So, they are losing an important support mechanism. A further constraint is that developing countries often cannot depend on briefings from their capitals. They are, as Chasek and Rajamani put it, "negotiating on hollow mandates." Thus many have come to rely on civil society organizations for technical inputs. All this means that while many developing countries are

[10] The Group of 77 (G-77) was established on 15 June 1964 by 77 developing countries, signatories to the Joint Declaration of the Seventy-Seven Countries issued at the end of the first session of the United Nations Conference on Trade and Development (UNCTAD) in Geneva. Beginning with the first ministerial meeting of the G-77 in Algiers in 1967, which adopted the Charter of Algiers, a permanent institutional structure gradually developed, leading to the creation of G-77 chapters in Rome (Food and Agriculture Organization of the United Nations), Vienna (United Nations Industrial Development Organization), Paris (United Nations Educational, Scientific, and Cultural Organization), and Nairobi (United Nations Environment Programme) and the Intergovernmental Group of 24 in Washington, D.C. (IMF and World Bank). Although the membership of the G-77 has increased to 133 countries, the original name has been retained because of its historical significance (http://www.g77.org/).



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doing their best to cover multilateral negotiations, they are hardly in a position to set agendas. Most are agenda-takers and even policy-takers.

Thus having a seat at the negotiating table does not ensure effective representation. Matters become even more complicated when one examines the structure of multilateral bargaining, as Mendoza (in the volume) does. To bargain successfully, each party should have some chips to put on the table. Developing countries have fewer things to give than industrial countries and so fewer possibilities to strike a good deal. They may have to settle for the ''least bad'' compromise, as many developing countries did when ''trading'' for enhanced access to industrial countries' agricultural and textiles markets against the World Trade Organization agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). As Mendoza notes (p. 474–75),

> The WTO meetings in Seattle and Doha and the growing backlash against globalization indicate that the future of the trade regime rests on a more equitable distribution of gains from trade between and within countries. For developing countries the development impact of trade is a primary concern. Hence the provision of this global public good is more properly seen as striking a better balance between a free trade regime and a fair trade regime. Bargaining and negotiations are inherently poor vehicles for accomplishing such a task. A combination of a more balanced trade negotiations process and more development-focused policies and mechanisms in the WTO may be more effective.

Furthermore, Eigen and Eigen-Zucchi (in the volume) depart from the standard definition of corruption—the misuse of public office for private gain—and refer to a case of cross-national pressure as a possible example of corruption in the international context. While practices such as cross-bargaining and *quid pro quo* are actually quite commonplace in many international arenas, their discussion suggests that the international community needs to further elaborate what is, or is not, a corrupt practice in certain contexts—and determine how to respond to such practices.

But the developing countries' bargaining strength may vary by issue. As the chapters by Perrings and Gadgil and by Castro and Cordero (in the volume) show, in the environmental area developing countries often hold the key to solving critical global problems—and could potentially improve their negotiating position. The structure and functioning of many multilateral bodies thus remain controversial and unsettled. It is not sur-



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prising that these bodies' interactions with nonstate actors are often similarly unsettled—stumbling along from meeting to meeting but, as Edwards and Zadek (in the volume) point out, far from following clear rules of the road. The reasons lie on both sides.

On the side of nonstate actors, coordination among themselves is often a major challenge for a host of reasons, including the large number of actors, the diversity of interests, and the lack of resources and meeting facilities. The result is a cacophony of voices, making it difficult for government representatives to discern a coherent, actionable message.

On the side of intergovernmental bodies and organizations, a major constraint is lingering concern about the legitimacy and accountability of nonstate actors—a concern that nonstate actors at times fail to allay satisfactorily. According to Edwards and Zadek, part of the legitimacy and accountability problem is that the international advocacy efforts of civil society organizations are often weakly rooted in local and national politics. As they say (p. 210), "There is always a temptation to leapfrog over the national arena and go directly to Washington or Brussels, where it is often easier to gain access to senior officials and achieve a response."

For business actors the legitimacy issue is doubly difficult. It requires gaining trust among both civil society and governmental partners. Yet as Edwards and Zadek stress (p. 214),

> [B]oth enthusiasts and skeptics must be clear about how legitimacy is claimed and avoid conflating the requirements of different criteria, because doing so confuses the debate, makes solutions harder to find, and increases the likelihood that criticisms of legitimacy will be used to exclude rather than structure the involvement of dissenting voices. Any nonstate actor is entitled to voice an opinion.

For the time being, confusion continues to reign, and there is no systematic interaction between the different groups of actors. It is easy to see how G-8 decisions filter into multilateral negotiations but more difficult to determine whether organizations such as Oxfam, Greenpeace, Amnesty International, Médecins Sans Frontières (Doctors Without Borders), and the Self-Employed Women's Association (India) are heard.

Compared with just 10 or 20 years ago, today the world is much more democratic, pluralistic, and participatory. But compared with the publicness and globalness of the policy challenges it faces, decisionmaking is still too exclusive and nontransparent. And for global public goods to emerge, many actors worldwide have to contribute their share. Too little is done to enable all to have a sense of ownership of international policy agreements. Many stakeholders have a stake only in the global problems that affect them—not in the strategies to resolve them.

## Moving the Circles Closer Together

The principle of fiscal equivalence and the related notions of subsidiarity and decentralization were formulated with hard-nosed efficiency considerations in mind. Several chapters in the volume reconfirm the validity of these principles, pointing to costly policy mistakes that have occurred because the voices of key stakeholders are not being heard.

So why not apply, appropriately adjusted, the equivalence principle of public finance internationally? Recall that the principle suggests a simple formula: matching the span of jurisdictions (decisionmaking bodies) with that of taxpayers (stakeholders). Yet people can be taxed in many ways—by paying money to the state, by bearing the brunt of financial crises, by paying with one's health for, say, an inflexible intellectual property rights regime. Thus it would be appropriate to broaden the principle of fiscal equivalence into a more general principle of decisionmaker-stakeholder equivalence.

Albin (in the volume) arrives at a similar conclusion despite approaching the issue from quite a different angle and discipline. She examines what participants in multilateral negotiations perceive as just and fair in practice and concludes that "negotiators clearly believe that justice and fairness entail representing, protecting, and promoting the needs and concerns of all parties. In practice, then, justice and fairness mean a balanced settlement of conflicting claims" (p. 269). As she suggests, this perception highlights the importance of the structure and process of multilateral negotiations. According to her analysis, a fair process:

- Ensures as much as possible that all parties have an effective voice in representing their interests and concerns.
- Ensures that all claims are considered fully in the negotiation process.

How can a fair process be achieved? Several recommendations flow from the analyses in the volume. For example, Albin offers a set of criteria for reviewing the fairness and inclusiveness of current decisionmaking structures and processes. But many processes are complex and context-specific. In such cases, adjusting decisionmaking patterns would require the type of in-depth analysis provided by Buira. Moreover, decisionmaking patterns must allow constitutional and procedural issues to be raised and to be addressed transparently. There may be a need for an independent—perhaps civil society—actor to bring to light some of the current imbalances in participation and representation.

When considering enhanced participation by developing countries, it is also important to focus on capacity building, which Chasek and Rajamani (in the volume) highlight. For many developing countries a lack of national institutional capacity means a lack of negotiating strength in international negotiations. So, longer-term capacity building is important. But if global inequity is to be ended, shorter-term measures are also needed. As Chasek and Rajamani emphasize, providing financial support to enable delegates from developing countries to attend international conferences is important, but it does little to improve their countries' negotiating positions. What could be more effective is to support networking arrangements among developing country delegations. Another option would be to create issue-specific participation funds, following the example of the Intergovernmental Group of 24 (G-24).[11] The purpose would be to improve developing countries' capacity to define their policy positions on global issues and play a more active role in shaping the international policy agenda.

