

## Session 2: Defining and Managing Global Public Goods

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OK. thank you Inge very much for giving us the idea of how global public goods can be efficiently organized or inefficiently organized. I think we move now to another dimension, which is, although they are organized and delivered within the nation states, the conditions of the international relations between states is such that there is not given an equal share of possibilities between nations; so not only do we have the question of the intermediary state but we also have the question "do our own existing states have a fair share in dealing with global public goods?" and with that I would like to pass the floor to Professor Andrea Cornia who will speak a little bit about financing and exclusions and inclusions, is that so?

PROF. CORNIA

During the prior session, Inge Kaul spoke on how to re-cast the national state and improve the delivery of public goods. In turn, I will focus on the obstacles that prevent the delivery of international public goods at a global level, and on the re-casting of the international institutions needed to achieve this goal. I will mainly emphasize two points: first, the failures in this area of the liberalisation ideology which drives globalization and, second, the inadequacy of the international financial resources complementing the national revenues of developing countries to achieve minimum social standards.

To illustrate the first point I will draw a parallel: the concept of public goods is actually quite recent. It emerged from the Western public economics literature of the 19<sup>th</sup> and 20<sup>th</sup> century, following the consolidation or birth of national states, increasing economic development, and greater intra-country integration. Before this process of integration, today's nation states were composed of small adjacent territorial units little linked to each other by trade and financial linkages. With industrialization, urbanization and greater domestic commercialisation there was a marked increase in inter-dependence. There was also an increase in de facto political participation, which in many cases was accompanied by growing democracy and accountability of the political class. All this led to a growing perception of such interdependence, to a feeling that 'we are all in the same boat', that we are part of the same state entity, of the same national village. During that period, the dominant economic and political ideology emphasized the construction of nation states, and economic modernization and, after World War II, a Keynesian strategy of combining democracy, a free market, some state intervention in the economy and the welfare state. In the West, all this facilitated the delivery of public goods starting in the late 19<sup>th</sup> century. For instance an important 'public good' provided through state pensions was economic security in old age. Bismark in 1880 and Cavour shortly afterwards introduced such old age insurance in Germany and the Piedmont Kingdom. After a few decades compulsory education was introduced - and it is important to emphasize that in Italy free and compulsory education was introduced only in the 1930s. Around the same time, poor relief was also introduced as a national public good. Poor relief programs placed on the state the obligation to provide relief for people suffering from famines. Before the introduction of these measures, people would starve as there was no perception of the need for or of obligation to intervene. Remember in this regard that the last big famine in Western Europe occurred in Finland in 1862-3, killing 300,000 people. Other 'public goods' such as environmental regulation, unemployment insurance or the need for actively managing the economy were introduced in subsequent years. So the need for providing public goods arose

because of the creation of nation states, greater economic integration, the spread of democracy, greater political participation, and growing awareness that we are all on the same boat and that our wellbeing does not depend only on our actions but also on collective measures or programs, i.e. 'national public goods' that are provided in a collective mode. However, the term 'public goods' is a bit inappropriate as it covers a wide range of goods and services that differ quite a bit from each other. Some of them are pure public goods, like those that are not excludable and not rival (like personal and collective security, peace, currency stability, a legal system and so on and so forth). In contrast other goods provided by the state are not exactly public goods: they are goods which generate large externalities (such as health and education), or are merit goods, or are undefinable goods like social solidarity. Thus the Western and some other states have provided goods like those we mentioned, and have ensured an improved functioning of the market through anti-monopolist regulation, developing incomplete markets, and solving the market co-ordination problem. Poor relief and poverty alleviation are also 'public goods' in some sense though the benefits these programs are mainly private. The focus on poverty alleviation arises from normative values, as Western societies have decided that extreme inequality, poverty, famine, and so on are intolerable. How does the state intervene to provide public goods broadly defined? The state can provide goods and services directly, or issue regulations and norms, or finance a services but letting to others (the ngo or the market) the task to provide the service on behalf of the state. So the state can intervene in many ways. The new tendency is to see the state less as a service provider and more as a regulator and funder of given social programs.

Now if we adopt this approach and look to what happens at the global level, what do we see? Have the conditions that led to the birth of the welfare state in the Western countries emerged also at a global scale? Has the birth and consolidation of global political entities - which was one the pre-conditions for the creation of the state and the public goods on a national level - happened? The EU is an example of such phenomenon, and a similar (if weaker) phenomenon can be observed in the case of other regional entities and of the UN. But, by and large, we are far from being in some kind of global confederation of states. Do we, in turn, observe a strong economic development and integration between the different parts of the world? Yes, there has been a lot of integration through trade, finance, migration, tourism, technology, culture, and so one can talk about rising global inter-dependence. But this interdependence is highly asymmetric: for instance, trade and foreign direct investments bypass Africa, and increasingly so. The share of world trade emanating from Africa has in fact fallen from 3% to 1% over the last 20 years. So the present global economic integration basically concerns coastal China, parts of South and South East Asia and the West. Most other regions remain little or completely excluded from the world economy. Second, do we observe greater political participation in shaping global political choices? No, if anything, we are going in the opposite direction, we are going towards American unilateralism. Third, is there a growing perception that we are all in the same boat? Perhaps in some Western countries such perception is rising but this is not a general trend. Fourth, do we have a clear economic ideology which informs our action? Is a global welfare state aiming at providing to all merit goods, public goods and other non-private goods taking shape? Do we see the sort of integration between political ideology and economic ideology that arose in the West after the Great Depression and World War II? What is the current political-economic ideology? Well, such ideology has two main pillars: one is liberalization and globalization that suggests that states should liberalize their domestic goods and factors markets and then globalize their economy, i.e. free all your external transactions except for labour. The second generally accepted component of the new political-economic ideology are the Millennium Development Goals, that set specific welfare targets to be achieved by 2015 in the field of poverty, infant mortality and so on. Are these economic and welfare objectives (liberalisation and MDGs) consistent with each other? Well, I don't think they are, or they are not necessarily consistent; perhaps greater liberalization is not causing problems in Europe but it might do so in

