Global public goods and responsible sovereignty

Collective self-interest

The current economic crisis is yet another stark reminder of the new policy challenges facing the world. While attention has shifted to the economic crisis, other crises, such as global warming and new communicable diseases, have been temporarily left in the dark. Looking at today's challenges in the context of global public goods could potentially point policy makers in the right direction for reform. The global nature of these public goods and these new challenges requires nations to make reforms that take not only their own but also global interests to heart. To accomplish this, the role of the state has to be remodelled to create responsible sovereignty that encompasses collective self-interest.

More than ever, new opportunities generated by scientific and technological progress offer the promise of a better life for all. But many of these opportunities are being squandered. The world appears to be caught in a web of crises – global warming, new communicable diseases like SARS or the H1N1 flu, international terrorism and financial volatility, to mention but a few. But why this turmoil? What is going wrong?

Looking at today's policy realities through the lens of public goods provides us with an answer to these questions and points to desirable reform steps.

Introducing public goods

A striking feature of many of today's major policy challenges is that they are global. They potentially affect us all, whether we are rich or poor, from an industrial or developing country. Our highly mobile world means anyone can be at the wrong place at the wrong time and fall victim to SARS or the H1N1 flu while travelling, for example, or get caught up in a hijacking episode. Global climate change is another case in point.

These facts bring to mind a core concept of public economics, namely the notion of public goods. This notion is mainly used in national contexts, much like public economics in general. An example of a public good at the national level is a street sign. It is there for all to see. A street sign is, as economists say, non-excludable. Moreover, no matter how many people look at the sign, it still remains there for all to see. It does not get progressively used up. It is non-rival in terms of consumption.

Goods that possess both these public properties (non-excludability and non-rivalry) are called pure public goods, while those that possess only one of these properties are impure public goods.

Services or conditions such as law and order or peace and security are further examples of pure public goods. If well provided, everyone can benefit from them.

An example of an impure public good is clean, fresh air. It is essentially non-excludable, there to be enjoyed by all, *but* from a certain point onward, rival in consumption. It may become polluted and unhealthy if traffic or industrial production increases. In some cases, air quality standards are often introduced to limit the use of air as a dumping ground for pollution. Access to air then also becomes more excludable.

Land is another example of an impure good. A long time ago, the world's land masses were all public. But since people often rival each other to reap its benefits, a lush green meadow may turn into degraded, barren land. Or forests may vanish due to a rising demand for wood driven by a booming construction industry. Therefore, private property rights were introduced the world over, progressively reducing the land available for communal, public use.

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Sometimes goods may inadvertently be in the public domain because their effects are poorly understood. Think of how long it took us to fully realize the implications of CO_2 emissions. Similarly, undesirable side effects of a medicine or building material may only become evident after years. It has also taken us years to become aware of the 'toxic' effects of some financial products and mechanisms, such as risk sharing through derivatives. These products and technologies remained part of the public domain, were sold in financial markets and were thus available for all who could afford to purchase them. Not only investors have suffered losses as a result, but also innocent bystanders who feel the impact the financial crisis had on the real economy.

In most instances, however, 'public' and 'private' are not innate properties of a good but rather a matter of choice. Land, whether a sea shore or a lake side, can remain public land or be privatized. Similarly, standards for pollution control can be introduced and enforced – or ignored. Technological advances, greater policy sophistication, expanding and diversifying markets, as well as the swing in policy stances towards economic liberalization and privatization, have led many goods to move from the public into the private domain in recent decades. Even health insurance and pension schemes were impacted by these shifts.

Vanishing borders?

Yet while many goods have recently moved from the public to the private domain, others have moved in the opposite direction. The most notable example is the institution of the nation state, originally conceived as a result of the repartition of the world's land and sea masses into separate, individual national territories. National boundaries were established by erecting border posts, emigration and immigration controls, trade barriers and restrictions on the movement of capital.

The principles of inviolable national borders and non-interference by outsiders in a state's internal affairs were laid down in the 1648 Westphalian peace treaties. They became the founding principles of our world order, ones we still largely abide by today. For a long time, it was not uncommon for rulers to insist on absolute policy making sovereignty, using national borders as a shield behind which they pursued idiosyncratic policies that sometimes violated the most basic human rights.

Yet in recent decades many of the former national borders, no matter how tangible, have been removed or relaxed. Often the driving force has been market integration, facilitated by enhanced transportation and communication technologies. These new opportunities have also enhanced networking opportunities among civil society actors – feminists, environmentalists or activists fighting poverty and corruption.