Edwards and Zadek (in the volume) present two sets of rules of the road to guide the interaction between state and nonstate actors. One, for nonstate actors, suggests ways in which they can enhance their legitimacy and strengthen their role in global governance, including improving transparency, demonstrating value added, and forming umbrella groups. The other, for international organizations, proposes steps for engaging more systematically with nonstate actors, such as adopting clear and impartial rules and supporting the participation of civil society organizations from developing countries. In addition, Edwards and Zadek recommend that international organizations consider establishing more joint bodies to facilitate open debate—for example, a world financial forum linked to the work

[11] The main objective of the G-24 is to harmonize the positions of developing countries on monetary and development finance issues. To this end, the group runs a studies program and organizes meetings and seminars, among other things (see http://www.g24.org/about.htm).



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of the IMF or a world trade forum linked to the work of the World Trade Organization (WTO).

Blanchard and others (in the volume) illustrate a potential role for the epistemic community in multilateral negotiations. They show, as Albin (in the volume) does, that concepts of justice and fairness are highly contested when applied to policy outcomes and can give rise to long and sometimes inconclusive debates. Modeling exercises could assist negotiators in trying to define what is just and fair when drafting a particular agreement. Mendoza (in the volume) also refers to modeling results, to assess whether and to what extent some reforms in the multilateral trade regime are fair. If such modeling capacity were regularly available at multilateral negotiations—on all sides of the negotiating table—debate could be made more productive and better informed, and decisionmaking considerably more transparent.

The work of the Intergovernmental Panel on Climate Change (http://www.ipcc.ch) has clearly demonstrated this, playing an important role in increasing certainty and generating policy consensus on global warming. Perhaps similar advisory panels should be formed for all key global issues. Such bodies would assess the current provision of goods and identify the costs of inaction and the costs of corrective actions, as suggested by Conceição (in the volume). This approach would allow the international community to see where investing in the global public domain could yield high social returns for all.

Besides the need to make existing decisionmaking arenas more public, contributors to the volume also sometimes see a need to form new bodies. In considering the growing scarcity of water, Mehta proposes the creation of a world water parliament, backed by regional parliaments, to help realize social and economic rights to water. She also sees a need for a mechanism to redress grievances, such as a world water court. Similarly, Mendoza proposes a trade and development review council, to allow members of the World Trade Organization, notably developing countries, to make a case for modifications in or exceptions to existing trade rules.

Many global public goods are not intrinsically beneficial. Their provision should be enhanced only if they are cost effective. At the same time, public goods are not distribution-neutral. A good may provide more utility to some actors than to others. And global public goods, probably more so than others, suffer from free riding (Keohane 1984; Martin 1999) because



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internationally there exists no equivalent to the institution of the state, which sometimes enforces or encourages cooperation nationally. It would thus be desirable for the international community to have a forum in which the provision status of global public goods could be reviewed and decisions made on how to avoid trapping the world in a prisoner's dilemma—a situation in which individual actors try to maximize their welfare by choosing not to cooperate, but end up worse off than if they had cooperated. The need to create such a body has long been recognized, and various proposals have been made to that end. Chief among them is the suggestion to transform the UN Economic and Social Council into an economic security council.[12] But the Economic and Social Council is a subsidiary body of the UN General Assembly. For a global policy forum to be effective, it would need to be a true apex body.

A forum that might perform such a role could be constituted by the countries that are members of the General Committee of the UN General Assembly. The committee has 28 members: 1 president, the chairs of the 6 main committees of the General Assembly,[13] and 21 vice presidents. Among the 21 vice presidents, 5 are the permanent members of the UN Security Council (China, France, the Russian Federation, the United Kingdom, and the United States). The other vice presidents and the chairs are nominated annually by each group of UN member states: Africa, Asia, Eastern Europe, Latin America and the Caribbean, and Western Europe and other states. For the purposes here, the president of the Economic and Social Council could probably also be invited to join. Thus a group of 29 members, a G-29, would emerge. If this group were to convene annually at the level of heads of state, say, for a day at the beginning of each year's General Assembly meetings, the world would have a representative, manageable intergovernmental forum to provide global vision and policy guidance.

[12] Suggestions along these lines emanated in particular from global commissions convened in the late 1980s and early 1990s to reflect on the future of world development. See Commission on Global Governance (1995); Independent Working Group on the Future of the United Nations (1995); South Commission (1990); Stockholm Initiative on Global Security and Governance (1991); and World Commission on Environment and Development (1987).
[13] The six main committees are the Disarmament and International Security Committee, Economic and Financial Committee, Humanitarian and Cultural Committee, Special Political and Decolonization Committee, Administrative and Budgetary Committee, and Legal Committee. The chairs of the committees are nominated each year based on their qualifications.



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Box 5 summarizes the main recommendations for fostering publicness in decisionmaking.

## SYSTEMATIZING THE FINANCING OF GLOBAL PUBLIC GOODS

The financing of public goods involves the use of policy tools—financial and nonfinancial—to facilitate an adequate flow of public and private resources to these goods. It is about resource allocation rather than resource mobilization. Sometimes adequate provision of global public goods may call for increasing overall spending, public or private, at least temporarily. But this is a different issue than determining what constitutes an adequate allocation of resources to particular goods. One good may require additional resources in order to be adequately supplied, while another could be overfinanced and, as a result, possibly generate a public bad. A case in point is defense spending in the context of an arms race. National defense is a public good. But if countries are locked in a nuclear arms race, overfi-

**Box 5**

**New Tools to Foster Publicness in Decisionmaking**

- Promoting the principle of stakeholder-decisionmaker equivalence.
- Developing criteria for fair negotiations.
- Strengthening the negotiating capacity of developing countries.
- Developing rules for interactions between state and nonstate actors.
- Creating advisory scientific panels for all major global issues, following the example of the Intergovernmental Panel on Climate Change.
- Creating negotiating arenas for new priority issues (such as the right of access to water for all people) together with appropriate grievance panels (such as a world water court).
- Creating demand-driven review and response facilities to promote flexible implementation of policy regimes, such as a trade and development review council within the World Trade Organization.
- Creating a G-29 based on the membership of the General Committee of the UN General Assembly



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nancing—in zealous pursuit of a national public good—can generate a global public bad.

As noted, when viewed from the production side, global public goods can be seen as the sum of national public goods plus international cooperation. Not surprisingly, the largest part of global public goods financing is national. Kaul and Le Goulven (in their chapter on financing in the volume) estimate that national public spending on global public goods is 200 times international spending (see box 6).

National financing of public goods can draw on a well-established body of theoretical literature and practical experience in national public finance. That does not mean that it is a settled issue. There are competing theories, and different experts interpret experiences differently.

Still, national financing of public goods is a recognized, debated issue. That is not the case for international financing of global public goods, which is largely unrecognized and hidden. To the extent that public finance theory addresses international dimensions, it deals primarily with revenue issues rather than the much broader allocation issues of interest here. Although studies have been emerging on the international dimensions of public finance, they tend to focus on instruments, addressing a tool or set of tools for a certain global issue.[14] But a coherent analytical framework is still missing. In addition, the financing of global public goods often remains hidden because it is presented as—and drawn from—official development assistance. Both facts contribute to the underprovision of global public goods, according to Kaul and Le Goulven (financing chapter). That is why the discussion in the volume focuses on the international financing of global public goods, particularly on the public financing side of it—as an incentive and complement to private financing.

## The Invisible International Component of Global Public Goods Financing

To recognize the financing measures for global public goods at the international level, it is useful to consider the tools used to finance national public goods. Most of the public finance tools used domestically to steer resource allocations also exist internationally:

[14] For references to some of the literature on financing global public goods, see the financing chapter by Kaul and Le Goulven (in the volume).



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**Box 6**

**The 1:200 Ratio:
International Vis-à-vis National Spending on
Global Public Goods**

It is difficult to find accurate, comparable data on national public spending on public goods, but a rough estimate suggests a worldwide figure of about $6 trillion. Of this, $5 trillion occurs in industrial countries and $1 trillion in developing countries. By comparison, international spending on operational activities related to global public goods is estimated to range from $7.5 to 24.0 billion. Financing for the regular budgets of international organizations absorbs another $8 billion (see table 4).