Africa and Latin America. For instance is the liberalisation of international capital markets facilitating the achievement of the MDG's? The answer is not obvious. So we are in a situation in which we cannot count on a consistent socio-economic paradigm to manage the world economy and to provide global public goods to all citizens of the world. Just opening up the economy, removing trade and financial barriers is not necessarily good, not even for business. Thus, one of the limitations of the current attempt at building a world that responds better to the needs of the world population by providing the world citizens adequate amounts of global public goods is that we lack a clear economic and political ideology to guide this process. The second problem is that we have an incomplete institutional set up guiding the world market and helping to provide global public goods.

At the moment, most of the burden for providing these loosely defined global public goods rests on the national states. While this is perfectly normal, there is a major lack of global resources to complement national efforts in the delivery of public goods at the national level. In this regard, a Finnish economist once noted that the WHO entire budget is about half the budget of the Helsinki Central Hospital. One way to close this resource gap is to increase ODA, Official Development Assistance. Global ODA flows are about 60 billion dollars a year, a figure that would need to be doubled if the MDG are to be achieved. Yet, there are indications that this target may not be reached because of widespread 'aid fatigue' and rising budgetary tensions in the donor countries. But there are other ways in which resources for development could be raised, as suggested in a recent WIDER book edited by Tony Atkinson.

The main alternatives are the following. The first consists in imposing an international tax on negative global externalities, such as a global international public "bads", or a currency transaction tax which reduces the frequency of financial crises while generating revenue for international development. A 'brain-drain' tax is also a possibility. For instance, Italy and other countries of immigration could compensate the international community for making use of trained expatriates without having invested one penny for their education. There are also other options such as a tax on arms-exports - another international public bad - or on activities which do not constitute a public bad but that are typically international in nature, such as an air travel tax and so on. Even using very small marginal rates, such taxes can generate considerable revenue. For instance, if international financial transactions are taxed at a rate smaller than those suggested by Professor Tobin, they would generate some 50 billion US dollars per year, i.e. the amount needed to improve the provision of public goods globally. There are also other possibilities which are being explored. One of them is private donations - as suggested by the new economics of charities. For instance, in the US private donations account for 1.5% of the national GDP, though only one 50th of it goes to development assistance. So, perhaps one should explore the possibility of diverting some of these domestic donations to international development. A global lottery is also a possibility. In many countries the lotteries are an important source of revenue for the treasury, and one could consider establishing a global lottery to fund the delivery of global public goods. Finally, one could think to double the migrant remittances. As Reman Sobhan rightly noted this morning, South-North migration will continue, as there are areas that are de-populating, like western Europe, and areas with a huge labour surplus like Africa, North Africa and South Asia. Thus, it is likely there will be a massive increase in migrant remittances, whatever is the policy adopted in the North in the field of migration. The existing estimates suggest that remittances range between 110 billion and 200 billion US dollars a year, against an overall ODA of 56 billion US dollars. You may say, these private transfers will not help providing public goods such as health, education, and infra-structure in developing countries. However the remittances could be moderately taxed in the country of destination, and so contribute to the provision of public scale in the country of destination. In addition, a massive increase in remittances inflows would take place if the now astronomical cost of transferring the remittances could be reduced. Indeed, the transfer fees charged by Western Union are exorbitant (up to 12 % of the value

of the transfer) while commercial banks do not operate in this market. If the transfer fees could be reduced by, say, 5% through better banking one could save 7% of 200 billion which is 14 billion US dollars that would constitute an additional transfer to the South.

My last point concerns the emergence of global political entities and institutions. This process is slowly taking shape in Europe but it is less evident in other parts of the globe. Economically, it is clear that East Asia, Thailand, China, part of India and a few other emerging economies are becoming fully integrated, together with the Western economies, into the core of the world economy. Despite this, the awareness that we are all in the same boat is still lagging behind. Even worse, the global institutions governing this process are vastly incomplete, count on limited resources and lack a clear strategic view of what needs to be done to further and control the process of globalisation under way. Thus, to facilitate global integration and provision of public goods there is a need to establish stronger international institutions, elaborate a more consistent economic paradigm in which all parts of the world gain something, and to establish the principle that global public institutions help complementing the provision of public goods in poor nations. While we do not want to build a kind of global planning apparatus to pursue these goals, the lack of institutions that ensure a fairly equitable distribution of gains and costs of economic integration and provision of public goods risks to affect the political sustainability of the present model of economic integration. Thank you