Global public goods on the rise

Processes like market integration and the globalization of civil society would not have been possible without a corresponding globalization of public goods. Think, for example, of the cross-border harmonization of trade and investment regimes, the promotion of human rights or the standardization of physical infrastructures to facilitate

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cross-border connectivity. As a result, national public goods (NPGs) became increasingly globalized – deliberately turned into global public goods (GPGs).

Greater border openness was meant to facilitate cross-border economic activity, which it did. Yet the intended international flow of goods and services and increased travel was inevitably accompanied by the flow of unintended and undesirable goods. Just like viruses and diseases, crime and violence could now spread more easily as well.

The range and speed of information flows also increased dramatically. This made it more difficult for autocratic rulers to stem the tide of rising global support for human rights or ignore global expectations about what constitutes a good business climate. Greater border openness thus engendered the further globalization of NPGs. While this universalized human rights, including women's rights, it also facilitated the global spread of policy conditions fostering privatization and economic liberalization.

An array of human-made GPGs thus joined the ranks of natural GPGs, like sunlight and the oceans. Greater border openness led to an ever denser mesh of national policy domains and deepening policy interdependence among countries. It is therefore not surprising that even the heads of the world's most powerful states, including President Barack Obama, now tend to refer to challenges such as global warming, international terrorism or the H1N1 flu as problems that no nation can solve effectively on its own. GPGs are public in the sense that they affect us all, and they are public in provision. It would be difficult for any nation to improve the availability of a GPG like global climate stability through domestic policy initiatives alone. Most GPGs call for cross-border cooperation.

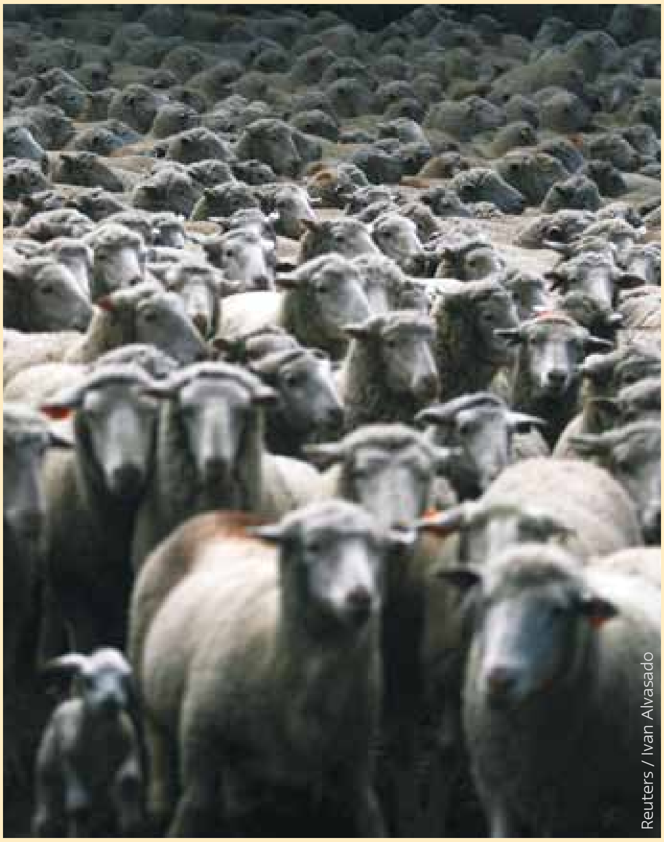
Obstacles to overcome

Yet, while the importance of mutually beneficial international cooperation has secured some recognition, it has done so mainly at the level of political rhetoric. Actual policy change has encountered several obstacles.

Easy riders

When appearing on the international political stage, states behave much like private actors do with public goods. They look for a free or easy ride. They wait in the wings and let others pay for all or most of the good's costs. Once a good has entered the public domain, they enjoy its benefits – free of charge.

At the national level, we have the institution of the state with its special coercive powers, notably taxation powers, to help us overcome such collective action problems. States compel us to contribute to the provision of public goods, whether we like it or not. Yet the state has no such equivalent at the international level. International, intergovernmental organizations are primarily venues for multilateral debates. There are only a handful of organizations with limited enforcement powers, such as the World Trade Organization (WTO) or the United Nations (UN) Security Council. Most decisions made at the international level are essentially non-binding.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GPGs thus tend to suffer from two types of failure. They suffer from market failure, which means that individuals (whether single persons, families or firms) are reluctant to voluntarily contribute their own money towards public goods. And they suffer from state failure, which means that at the international level states are motivated by particularism or national interests, which are semi-private interests.