Thus the ratio of international to national public spending ranges between 1/400 and 1/200. Comparisons of national and international punitive measures, such as taxes and regulations to influence the behavior of economic actors, reconfirm the importance of national policy incentives. And if private spending is taken into account, international public spending becomes an even more minuscule part of the total. For example, the money that people spend on medicines, keeping their living spaces clean, and other protective measures may contribute to communicable disease control, and so should be counted as well. Thus international cooperation is often a critical complement of national action—but it is not a substitute. Except for best-shot goods, such as the creation of new knowledge, national building blocks form the foundation of global public goods.

**Table 4**
**International Financing in Support of Global Public Goods**

| *Financing* | *U.S. dollars (billions)* |
|---|---|
| Resources for operational activities | |
| Official development assistance for global regional issues | 3 |
| Official development assistance for country issues | 13 |
| Official financing from national sector ministries or ministries of finance | 8 |
| Funding for core functions of international organizations | 8 |
| Total | 32 |

*Source: Kaul and Le Goulven (chapter on financing in the volume)*



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- *Subsidies*. A multitude of international subsidy schemes can be found, as Arhin-Tenkorang and Conceição (in the volume) show. In health, for example, such subsidies are intended to encourage research and development related to global health concerns. This research and development has special relevance to developing countries and would not happen without these subsidies. Further illustrations of such subsidies include various payments, usually in the form of aid, to developing countries for purposes related to global public goods—such as controlling corruption, harmonizing legal frameworks, promoting human rights and democracy, and implementing internationally recommended financial codes and standards. Many of these initiatives are vital to integrating markets across borders.
- *Compensation*. Examples of compensation include the incremental cost payments by the Global Environment Facility for purposes such as biodiversity conservation, mentioned by Perrings and Gadgil (in the volume), and carbon sequestration, mentioned by Castro and Cordero (in the volume). These payments are meant to reimburse developing countries for the extra costs they incur in providing global environmental services that they would not produce if guided solely by national self-interest.
- *User fees and charges*. User fees and charges are levied in a wide variety of situations. Examples include overflight charges for aircraft (as a user fee for the civil aviation infrastructure on the ground), sharing of postage revenue to finance delivery services provided by sending and recipient countries, and the charges (or even royalties) that signatories to the International Treaty on Plant Genetic Resources for Food and Agriculture must pay when obtaining genetic materials from the multilateral system. Even the interest that debtor countries incur on loans from the International Monetary Fund falls into this category, particularly when one views the IMF as a "credit cooperative" (see Buira in the volume).
- *Direct payments*. Direct payments include contributions by countries to the regular budgets of the main multilateral organizations, such as those of the UN system. These payments are for the core functions of these agencies—notably their role as arenas for discussions and negotiations among governments and other actors—and are among the few international financing arrangements that are obligatory.



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- *New property rights and markets*. Castro and Cordero (in the volume) describe Costa Rica's experience in creating a market for emissions trading. They show how important—and difficult—it is to define new commodities, create and assign new property rights, and establish an efficient and fair price for a new commodity such as carbon dioxide reductions.
- *Regulation*. As is evident from some of the other chapters, "soft" regulation is probably the tool used most often to encourage enhanced resource allocations for public goods. Soft regulation is usually based on nonbinding international agreements urging governments to pursue concerted policies of public finance nationally, mainly with a view to reducing negative cross-border spillovers. According to Barrett (in the volume), however, such agreements are often ineffective because they lack credible incentives. Yet there are exceptions. An important example is discussed by Correa (in the volume): the TRIPS agreement. In the trade regime there is a clear trend toward what international relations scholars call a "legalization" of commitments. Intellectual property rights are a powerful tool for channeling resources into research and development of new technology. Yet as argued by Correa and by Arhin-Tenkorang and Conceição (in the volume), these rights could price medicines out of the reach of poor people.

The financing of some global public goods works fairly well. These "self-running" global public goods include network-based goods such as the international communication and transportation systems. Their public finance requirements are usually part of the budgets of the relevant national agencies. And they are able to attract considerable private financing, mainly because providers can levy user fees and charges. But many other global public goods are dependent on aid and financed out of official development assistance. Most goods linked to international subsidy or compensatory payment schemes fall into this category.

Kaul and Le Goulven (financing chapter) present estimates according to which 30 percent of official development assistance—about $16 billion a year—flows to global public goods. Moreover, this share is rising. Under such conditions it is doubtful that more efficient resource allocations to global public goods or a fairer distribution of net benefits can be achieved. Financing for global public goods thus faces a double jeopardy of either not being recognized or being considered a form of aid. Neither is a good starting point for managing globalization better.



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### Differentiating Between Distribution and Allocation

Why should official development assistance not be used to finance global public goods? Public finance theory provides the answer. This theory draws a distinction between the allocation and distribution branches of public finance. The role of the allocation branch is to foster efficient financing of public goods, while the role of the distribution branch is to help society achieve its objectives for equity through various transfer programs. An appropriate recognition of both concerns—efficiency and equity—implies recognition of both branches. As Musgrave and Musgrave (1989, p. 11) write,

> While redistribution inevitably involves an efficiency cost, this consequence by itself establishes no conclusive case against such policies. It merely tells us that any given distributional change should be accomplished at the least efficiency cost and a need exists for balancing conflicting equity and efficiency objectives. An optimally conducted policy must allow for both concerns.

While Musgrave and Musgrave refer to the national context, there is no reason to expect the international scene to be different

Official development assistance, or aid, constitutes the international component of the distribution branch of public finance. Its stated purpose is to help developing countries because they are poor. By analogy, the financing of international cooperation on global public goods constitutes the international component of the allocation branch of public finance. The task of this international allocation branch, combined with appropriate national public finance measures, is to enhance the provision of particular goods because their provision level is deficient.

Confounding aid and financing for global public goods has serious implications for developing and industrial countries—and for the world. First, aid resources are redirected from the national priorities of developing countries to international—often donor country–driven—priorities. As a result development may suffer, and poverty may even increase. Second, aid does not bring out the proper scarcity value of such critically important global services as biodiversity conservation or carbon sequestration. As a result developing countries providing these services might be underpaid. Third, because of this undervaluation, wrong policy signals are sent to industrial countries, and important policy reforms in these countries, such



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as in energy, may be delayed. In addition, developing countries are not always the most pivotal countries for providing global public goods. So, there is a risk that aid resources will be diverted away from these countries.

Industrial countries show many signs of aid fatigue. But world poverty is too deep and too extensive to allow cutting back aid and reorienting the international component of the distribution branch toward global concerns. Yet global challenges must also be addressed, and many require a more decisive and determined policy response. So, for reasons of both effective aid and adequate provision of global public goods, there is an urgent need to create a separate, complementary international component of the allocation branch.

**Setting Up the International Component of the Allocation Branch**

Creating an international component of the allocation branch involves a number of activities—some oriented toward institutional reform, others focused on policy. Some of the institutional issues are outlined below.

*Adopting an integrated approach to budgeting.* One purpose in separating the distribution and allocation branches is to return to the official development assistance account the resources being channeled to global public goods. By implication, a priority task in setting up the international allocation component is to identify new and additional sources for the financing of global public goods.

This can be achieved, for example, by anchoring spending on international cooperation in the budgets of the national government agencies in charge of financing the national components of a good. These agencies would thus absorb the costs of the international cooperation necessary to enjoy the global public good domestically. Self-running global public goods follow this financing pattern. Similarly, national contributions to the regular budgets of multilateral organizations often come from the budgets of the organizations' national counterpart ministries.

Integrating the financing of the national and international components of a good would have the added advantage of drawing attention to spending inconsistencies. A glaring example is the large volume of "perverse subsidies". These subsidies support activities that generate public bads, which then require corrective measures and additional spending. Maintaining



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fossil fuel subsidies while investing to avert global warming is an example of possible policy incoherence.

