

## Public Goods: Taking the Concept to the 21<sup>st</sup> Century

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The past decades have witnessed major shifts in the boundaries between what is perceived as public and private. Economic liberalization and privatization have allowed markets to expand and integrate across national borders. In ever-larger numbers private corporations have gone public, i.e. floated shares on stock markets. Government programmes have been subjected to marketization, such as outsourcing of service provision. There are calls for public agents themselves to be more public, transparent and accountable. Labour and environmental policies of private firms can no longer be kept secret behind closed boardroom doors *The public*, people at large, as consumers and investors, insists on knowing what production principles companies adhere to. Yet we also see signs of companies' self-regulation. Many now want to be good corporate citizens with a concern for the public welfare. Clearly, the lines between private and public have become blurred.

Assessments of these trends vary widely. Some analysts applaud the greater freedom granted to the invisible hand (see e.g. Micklethwait/Wooldridge, 2000). Others fear we are headed towards ruthless, property owner and shareholder-driven "turbo-capitalism" (e.g. Luttwak 1999). And yet others waiver, recognizing in the present economic situation both risks and opportunities for all. As Giddens and Hutton (2000, p. 214) conclude, optimists and pessimists write about the current trends with equal fervour. They can probably do so, because they share the same pre-occupation: getting

the balance right between markets and states. Yet markets and states are mere mechanisms for the provision of goods. Sometimes one does a better job and some times the other. It all depends in the end, the basket of goods (and services) one has in mind. There is little, if any debate in the present literature about the right balance between private and public goods.

Yet we all require for our well-being private goods as well as public goods --- private goods such as bread, butter, shoes, or a house, and public goods such as law and order, street signs, an intact ozone layer, institutions to facilitate the efficient functioning of markets, or a healthy environment. Private goods and public goods cannot necessarily be equated with markets and states, respectively. Thus the key question is not how much market or state but rather what mix of private goods and public goods to aim at in order to realize our goals, be they poverty reduction, old-age security, or a sustainable environment, that is, how to distinguish private goods from public ones?

If we were to refer analysts to the standard economic textbooks, little if anything would be gained. Private goods are defined as excludable and rival in consumption. They thus meet the requirement for a market transaction. Their ownership can be transferred or denied conditional on the offsetting exchange -- the payment of the goods' price. Public goods are said to have the opposite properties. They are labeled "market failures", and set aside as cases for government intervention. We are back to the market/state issue. The public domain appears as a residual category, comprised of things that are non-marketable.

The analysis in this paper suggests that the present standard definition of public goods is of limited analytical, and therefore also, limited practical-political value. This is not a new insight. In effect, an extensive literature exists critiquing the standard definition of public goods. But so far, no revised definition has emerged. In part I of this paper we will, therefore, attempt such a redefinition. The proposal is to require public goods to be inclusive (public in consumption), based on participatory decision-making (public in provision) and offering a fair deal for all (public in the distribution of benefits).

Part II tests the usefulness of the revised definition. It is applied to an examination of important and controversial global public goods, including such issues as the international trade regime, the international financial architecture and global environmental issues. The discussion reveals that these goods are marked by a sharp discrepancy between the goods' different dimensions of publicness. While they affect ever-larger population segments (becoming more public in consumption), they are lacking in terms of participatory decision-making and a just distribution of benefits. Thus, the revised definition allows us to see that public goods do not only face the long recognized risk of under-provision; they may also suffer from mal-provision – providing positive utility only for some and for others nothing, or sometimes even, only costs. A way to reduce the risk of such mal-provision could be to grant all concerned population groups a more direct say in selecting and shaping public goods, i.e. to better match publicness in consumption with publicness in decision-making. More issue-specific policy dialogue among all concerned actors and stakeholders could help achieve that.

In effect, the political realities throughout the world have begun moving into this direction. The growing number of civil society advocacy groups and public policy-

networks, often composed of government, business and non-governmental organizations, bear testimony to that. *The public* is already taking more active charge of public policy issues. The challenge now is for our concepts and theories to catch up with the new realities. First and foremost, we need to up-date the notion of public goods. As part III shows, the redefinition suggested here raises many issues that need further research and policy debate. By implication this also means that the tool kit of policy-analysts and policy-makers is currently lacking critical instruments – a worrisome fact given the many crises facing us today, and a fact that deserves urgent attention.

## **Defining Public Goods**

The literature on public goods (PGs) is quite extensive and diverse in its perspectives and conclusions.<sup>1</sup> Nevertheless, there exists what could be called a mainstream – or, standard -- definition of PGs. We will begin in section 1.1, by examining this standard definition in more detail. In section 1.2 we will review some of the refinements and critiques of this definition suggested in the PG literature. In light of these commentaries, section 1.3 will, then, suggest elements of a possible revised definition.