States are especially reluctant to enter into any obligation requiring them to make major, long-term financial commitments. Most international agreements therefore typically remain silent on how to meet the financial implications of their recommendations.

This happens primarily with GPGs when countries' preferences vary widely and the net benefits of engaging in cross-border cooperation are unclear. And there are many such cases, because we live in a world of growing disparity and inequity. For example, countries whose populations still have low life expectancy might not consider reducing health challenges a higher priority than combating climate change.

Thus, the GPGs we encounter during crises typically have significant distributional problems. They tempt states to shirk responsibility and not to contribute their fair share. By contrast, well-provided GPGs tend to be those with a relatively even spread of net benefits. Examples are the global transport and communication networks. Public goods of this type, whether national, regional or global, are also often referred to as goods in the public interest.

Outmoded national government set-up

But the lack of effective multilateralism may not only reflect international collective action problems like easy riding. Another reason may be that the functioning of governments at a national level has not yet been adjusted to today's deepening policy interdependence and the blurring of the foreign/domestic divide.

GPGs are not, or at least not merely, foreign affairs, that is, matters beyond national borders. They are global affairs, matters that straddle national borders, that are 'out there' as well as 'in here'. Addressing them might need the involvement not only of foreign affairs ministries but also that of other government entities, including sector or technical ministries such as agriculture, defence, the environment, health, finance or trade. GPGs are not merely foreign aid or development assistance issues either, matters exclusively dealt with by aid agencies. Rather, they concern industrial and developing countries, as well as emerging economies.

Effectively responding to GPGs therefore often requires cooperation among several sector ministries plus the foreign affairs ministry and the aid agency. Communicable disease control, for example, could call for the involvement of health officials at different levels of government, as well as government entities concerned with international trade, intellectual property rights and foreign aid, not to mention the possible need to forge public-private partnerships.

Though many policy issues today have a global dimension, global affairs departments are not yet a common feature, neither in sector ministries nor in foreign affairs ministries. Nor do the committee structures of the national legislative bodies often reflect today's changing realities yet. So it is not surprising that different government entities can be found quibbling about which ministry should lead a government's international negotiating team or take primary responsibility for following up on international commitments. Money is often a major point of contention. Which government entity should pay for the costs involved? Easy riding between national ministries thus adds to states' easy riding internationally.

Global power shifts

The growing challenge of providing GPGs occurs at a time when international patterns of decision making are also changing due to the rise of new or re-emerging economic and political powers like Brazil, China, India and South Africa. Conventional powerhouses like the Group of Eight are progressively losing clout. They find it increasingly difficult to define global norms and rules in line with their interests. Even the less advanced developing countries now claim a more effective say in how to address global challenges, because all too often they have been adversely affected by how GPGs were, or were not, provided.

As a result, important global issues, especially those deemed important by the major powers, are now being increasingly discussed either bilaterally, in consultations between China and the United States, for example, or in more informal groups at the level of heads of state and government, like the Six-party Talks on North Korea and the Group of Twenty (G-20) meetings. Although the G-20 includes the major emerging markets, it nevertheless is a forum where the conventional powers can feel more confident that their views will count – more so than in larger multilateral bodies, like the UN.

Efficacy is often cited as a reason for using such bilateral and limited multilateral approaches. Smaller groups are more efficient at making decisions and correcting problems, so the reasoning goes, especially if they include economically and politically powerful nations that have the resources to cost-share global initiatives. As a result, however, the global mismatch between stakeholders and decision makers has been widening.

So far, the G-20 has focused only on financial and economic issues, and has done so with relatively limited success. And again the focus has mainly been on those issues that interest industrial countries. Other negotiations on global challenges are limping along. Just think of the Doha Development Round of multilateral trade negotiations. Or imagine where the issue of climate change would stand if civil society advocacy had not so actively pressured states and markets.

So several major factors have contributed to today's global volatility. Not surprisingly, complex GPGs like climate stability, which have important distributional consequences, are among the issues that suffer most. Old policy approaches and instruments have lost their effectiveness and new ones are not yet firmly in place. Moreover, international finance has more powerful and vocal constituencies than issues like global climate change and poverty reduction. Otherwise why would the current financial and economic crisis receive such extensive attention from the G-20, as opposed to global climate change, which is likely to have an impact on the survival of this planet as we know it?