*Creating national matching grant funds for international cooperation.* As emphasized throughout the volume, every public good is different. Thus the incentive structures underpinning each good also tend to differ. For self-running global public goods the advantages of cooperating—and in some cases even making private payments for some dimensions of the goods—are much clearer to individual actors than they are for other global public goods. For example, most people probably favor effective international crime control. But the benefits of this good are so diffuse that it is difficult to levy charges and generate revenue for the agency managing the issue. Matters are different when it comes to airport security, for which airport taxes could be increased to help finance added control measures. So, by agreeing to finance the international cooperation part of a global public good, different government agencies would accept different responsibilities—and would probably do so with different levels of commitment, depending on the added financial burden or the new revenue sources that this might entail.

To reduce the risk that spending on international cooperation will be neglected, national funds for international cooperation could be created. These funds could be attached to the ministry of foreign affairs or to the office of the head of government. In many countries central or federal government entities provide matching grants to lower levels of government to support the provision of goods with national spillovers. Similarly, national funds for international cooperation could, where necessary, provide matching grants to government entities for pursuing the interests of the country in international cooperation.

*Establishing international accounts for global issues.* The creation of an international component of the allocation branch must start at the national level. National public finance needs to be reformed so that it can link up with corresponding international measures. Yet international reforms are also required. For example, Kaul and Le Goulven (financing chapter) recommend establishing accounts for international issues identified by national and international political processes as needing action. Efforts have already



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been made in this direction: many accounts or trust funds have sprung up in recent years, including the Global Environment Facility and the Global Fund for HIV/AIDS, Malaria, and Tuberculosis.

### Defining Policy Principles

Creating—and shaping—an international component of the allocation branch also involves policy issues. Various chapters highlight four issues that deserve consideration.

*Embedding fairness in allocation decisions.* As noted, Sandmo (in the volume) examines a theoretical case in which income transfers are required to bring about a win-win scenario for both a rich country and a poor country in producing a global public good. This brings to light a key issue in the provision of global public goods: achieving a Pareto-efficient multilateral agreement often requires making transfers to countries that would otherwise be made worse off by the agreement. These transfers are therefore an integral part of the allocation decision. They can, in fact, be considered payments for services related to the provision of global public goods. An example is an agreement to trade carbon emission reductions, allowing a country to buy part of another country's pollution quota, ideally at competitive market rates. The aim is to move toward a Pareto-efficient outcome—to achieve a reallocation of resources that makes at least one actor better off and none worse off.

Transfers aimed at achieving such Pareto improvements can occur between actors regardless of whether they are poor or rich. Yet poor countries may in some cases be able to provide inputs to a global public good—say, biodiversity preservation—more cheaply than rich countries. So, transfers aimed at Pareto improvements may often occur between industrial and developing countries—but for efficiency reasons, not to substitute for the distribution branch.

In fact, international relations and negotiation theories arrive at similar conclusions. They usually emphasize that for international cooperation to succeed, all participating parties—whether rich or poor—need to perceive it as generating clear net benefits for them. So, facilitating a fair negotiation outcome is different from transferring resources to developing countries because they are poor. Achieving a fair negotiation outcome is an integral



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function of global public goods financing—and is thus a matter for the allocation branch. This holds true regardless of the income or development status of the negotiating parties. But helping countries overcome poverty is clearly a task for the distribution branch.

*Building private-public finance partnerships.* Just as at the national level, at the international level financing public goods often involves multiple funding sources and financing arrangements. Arhin-Tenkorang and Conceição (in the volume) and other authors point to the growing role of global public policy (and financing) partnerships, such as the Global Alliance for Vaccines and Immunization, International AIDS Vaccine Initiative, Medicines for Malaria Venture, and Global Water Partnership. Private philanthropic foundations often take a lead in these partnerships, acting as social venture capitalists by investing in emerging concerns or in new ways of doing things to advance urgent but politically stagnating public concerns. So, besides representing a new form of cooperation, these partnerships have experimented with innovative financing instruments. One example is the provision of pooled incentives for pharmaceutical companies to engage in research and development focused on diseases of poor people.

Ideas for ways in which governments could enable private actors to enhance their contributions to global public goods abound throughout the volume. Kremer proposes the creation of an international vaccine purchasing fund to promote research and development on vaccines (see box 7), a measure that could also be applied in other issue areas. Mehta discusses how to combine marketizing water with guaranteeing access for all. Castro and Cordero examine the process of creating new commodities (carbon sequestration services) and new markets (emissions trading). From these examples it is evident that, often, all that governments may have to do is to set a new policy framework—new property rights, new standards, and perhaps some incentive funds. They may not have to spend public revenue directly on global public goods, instead using it to enable private actors to contribute to solutions to global social concerns.

*Moving beyond controlling bads to providing goods.* Fair net benefits for all are an important ingredient of successful cooperation. But it is one thing to share net costs fairly and another to share net benefits fairly. As Desai (in the volume) emphasizes, the provision of public goods has often been

**Box 7**

**A Purchase Commitment for Vaccines**

Vaccines provide the best hope for a long-run sustainable solution for AIDS and the other infectious diseases devastating poor countries: they are typically easier to deliver than drugs, since they require no diagnosis and physicians are not needed to administer them. But because pharmaceutical firms see little chance of recouping their risk-adjusted research and development costs, little private research is being conducted on vaccines for malaria, tuberculosis, and African strains of HIV.

An extremely cost-effective way for international organizations, industrial nations, or private foundations to stimulate research on such vaccines is to commit to purchasing effective vaccines once they have been developed. Such a purchase commitment not only would provide the incentive for vaccine development, but also would ensure that price is not a barrier to people using the vaccines.

Efforts to encourage vaccine development can be divided into two broad categories: "push" programs subsidize research inputs—for example, through research and development tax credits or grants to researchers—while "pull" programs reward the development of a vaccine. Both approaches have important roles, but current policy underutilizes pull programs.

Push programs are well suited for financing basic research, while pull programs (such as a purchase commitment) have several attractive features for encouraging more applied work, such as the later stages of vaccine development. Importantly, the public pays nothing unless a viable vaccine emerges. Pull programs encourage researchers to select projects with a reasonable chance of yielding a viable product rather than overselling their research prospects to research administrators and the public. They allow politicians and the public to be confident that they are paying for an actual product rather than supporting a development effort that might not be scientifically warranted. Pull

*(continued next page)*



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**Box 7** *(continued)*

programs also provide strong financial incentives for researchers to focus on developing a marketable product rather than pursuing other goals, such as publishing journal articles.

Finally, appropriately designed pull programs can help ensure that if new products are developed, they will reach those who need them. For example, industrial countries or private foundations could commit to purchasing a malaria vaccine for $5 per immunized person and making it available to developing countries for free or in return for a modest copayment.

For such pull programs to be effective, potential developers must believe that sponsors will not renege on their purchase commitments. In fact, courts have held that similar public commitments to reward contest winners or to purchase specified goods constitute legally binding contracts and that decisions made by independent parties to adjudicate such programs are binding. Clear eligibility and pricing rules can enhance a program's credibility. For example, it could be stipulated that candidate products must be cleared by a regulatory agency such as the U.S. Food and Drug Administration or European Medicines Evaluation Agency. This would ensure that funds are spent on bona fide vaccines.

A candidate product could also be subjected to a market test: nations wishing to purchase the product would need to provide a modest copayment in proportion to their per capita income. Such copayments would give countries an incentive to carefully investigate whether candidate products are appropriate for local conditions and provide a useful test of countries' commitment to a program. If a country is willing to pay, it is also more likely to be prepared to take the steps necessary to ensure that the vaccine is delivered to the people who need it.

The market promised by a program should be large enough to induce substantial effort by vaccine developers, but less than the social value of the vaccine. Several researchers have concluded that a real annual market of $250–500 million would be needed to motivate

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**Box 7** *(continued)*

substantial research. Over 10 years a commitment at this level could save about 1.9 billion discounted disability-adjusted life years—equivalent to saving the lives of 63 million 30-year-olds. The average cost per year of life saved would be $4.