### *1.1 The standard definition*

PGs are typically defined as counterparts of private goods. The latter tend to be excludable, with clearly defined property rights attached to them; and often, they are rival in consumption. For example, if one person consumes a glass of milk, others can't

enjoy it any longer. It is then consumed. This rivalry in consumption lends added importance to the excludability of private goods. But it is especially the excludability that makes private goods tradable in markets. In a market transaction a buyer gains access to a private good in exchange for money, or sometimes, in exchange for another good or service.

PGs, on the other hand, are defined through non-rivalry in consumption, or indivisibility of their benefits, and non-excludability. Non-rivalry in consumption means that the consumption of a PG by one person does not detract anything from its consumption by other, additional persons. And non-excludability refers to the fact that it is impossible, or at least extremely difficult (and therefore most likely also economically undesirable) to exclude people from the good's consumption. This definition of PGs dates back to Samuelson's seminal article "*The Pure Theory of Public Expenditure*", published in 1954. Today, it can still be found in most economic textbooks and throughout the economics literature on public goods and public finance.

There is full recognition in the literature that only a few goods qualify as purely private or purely public. Many have mixed properties. Goods that have non-rival properties but are excludable are referred to as club goods; and the public spillovers of largely private goods are termed externalities<sup>2</sup>. But the realization that many PGs fall into the category of impure PGs has not changed the basic policy argument in the literature. It suggests that due to their publicness in consumption PGs are subject to under-provision. People will have an incentive to attempt free riding: waiting for others to step forward to provide the good and then enjoying it for nothing. Another frequently mentioned reason for under-provision has become known as the prisoner's dilemma. It

characterizes a situation in which the independent pursuit of self-interest makes both worse off than they would be, if they had cooperated.<sup>3</sup> Thus, “underprovision” has, in the minds of many, become another, second, defining characteristic of PGs, leading to a third one, viz. the equation of PGs with being state-provided. Since PGs give rise not only to market failures, but also, as shown, to cooperation failures, the state is called in to solve their provision dilemma.

### *1.2 Critiques and refinements*

The standard definition of PGs has given rise to numerous commentaries. As Shmanske (1991, p.4) notes, the literature on the topic is vast and “the mention of public goods brings to mind a dozen different issues, each of which brings along its own idiosyncratic model and relies on its own set of special assumptions”.<sup>4</sup> Yet despite the wide range of approaches and perspectives, there exists broad-based consensus on three points, which are of particular relevance in the present context, because they call into question the three core dimensions of the standard definition.

First, many analysts point out that “public” and “private” are not fixed but variable properties. Whether – and to what extent – a good is public or private is often not a given but a matter of policy choice. Second, a good’s publicness in consumption, or being there for all, must not automatically mean that all population segments actually enjoy it and find that it has positive utility for them. And third, PGs are not necessarily state-provided. In many instances their provision is a complex process, involving besides the government also people at large, civil society, and business. More precisely, the arguments are as follows.

*i. Publicness as a social construct.* Of course, the economic desirability and feasibility of changing a good's position on the public-private continuum depends on a number of factors. Technology is one of them. If it had not become possible to scramble radio and TV waves, the issue of public or private programming would not have arisen. Now we do have to make a choice. Budget constraints also matter. For example, turning basic education, an essentially private good, into a PG by making it available for all entails resource implications for the state. Similarly, resource issues might come into play when determining public investments in, and the management of, physical infrastructure. Some goods, such as airports, require large initial investments, and hence, the government's support. Yet in later stages of their life cycle they can attract private enterprise. Knowledge is another interesting case in the present context. It often confronts societies and economies with a difficult choice between dynamic efficiency and static efficiency, growth of any type or growth with equity.<sup>5</sup>

Thus, for many possible reasons a good's properties might be changed, from private to public or the other way.<sup>6</sup> The choice to do so is a political one. Markets can provide important signals. But it is only people, individually and collectively, who can decide whether it is feasible and desirable to move into one or the other direction.

*ii. Publicness of utility.* A second point of broad consensus among critics stresses that publicness in consumption must not necessarily mean that all persons value a good's utility equally, Mendez (1999), for example, illustrates this point by examining peace as a PG. Some policy-makers might opt for increased defense spending in order to safeguard peace. However, this decision could siphon off scarce resources from programmes in the areas of health and education. Other policy-makers might object to

such a consequence and prefer to foster peace through just the opposite measure -- improved health and education for all. Especially under conditions of extreme disparity and inequity, the first strategy could indeed provoke even more conflict and unrest, securing national borders by unsettling people's lives.