Possible ways forward

Much of the current debate on global governance is aimed at the international level, most notably at reforming multilateral organizations such as the International Monetary Fund, the World Bank and the World Trade Organization. These organizations have good reasons to reform as well. But international reform efforts may not go far enough to generate the necessary changes if they are not first made at the national level. The lesson we need to learn is that in terms of GPG provision, state behaviour often facilitates and compounds market failure. Therefore, the key to less crisis-prone globalization is to strengthen states' willingness to engage in transborder cooperation. They need to recognize that many GPGs cannot be efficiently and effectively provided by any one nation alone, however powerful it may be.

Five kinds of reforms are needed to break the current spiral of global crises. The first three deal with correcting state free riding, the fourth seeks to disentangle the current conflation of foreign affairs, aid and GPGs at the national level, and the fifth addresses how international decision making can better reflect actual global power relations. >


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Responsible sovereignty

Most importantly perhaps, a principle of responsible sovereignty needs to be established. It is already being discussed in a UN context. UN member states have re-emphasized governments' internal responsibility to protect their citizens' basic human rights. If states fail to assume this responsibility, the international community should intervene and help protect deprived citizens.

But states' sovereignty has an internal as well as an external dimension, as is evident from the current debates on climate change and the global financial crisis. States' external responsibility is to ensure that other nations are not being unduly harmed by spillovers from their jurisdiction that they could reasonably be expected to internalize.

Today's open and interdependent world requires a principle of responsible sovereignty that encompasses both the internal and the external dimensions of responsibility. But how can states and governments ever be persuaded to accept such a principle?

Viewing sovereignty as a special brand of freedom might help. Notions of freedom emphasize the importance of respecting other people's freedom when pursuing one's own. Sovereignty can be seen as a nation's freedom to pursue its policy concerns without external interference. So it can be argued that nations would strengthen, not weaken, their sovereignty by respecting the sovereignty of others and refraining from beggar-thy-neighbour policies.

Remodelling the role of the state

The notion of responsible sovereignty implies a remodelling of the role of the state. States would need to act more as intermediaries between external and domestic policy demands, and less like conventional Westphalian nation states. They would need to take the outside world into account when formulating national policies and defining national interests.

Many states have already begun to adjust their behaviour accordingly, often in response to emerging opportunities, such as becoming members of the WTO or obtaining a good sovereign credit rating. Alignment also happens in response to a global exigency like global warming or an international terrorist attack.

The change in the role of the state has been incremental and, under pressure, often unintentional and barely noticeable. The electorate therefore often wonders who policy makers actually represent. Are politicians really listening to them or more to actors on the international market, global civil society or other, perhaps more influential, nations?

But more balanced globalization is hardly conceivable without states performing this role of mediation between national and external concerns. This means that a major burden of adjustment falls on the general public, the electorate. They must vote for politicians ready to play the required modern role of an intermediary and engage in international cooperation in enlightened national self-interest.

Win-win agreements

At present, states frequently focus on what one might call the 'paradox of purely national interests'. If states define their national self-interest – in the case of GPGs – from a purely national viewpoint and pursue it vigorously, international negotiations tend to break down. International cooperation has to be voluntary and has to benefit all concerned parties.

Studies on underprovided GPGs have shown that prolonged inaction on global challenges is often much more expensive than prompt corrective action based on mutually beneficial international bargains. The net benefits of decisively dealing with a crisis are often quite significant, not only for the world at large but for individual countries or groups of countries as well. This is even the case when the main 'winners' assist others (for example through technology transfer or compensatory financing) in taking necessary corrective action so that all have a positive incentive to help ameliorate the problems.

Put differently, the best way of pursuing national self-interest in terms of GPG provision is through international cooperation based on fair win-win strategies.

GPG provision as a new policy field

The fourth change concerns differentiating between foreign affairs, foreign aid and GPG provision, because conflating them may hamper the effectiveness of all of them.

Foreign affairs strategies tend to be driven by power politics and geopolitical interests. This can also be said of foreign aid, although according to official statements, development assistance is motivated by altruism and global equity concerns. Yet like the provision of pure national public goods, GPG provision usually takes into account allocative efficiency, or how best to enhance national well-being with limited resources. GPGs bring more economics into the international cooperation realm. In their case, national engagement in international cooperation is motivated mainly by self-interest.