Any of several organizations—including national governments, the World Bank, and private foundations—have the ability to create a credible purchase commitment to stimulate vaccine research. If a commitment to purchase new vaccines fails to induce their development, it will have cost nothing. If it succeeds, it will save millions of lives at a few dollars each.

*Source: Kremer (in the volume)*

driven by crises, both nationally and internationally. As a result a major preoccupation of policymaking has been controlling bads and sharing the costs of crises. Just think of the recurrent debates on sharing the costs of peacekeeping among UN member states, providing disaster relief, preventing and managing financial crises, and, even more recently, controlling international terrorism. Preventing and managing crises often generates no net gains. It just helps avert reversals of development.

Yet what makes self-running global public goods more successful than others is that besides offering a fair bargain, they provide net benefits for all. They enrich the public domain and people's lives. Crises will continue to erupt—and they need to be controlled. The lesson from experience is that policy strategies should first be enabling and then move beyond merely controlling the bad to creating the corresponding good.

Do possibilities exist for a shift in policy focus from controlling bads to producing goods? The case studies in the volume seem to say yes. With a change of mindset and a deliberate search for win-win scenarios, it appears possible to identify cooperation initiatives that would yield benefits for all. Castro and Cordero show how providing clean electricity to off-grid communities in Costa Rica could contribute to climate stability. Griffith-Jones explains how a more development-oriented international financial architecture could be in the interests of developing and industrial



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countries as well as private actors. And Barrett holds the view that a global climate treaty should, among other things, promote cooperative research and development on clean technologies and encourage the transfer of such technologies to enable countries to comply with the treaty.

Where cooperation is not only fair but also provides positive utility and improves people's lives in tangible ways, compliance with international agreements will be much easier to achieve. As both Correa and Mendoza (in the volume) conclude, in the long run more equitable cooperation strategies will also be more efficient and enduring.[15]

*Striking a Balance Between Subsidiarity and Globalness.* Several authors of chapters in the volume agree that to realize the policy goals outlined above, local communities, nations, and other actors need room for policy maneuver and for contributing to global goals through context-specific strategies. As Mehta suggests, the principle fiscal equivalence or the notion of subsidiarity has to be balanced with the imperative of cooperating to achieve common objectives and pursuing concerted policy strategies. Correa, Griffith-Jones, and Mendoza underscore the same message in their chapters. This call for policy pluralism pertains to policy design in general but also to the financing strategies that different communities may choose for various policy purposes. Realizing these policy principles will be easier if policymaking on global public goods becomes more open and participatory.

## Exploring Investment Options

It is often said that public economics and finance are about which goods to produce, how much of each to produce, and at what net benefit to whom. But international debates on global public goods often address only the question of which goods to produce. As a result the global public domain is strewn with underfunded and incompletely implemented resolutions and agreements on a host of public bads to be corrected and goods

[15] But widening the focus from correcting global public bads to providing global public goods might mean added expenditures, at least until the goods exist. Given this, and the large resources that developing countries need to set aside as financial reserves, it would thus be desirable for the IMF to undertake a new allocation of Special Drawing Rights (as also suggested by both Buira and Griffith-Jones in the volume) as new and additional resources.



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to be produced. The UN Secretary-General's *Road Map* report on the implementation of the UN Millennium Declaration reveals this problem (UN 2001).

The report also shows that the international community's vision of the global public domain focuses on 10 global public goods:

- Basic human dignity for all people, including universal access to basic education and health care.
- Respect for national sovereignty.
- Global public health, particularly communicable disease control.
- Global security or, put differently, a global public domain free from crime and violence.
- Global peace.
- Communication and transportation systems harmonized across borders.
- Institutional infrastructure harmonized across borders to foster such goals as market efficiency, universal human rights, transparent and accountable governance, and harmonization of technical standards.
- Concerted management of knowledge, including worldwide respect for intellectual property rights.
- Concerted management of the global natural commons to promote their sustainable use.
- Availability of international arenas for multilateral negotiations between states as well as between state and nonstate actors.

Many of these concerns are reflected in the chapters in the volume. If the Millennium Declaration, the *Road Map* report, and the chapter analyses are taken as reference points, four areas appear to deserve priority consideration when exploring options for investment in global public goods—because progress on other issues depends at least in part on progress in these areas.

*Fostering the signature, ratification, and implementation of existing agreements.* Most if not all of the 10 global public goods listed above rest on multilateral agreements. Yet many of these agreements lack even the first steps toward implementation: signature and ratification by all concerned nation-states. There seems to be widespread recognition of the need to provide support so that each nation-state can analyze agreements and determine their likely effects on the country and on various population groups. Support is also needed for follow-up initiatives so that countries can comply with the



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commitments they want to make. Such support is needed in areas ranging from control of terrorism, drug trafficking, weapons smuggling, money laundering, and smuggling of human beings to enhanced water management, disaster preparedness, human rights promotion, and implementation of multilateral trade rules, environmental norms, and health and food safety standards.

Under the proposal for an international component of the allocation branch of public finance, providing such support would be the responsibility of technical and sector agencies, including ministries or departments of defense, justice, the interior, homeland security, natural resources, health, trade, and the environment. The public goods at stake are those that these agencies are mandated to provide to national constituencies.[16]

The UN Secretary-General could play a role in moving agreements forward by urging multilateral decisionmaking bodies to review all major agreements to see whether an additional operational facility is needed to advance their implementation.

*Promoting efficient management of global knowledge.* The provision of many global public goods—such as climate stability and communicable disease control—involves establishing balanced access to the relevant knowledge. As suggested by Correa and by Arhin-Tenkorang and Conceição (in the volume), effective and efficient knowledge management is a crucial input to the provision of global public goods.

Knowledge is the most public of all public goods: it is strongly nonrival, and its benefits cut across many issues of public concern. The challenge is to strike a balance between promoting the broader use of knowledge (enhancing static efficiency) and providing incentives to generate more knowledge (fostering dynamic efficiency). Mechanisms to protect intellectual property rights already exist, in the form of the World Trade Organization agreement on TRIPS and the World Intellectual Property Organization.[17] But complementary arrangements are needed to generate knowledge

[16] The suggested support would best be linked to individual agreements. The costs of support for developing nations to assess country-specific implications of multilateral agreements over the next few years could be in the range of $40–50 million annually (see the institutions chapter by Kaul and Le Goulven).

[17] One of the 16 specialized UN agencies, the World Intellectual Property Organization administers 23 international treaties on intellectual property protection. The organization has 179 member nations (http://www.wipo.org).



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that reduces poverty and to disseminate existing knowledge as widely as possible. Priority can be given to allocating additional resources to basic research and product development focused on diseases of poor people,[18] creating a global clean energy access fund, and strengthening agricultural research.[19]

*Making basic education and health care globally public by design.* A robust public domain requires a strong public—one with the capabilities to be discerning and active. And that requires basic education and health care for all. These two goods generate negative spillovers when underprovided and positive spillovers when adequately provided. Moreover, education and health care are essential to the successful provision of almost every other public good—and to the enjoyment of private goods.

Therefore, both education and health care are—in the terminology of Sandler (in the volume)—joint products. The incentives for their consumption and thus their provision are in part private. People pursue education to better themselves. Analogously, at the national level, countries prefer to have better-educated populations because human capital contributes to economic growth and development. Yet education also has positive spillovers internationally: higher education levels can lead to slower population growth, better disease control, more stable governments, and even more peace and security. Perhaps more important, providing these goods contributes towards a more healthy polity—the foundation of stable and more robust political systems, both nationally and internationally. If the public is to have a greater say in the provision of global public goods and the management of globalization, access to basic education and health care must not depend on people's income. The international community as a whole benefits from any one nation's strong human development through

[18] CMH (2001) recommends that an additional $3 billion be allocated for this purpose by 2007, increasing to $4 billion by 2015. Current spending for this purpose is less than $500 million a year.

[19] A clean energy access fund would facilitate the dissemination of clean energy technology. It could help governments finance relevant incentive schemes and encourage the development of markets in this area. Kaul and Le Goulven (financing chapter) suggest an initial allocation of $7 billion a year for this purpose. For agricultural research, Kaul and Le Goulven's suggestion is to increase the annual international allocation from $300 million to about $500 million to strengthen the work of the Consultative Group for International Agricultural Research.



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education and health. Hence, these goods must be available for all to enjoy. They must be made public by design.

In addition, these national public goods could be elevated to global public goods on the basis of the growing sense of commodity egalitarianism shared by many nations (Tobin 1970). Yet another rationale is that in the national context, across diverse political traditions and regimes, the critical importance of basic education and health care to society has led to their being considered key merit goods. In a globalizing world this policy principle could be extended worldwide. Hence, any international provision of these goods would no longer rely exclusively on foreign aid, but also involve global public good financing.[20]

*Strengthening international policymaking arenas.* Flowing from part 2 of the volume, one of the key issues in—and perhaps the most appropriate starting point for—providing and financing global public goods involves the lack of opportunities and means for the public to voice its concerns and preferences. As noted, not all those concerned are included in the process, and many who are lack the capacity for effective decisionmaking. Thus, after a strong and healthy public, fair and well-functioning international arenas for consultation and decisionmaking could be considered the second basic element of the global public domain. Without these two elements, other global public goods are at risk of underprovision or malprovision.

Although all parties are likely to gain from enhanced international cooperation, developing countries stand to gain the most. Thus they may have to take the lead on this issue, including mobilizing the required funds on their own.[21] Doing so could be considered a high-return investment,

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[20] According to Delamonica, Mehrota, and Vandermoortele (2001), financing basic education for all would require an additional $9 billion a year. Financing basic health care would require an additional $15 billion a year until 2015 (estimate based on CMH 2001; UNDP and others 1998; and Devarajan, Miller, and Swanson 2002).

[21] Once again the G-24 is an example. Member countries contribute to the financing of the group's research program through a fund administered by the United Nations Conference on Trade and Development (http://www.g24.org). But the governments of Canada, Denmark, and the Netherlands also contribute to this fund. This practice can be interpreted as an investment in a more robust system of international discussion and debate—an objective that clearly transcends narrow national self-interest. Assuming that a similar arrangement could be created in another three to four issue areas, the additional cost would amount to about $5 million a year.



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because it would help developing countries build much-needed capacity for international negotiations and allow them to achieve significant net benefits in the form of better outcomes from such negotiations.

*Who will take the first steps?* The UN Secretary-General has an important leadership role to play in bringing about these reforms, in his capacity as custodian and manager of the implementation of policy commitments such as the Millennium Declaration. But all parts of the global public have a role to play. As Held and McGrew (in the volume) suggest, governance of today's policy challenges calls for global, multilayered issue communities. Such communities or partnerships would probably be best suited to developing concrete ideas and suggestions on how to advance "their" global public goods. A special responsibility falls on the epistemic communities, which could show where and when investing in the global public domain yields relatively high social returns. If established, the G-29 could also provide crucial political impetus in moving the global public goods agenda forward, especially when supported in its work by rigorous policy and financing studies.

In addition, there might be a need to create a forum that would do for global public goods what the Organisation for Economic Co-operation and Development's Development Assistance Committee does for official development assistance—help the international community devise tools and mechanisms for international cooperation across issues and help monitor and report on resource flows, commitments, and spending. Since its aim would be the provision of global public goods, the new body should include representatives of all major groups of actors and stakeholders and would probably be most appropriate as a tripartite—state, civil society, and business—organization.

Some of the tools and mechanisms discussed in this section are summarized in box 8.

## SPANNING BORDERS, SECTORS, AND GROUPS OF ACTORS

An important part of the political process for providing global public goods is to channel national interests upward, to the international level, so that they can enter and become reflected in multilateral negotiations. Once an agreement is reached, implementation starts. Crucial to this process is that



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**Box 8**

**Possible Tools and Mechanisms for Financing Global Public Goods**

- Creating an international component of the allocation branch of public finance.
- Restoring official development assistance spent on global public goods to its purpose of providing aid.
- Including the costs of international cooperation for global public goods in the budgets of line agencies or ministries.
- Creating national matching grant funds for international cooperation.
- Establishing international accounts or trust funds for global issues.
- Identifying priority investment opportunities.
- Establishing a broadly representative technical body to facilitate cooperation on global public goods.

the commitments by country delegations in international meetings filter back into national policymaking. In many cases national action is complemented by cooperative international arrangements, even if only to monitor compliance with the agreement reached. But international action can also entail producing the inputs to global public goods with production paths that involve economies of scale and scope. For example, some of the new partnerships in health are aimed at encouraging research and development that no country would be inclined to sponsor on its own.

Many elements, including many private goods and activities, enter the production paths of national public goods. Similarly, many elements make up the international cooperation component. Kaul and Le Goulven (in their chapter on institutions in the volume) illustrate the complex production paths of global public goods through two production trees, one for climate stability (see figure 3) and one for food safety. These production trees show that producing global public goods requires reaching across many of the lines that humankind has established to order and systematize human activity—notably national borders, sectors, and groups of actors.

Held and McGrew (in the volume) characterize contemporary globalization as being of high intensity, velocity, and impact across many facets



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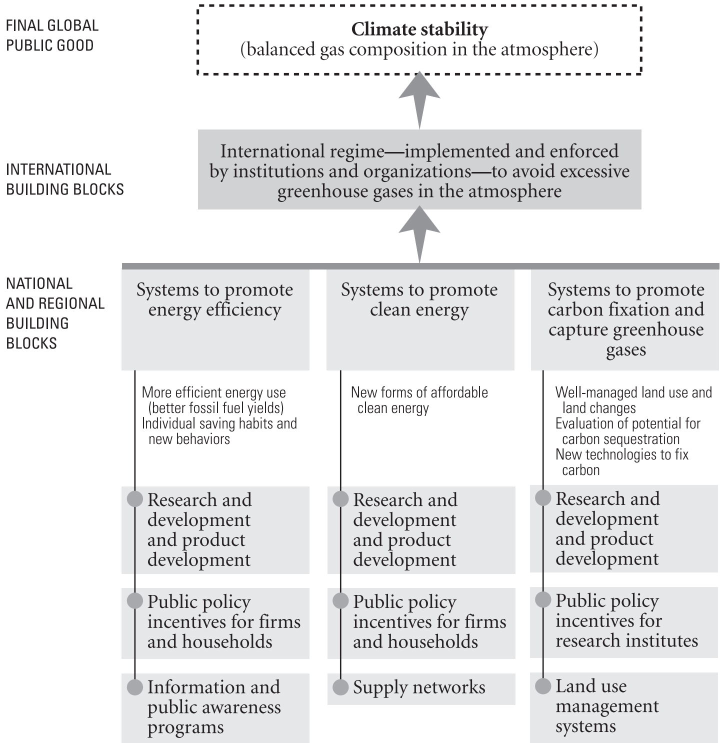
## Figure 3

**Building blocks of climate stability**




**Role of major actors**

- *Households* can adopt energy-saving habits and can support and choose clean production and consumption technologies
- *Governments* at the local, national, and international levels can establish norms, provide incentives (taxes, subsidies, performance standards), and help manage regime implementation
- *Firms* can improve their energy efficiency, develop new technology based on clean energy, and adopt international standards
- *Civil society organizations* can set agendas, act as watchdogs, and promote initiatives aimed at adopting clean technology, saving energy, and conserving

*Source:* Kaul and Le Goulven (chapter on institutions in the volume)



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of life. Indeed, globalization has resulted in deep, far-reaching transformations. Yet many conventional organizational forms persist and should probably continue to exist. National borders (however porous), economic sectors, and differences (as well as complementarities) between various groups of actors are important and in many ways desirable.

Yet from the viewpoint of producing global public goods, such dividing lines present risks. They could stymie the production process. To avoid breakpoints and friction, national and international public management structures may have to be amended in two ways, as the analyses in the volume suggest. One challenge is to bridge divides that impede interaction and exchange. Bridging the foreign-domestic divide in national policymaking is especially important. The other challenge is to bundle efforts and resources to bring together various (now isolated) parts and allow the desired good to emerge. This calls for global, issue-specific public policy partnerships—and especially strategic management.