Moreover, international cooperation in support of GPGs is often not just a policy choice but an exigency. National and international-level inputs often have to be provided in a coordinated, harmonized manner in order for the good to be provided. Therefore, it would also be desirable to end the current donor country practice of heaping GPG-related expenditures into official development assistance (ODA) budgets. Rather, ODA and GPG financing should be separately budgeted and accounted for, especially if the GPGs concerned provide clear net benefits to the donor country.

It is also important that all countries nominate a lead ministry for every major global challenge. These ministries should obtain the required budgetary funds, clearly identifying which resources should be disbursed nationally and which internationally.

Extending the G-approach to global leadership

Developing countries – regardless of whether they are members of the current G-20 leaders' forum or not – have argued for an expansion of the group's agenda. It should include issues such as the environment, poverty, peace and security, in addition to the current financial and economic issues, and possible other issues as well if new global challenges should arise.

This is a reasonable demand, one that is likely to gain momentum in the sense that current G-20 members seem to be placing more emphasis on outreach. There is more consultation with non-member states (perhaps as a prelude to more representative, revolving state membership in the years to come) as well as consultation with non-state actors.

These changes are desirable in order to strengthen non-members' policy attention to G-20 decisions. But they also imply the risk of over-crowding and cluttering G-20 summit debates.

The current G-20 could benefit from a leadership group of limited but representative membership for each major global challenge. These issue-specific groups could meet at the ministerial level, while the G-20 would continue to meet at the level of heads of state or government. If an issue were to face a stalemate in a ministerial group, the G-20 could move it to its own agenda and try to force a breakthrough. They could then pass the issue back to the ministerial group.

The prospect of these reforms actually taking place is quite positive. The first signs of change in this direction are already discernible in most cases. We will only be confronted with more crises and volatility if we ignore this tide of change or swim against its current. So what's to stop us? ■

Literature on global public goods

A comprehensive overview of literature on GPGs can be found at www.gpgnet.net.

For the standard theory of public goods and related concepts, see:

- Cornes, R. and Sandler, T. (1996) *The Theory of Externalities, Public Goods, and Club Goods*. Cambridge University Press.
- Pickhardt, M. (2006) Fifty Years After Samuelson's 'The Pure Theory of Public Expenditure': What Are We Left With, in *Journal of the History of Economic Thought 28(4), pp.439-60*.
- Samuelson, P. A. (1954) The Pure Theory of Public Expenditure. *Review of Economics and Statistics* 36(4) pp.387-9.

A suggestion on how to expand the standard concept of public goods to better capture current realities can be found in the following publication:

- Kaul, I. and Mendoza, R.U. (2003) Advancing the Concept of Public Goods, in Kaul, I. et al. (eds) *Providing Global Public Goods: Managing Globalization*. Oxford University Press, pp. 78-111.

The publications below present extensive discussions on various GPGs, ranging from norms like equity and human rights to the environment and health, the internet, trade and finance, and peace and security, including studies on the provision and financing challenges that these goods present:

- Barrett, S. (2007) *Why Cooperate? The Incentive to Supply Global Public Goods*. Oxford University Press.
- International Task Force on Global Public Goods. (2006) *Meeting Global Challenges; International Cooperation in the National Interest*.
  See www.cic.nyu.edu/internationalsecurity/docs
- Kaul, I., Grunberg, I. and Stern, M.A. (eds) (1999) *Global Public Goods: International Cooperation in the 21st Century*. Oxford University Press.
- Kaul, I., Conceição, P., Le Goulven, K. and Mendoza, R.U. (eds) (2003) *Providing Global Public Goods: Managing Globalization*. Oxford University Press.
- Kaul, I. and Conceição, P. (eds) (2006) *The New Public Finance: Responding to Global Challenges*. Oxford University Press.
- Kaul, I. (2007) Providing (Contested) Global Public Goods, in Rittberger, V. and Nettesheim, M. (eds) *Authority in the Global Political Economy*. Palgrave Macmillan.
- Sandler, T. (2004) *Global Collective Action*. Cambridge University Press.

While most of the contributions included in the knowledge portal of www.gpgnet.net, for example, have sought to elaborate on the GPG concept or to shed more light on the provision challenges of particular goods, there have also been some critical voices doubting the usefulness of the concept, such as the following publication:

- Long, D. and Woolley, F. (2009) Public Goods: Critique of a UN Discourse, in *Global Governance: A Review of International Organizations*, Vo. 15, No. 1, pp.107-22