## Overcoming the Foreign-Domestic Divide

Effective provision of global public goods is often impeded by the division of policymaking into domestic and foreign affairs. But important changes are under way. National sector ministries and other government entities are putting more emphasis on international relations and transgovernmental networking (Slaughter 2002). And ministries of foreign affairs, including their embassy staff abroad, are focusing more on topics that go beyond traditional notions of foreign affairs and diplomacy. The foreign affairs and diplomacy concerns of industrial countries now include such issues as health, poverty, and the environment—and those of developing countries, trade and finance.

In light of these reforms, Kaul and Le Goulven (institutions chapter) recommend reinforcing the increasing interaction between foreign affairs and technical ministries—to make exceptional practices routine. One step along this path could be for countries to appoint more issue ambassadors for global public goods of particular importance to them. Another step might be to establish a system of matrix management to link knowledge of countries and regions with knowledge of issues and sectors. The experience with successful self-running global public goods—notably communication and transportation networks—suggests that assigning each good to



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a national lead agency, and making that agency substantively as well as financially responsible for the good, is also effective. This would anchor the provision process in national efforts and systematically connect the domestic and international cooperation components of global public goods—fostering a more integrated and coherent approach to public policymaking and management. If in addition countries were to create, as discussed earlier, a national fund for international cooperation (to encourage government agencies to engage in international cooperation in the national interest), policymaking on the executive side of government would be much better equipped to manage interdependence and shape globalization than it is today.

But to avoid a growing democratic deficit, national legislatures must also become more involved in international cooperation activities as more and more policy is made internationally. This is important not only to ensure that the concerns of national electorates are adequately reflected in international negotiations, but also to facilitate the implementation of agreements. Martin (2000), for example, finds evidence that follow-up to international agreements tends to be more effective when legislators are involved from the outset. Legislators ultimately translate international agreements into national and local law—and authorize funding when and where required. Without their support—and their ownership of local policy—national compliance with international agreements is not likely to go far.

A practical reform measure placing no additional demands on legislators would be to review parliamentary committee structures so as to ensure that the interface between "domestic" and "foreign" works. An issue raised by Edwards and Zadek (in the volume) is relevant here: the interaction between national policy constituencies, including legislators, country negotiating teams, and civil society organizations. More systematic consultations between these groups could smooth the interaction between domestic and international policymaking.

After all these reforms, perhaps the final step would be for each ministry of foreign affairs to consider changing its name—to the ministry of foreign affairs and international cooperation.

### Managing Issues Strategically

Even when the foreign-domestic divide is bridged, the question remains of how to bring together all the national and international inputs into a



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global public good. Theories of the firm and of public management can help answer this question, having long recognized the special coordination problems posed by production involving multiple agents.

Firms are highly organized structures functioning under the visible hand of entrepreneurs and management boards. Following Coase's (1990 [1937]) path-breaking article on the theory of the firm, various analyses and studies have shown that when transaction costs are high, firms can organize production processes more efficiently than markets can (see Chandler 1977 and Williamson 1985). In fact, many goods could not come together if their production were left to individual, specialized input providers.

The same holds true for the production of global public goods. Yet international cooperation on global public goods often resembles a market without firms. Scattered initiatives are undertaken in many countries and by many international agencies, but they do not necessarily yield coherent products. To enhance the effectiveness of international cooperation and the likelihood that decisions will lead to intended results, Kaul and Le Goulven (institutions chapter) therefore suggest the establishment of an implementation council for multilateral agreements ready to be translated into policy action. This council could function as an advisory board to the multilateral agency that backstops the agreement and help draw up an integrated implementation strategy.

Should the present multilateral organizations strengthen their coordination activities and try to produce some of the currently underprovided global public goods? The answer is certainly yes. But the production of these goods requires more than just better coordination between the present organizations—typically large-scale entities guided by multiple mandates and principles. It calls for strategic horizontal management—in addition to the functions performed by existing agents, nationally and internationally. In particular, what is needed is more systematic use of flexible, issue-specific, multilayered, time-bound, and outcome-oriented global public policy partnerships, complementing the existing set of multilateral agencies.

According to Sproule-Jones (2000), such partnerships and the horizontal management role they would perform are required when several agents (countries, governmental or intergovernmental organizations, private actors) provide different inputs and are functionally interdependent,



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multiple levels of activity have to be integrated, and consensual (rather than vertical, command-based) decisionmaking is essential. Horizontal management requires combining vision and leadership with actions to facilitate interaction, broker between parties, and bring all on board.

Steps are already being taken toward this new approach to public policy management. The growing number of global public policy partnerships signals that outcome-oriented, time-bound management arrangements are probably better suited to tackling some of today's global challenges than are the much larger, more bureaucratic agencies. As noted, Arhin-Tenkorang and Conceição (in the volume) identify several such partnerships in health, while Mehta (in the volume) refers to the Global Water Partnership. More examples include the International Organization for Standardization and the Global Reporting Initiative.

These and similar networks and partnerships span borders, sectors, and groups of actors, overcoming much of the compartmentalization that characterizes current public policymaking and management. But many of them have emerged only recently. These first-generation public policy partnerships, not surprisingly, have weaknesses, primarily concerning legitimacy and accountability (Slaughter 2002). A model for second-generation global public policy partnerships should therefore have two distinguishing features:

- *A clear legislative mandate*—forming the basis for the partnership's activities. This mandate could take the form of a multilateral agreement. But agreements would also need to change, becoming more concrete and focusing on a policy outcome that can be delivered.
- *A clear contractual arrangement*—between the multilateral organization backstopping the agreement and the partnership. The contract would specify, among other things, requirements for accountability, transparency, and publicness that the partnership would be expected to meet. But it would also allow room for the partnership to exercise policy entrepreneurship.

The last point is important because many of today's partnerships—notably those focusing on policy implementation rather than policy advocacy—have succeeded as a result of entrepreneurial leadership. To build on this experience, Kaul and Le Goulven (institutions chapter) propose that multilateral agencies consider creating more opportunities for strategic issue management—for example, by creating clear policies for second-



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generation partnerships and for issue-focused chief executive officers (CEOs) to lead these partnerships. If policy conditions are conducive—for example, if consensus exists on a well-defined issue, the objectives are clearly feasible, and the agreement on the issue is backed by political support and requisite funding—issue-focused CEOs might emerge spontaneously. They might even compete to get the job done. Alternatively, they could be invited to undertake a particular task by the UN Secretary-General in consultation with the relevant technical agencies of the UN system and other stakeholders. The CEOs' role would be to carry out a time-bound task—encouraging the world to break out of a bad policy equilibrium and enter a new and better one (box 9).

The goal would be to bring in entrepreneurial and managerial skills to accomplish more effectively the complex and often unfamiliar tasks involved in producing global public goods. Entrepreneurs are innovators. In Schumpeter's (1962 [1934], p. 88) words, "it is this 'doing the thing,' without which possibilities are dead, of which the leader's function consists." Many of today's crises have become too serious to allow possibilities for change to slip by.

Historically, eminent private actors have shown strong leadership on public issues. The Rockefeller and Ford Foundations, for example, were involved in some of the first global public policy partnerships in agricultural research—leading to such initiatives as the Consultative Group for International Agricultural Research (Baum 1985). Paul G. Hoffman, the former president of Studebaker Corporation, served as the administrator of the Marshall Plan and so helped lay the foundations for the reconstruction of war-torn Europe. More recent examples include Ted Turner and Bill and Melinda Gates. Eminent CEOs the world over have from time to time entered national politics, moving from the private domain into the public.

Of course, different issues require different responses. Partnerships are especially appropriate when the challenge is to correct an acute crisis. In other cases more permanent organizations are preferable—say, for functions such as those entrusted to the International Criminal Court or for those that a possible future world financial authority or world water court would assume.

To sum up, management of global public goods provision could be enhanced through both innovative reforms and adjustments to existing institutions. Some of the main policy options for reform are summarized in box 10.



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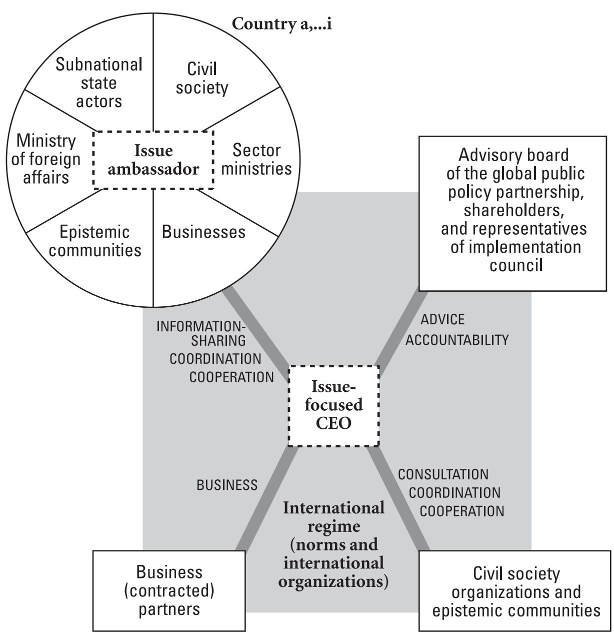
## Box 9

### The Global Public Good CEO Proposal

An issue-focused CEO would strategically facilitate the production of a global public good—anticipate, coordinate and link, plan and reorder, provide incentives, purchase required inputs, and accept responsibility to shareholders and stakeholders in the venture. Each CEO could be aided by the issue ambassadors appointed by countries to bridge the domestic-foreign divide as well as by a wide range of other actors, state and nonstate (see figure 4). By managing a special issue partnership outside the regular bureaucratic structures of national and international organizations, an issue CEO would be better positioned to overcome problems of mandates and procedures.

**Figure 4**

**Proposed network for managing issues among parties involved in producing a global public good**




*Source:* Kaul and Le Goulven (chapter on institutions in the volume)



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**Box 10**

**New Tools for Managing the Production of Public Goods**

- Appointing national issue ambassadors for key global public goods.
- Designating a national lead agency, such as a technical ministry, for each key global public good.
- Linking foreign and domestic affairs through matrix management and integrated budgets.
- Renaming foreign affairs ministries as ministries for foreign affairs and international cooperation.
- Establishing implementation councils for multilateral agreements.
- Creating second-generation global public policy partnerships.
- Inviting high-level, issue-focused CEOs to lead and strategically manage public policy partnerships.

## LOOKING TO THE FUTURE: RESOLVING THE PARADOX OF GLOBALIZATION

The beginning of the 21st century has ushered in many opportunities: new technologies to cure diseases, new economic and political arrangements to integrate national and regional markets, and new political alliances where animosity and uncertainty once prevailed. But behind this facade of technological, economic, and political openness and integration are sharp divides, tensions, and conflicts—cutting across countries, regions, population groups, and current and future generations. Globalization has created conditions that could produce massive wealth but also wreak havoc on people's lives. The paradox of globalization is that never before has the future appeared so promising and yet so threatening—for all.

Making sense of globalization is a daunting task. But mounting global challenges demand deep analysis of globalization's causes and processes. The volume is intended to shed new light on these issues and to encourage further research and policy debate on how to manage globalization.

At the end of the day, common concerns bind all people. Everyone wants to participate in a fair, stable global market economy. Everyone seeks an end to diseases such as HIV/AIDS and tuberculosis. Everyone hopes to benefit from nature. And everyone desires peace. Such issues also



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bind nations. They are concerns that have been echoed not just in the hallowed meeting halls of the United Nations, International Monetary Fund, World Bank, and G-8, but also—perhaps more so—on the streets. And they constitute global public goods.

The unifying message of the volume is that we have a choice—often a much wider choice than is implied by international political processes. Although globalization in its broadest sense may be irreversible, the publicness—and globalness—of particular goods are not. They reflect past policy decisions and in most cases can be adjusted to fit new realities, expectations, and preferences. As the analyses in the volume show, managing globalization is an art, requiring policy vision, innovation, and leadership. But it is also a craft, requiring new tools for new policy challenges. It is to this second dimension of globalization—providing new tools—that the volume speaks. Like its predecessor, the volume is intended to open the debate on a new set of issues—a debate that its contributors hope will be global and public.

## ANNEX: SUMMARY OF CASE STUDIES IN PART 4 OF THE VOLUME

Beyond examining the provision of global public goods from a cross-cutting perspective, exploring various dimensions of the process, the book also considers applications of the provision process to some issue-specific case studies. The case studies show how global public goods are embedded in, and matter to, people's daily lives. Several authors analyze goods from the perspective of local communities and developing countries. The analyses show that global public goods are not a luxury desired—and needed—only by rich people. Because of their globalness and publicness, most of these goods reach deep into all corners of the world. As Griffith-Jones stresses, in her analysis of international financial stability and market efficiency, poor people may lack income and barely participate in formal financial markets. Yet financial crises—through multiple transmission channels—can hurt them badly. Thus international financial stability is important for all people.

Moreover, poor people are often less able to cope with the crises and conflicts that accompany severe underprovision of global public goods. They also find it hard to live with malprovided goods: global public goods shaped in a way that severely constrains the room for policy maneuver available to developing countries and local communities. Mendoza's chapter on the multilateral trade regime addresses this issue. Thus it is important to distinguish between publicness in form (consumption) and in substance. The relevant question then is, does the global public good offer net benefits for all?

Mehta, in her chapter on water, also finds that this distinction is critical. Water is a heavily embattled issue. Its properties are highly context-specific. As Mehta argues, water basically is not a public good. But given its increasing scarcity, it could be desirable to make water a global public good by policy design. Doing so could help ensure, at least to some extent, that it is available to all people. The notion of global public goods can thus be seen as an important policy tool for a rights-based approach to development.

Another theme emerging from the analyses of the case studies is the struggle between local and global interests in a particular good. Perrings and Gadgil, for example, explain how the international community's desire for biodiversity conservation has been focused on the narrow goal of maintaining a global gene pool, whether through zoos and botanical gardens in industrial countries or through the preservation of biodiversity hotspots. Yet what matters for local communities is maintaining ecosystems as a whole. Fortunately for poor people, the ex situ approach is of limited effectiveness and is being modified to emphasize integrated, comprehensive ecosystem management. This strategy will benefit local communities as well as the international one.

Different interests and approaches often arise because global interconnectedness is not well understood. Many policies are still conceived in terms of national self-interest and countries going it alone—in stark contrast to the indivisibility of fate in a globalizing world. For example, as Griffith-Jones shows, all countries have an interest in international financial stability. But many often fail to recognize this, or at least to act in ways that would enhance such stability.

The same is true of the negative global spillovers that can result from the excessive disease burden in developing countries, as discussed by Arhin-Tenkorang and Conceição. Such spillovers transcend the health threats that have long been associated with high infection loads of communicable diseases. Global public goods are less likely to be adequately provided when their benefits or costs are not recognized and their importance is not sufficiently assessed.



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In addition, even when mutually beneficial arrangements are identified, their realization may be problematic. Castro and Cordero show how Costa Rica's ability to provide carbon dioxide sequestration services could be matched with the desire of some industrial countries to buy such services. The revenues could help Costa Rica finance national policy objectives such as providing clean electricity to remote areas. But the evolving intricacies of this arrangement indicate that its implementation is complex and subject to uncertain interactions among countries.

Finally, Eigen and Eigen-Zucchi show how difficult it can be for individual actors, state or nonstate, to break out of a policy dilemma—however irrational and costly it may be. Corruption undermines the provision of many public goods, nationally and internationally. Corruption control is a global public good that hinges on enhanced publicness and often enhanced globalness, namely cross-border cooperation.

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