Or, consider the PG "financial stability". In order to ensure a well-functioning market, the government as well as private actors may have to allocate a large volume of policy attention, time, energy and financial resources to banking regulation, supervision or supporting the country's currency. Financial stability may rank high among investors' preferences. And in many respects, it is important even to the lives of poor farmers in emerging markets, because they, too, are likely to suffer when a financial crisis erupts. Nevertheless, financial stability may not be their top priority. Malaria control may rank higher in their list of preferences. But it may also be of interest to investors in industrial countries, because they may, off and on, have to visit emerging markets and be concerned about their health. Thus while both, financial stability and malaria control are PGs; different population groups value them differently. One could also look at environmental regimes, let us say, at forest management regimes, or at legal systems. Yet the findings would be very similar.

A good's publicness in form does not automatically imply its publicness in substance, i.e. a fair and positive outcome for all. Yet publicness in form often means that people must consume the good. They cannot avoid being affected by it. This holds true especially in the case of national, and even more so, international PGs. In respect of local PGs (e.g. parks, school systems, police) people often do have a feasible exit strategy. Many might be able to move their residence, and as Tiebout (1956) put it, vote



with their feet. Yet if we think of a governance regime that violates human rights and tolerates racial discrimination, people might be able to avoid the “benefits” of such a PG only at high cost, by becoming refugees.<sup>7</sup> Public goods can – but must *not* -- be sold or bought. People enter market exchanges voluntarily. But in the case of PGs they may not have an avenue for criticism nor a feasible exit opportunity. They may be compelled to consume a particular good. Therefore, it is important to ascertain whether a good’s publicness in form goes hand in hand with publicness in substance – actual enjoyment of the good by all.

*iii. The role of non-state actors in the provision of PGs.* Right from the writings of Hume and Smith, the concept of PGs has been linked to issues of public finance. Some authors have focused more on taxation questions, e.g. Pigou (1928), and others more on expenditure concerns, such as Samuelson’s 1954 article. Even today, PGs are, in the minds of many, being equated with “state-provided”. Yet in reality, many actors are involved, and many stakeholders claim a say in the decision-making process.

As Ostrom (1990) and others have shown, voluntary, community-based arrangements can, for example, offer effective and efficient solutions to the sustainable management of common pool resources. At least for local settings, "Leviathan" is not the only possible policy response.<sup>8</sup> Some PGs have even emerged against the wishes of the state. Many aspects of environmental sustainability gender equality, or human rights regimes fall into this category. As Sen (1999) argues, such concerns are often not state-mediated but an outcome of manifold other affiliations people have, including for example, those of being a lawyer, doctor or feminist. Acting in narrow self-interest,

governments have, at times, tried to neglect these concerns, until put under public pressure. CSOs have been critical to their promotion.

Like civil society, private business can be an active promoter and shaper of PGs. Globalization has been accompanied by a world-wide trend of policy convergence behind national borders, aimed at increased harmonization of legal frameworks, technical norms and standards, banking regulation, and so on (see, on this point, for example, Birdsall and Lawrence, 1999, and Zacher and Sutton, 1996). Private corporations involved in international trade, finance or transnational production have been an important driving force behind this trend.

All this is not to say that the role of governments is unimportant. It continues to be critical and unique, because of the legislative and coercive powers of the state. Civil society and business can press for change in norms, adopt voluntary standards, but only governments can translate these demands into binding law. Markets for tradable pollution permits may function, but governments have to define the property rights. Or, education can be delivered through a voucher system. But state agencies may have to ensure the financing and monitor compliance with educational standards. The role of government is now often more focused on making agreements “stick” and adjusting incentive structures. Civil society organizations (CSOs) and business play a role in pressing for policy decisions and helping in the delivery of PGs. Depicting PGs as state-provided would mean ignoring large and important parts of reality.

The finding that the provision of PGs is a complex, multi-actor and multi-stakeholder process could be perceived as “bad news” for PGs. This, because the standard theory sees publicness as a major cause of cooperation failure. A larger and

more diverse group of concerned parties might exacerbate the collective action problems that PGs are said to face. Yet several analysts have queried the validity of the assumptions that underpin many studies on free riding and the prisoner's dilemma. Runge (1984), for example, pointed out that non-cooperative attitudes are more typical of one-time interactions than reiterated ones. Prospects of longer-term, repeated relationships strengthen trust, confidence and cooperation among actors. Runge's research, in effect, suggests that fair-mindedness is often the preferred strategy, meaning that each person in a two-actor situation would rather that both either cooperate or not cooperate – than one trying to cheat and free-ride on the other.<sup>9</sup> With some effort, cooperation failures seem to be avoidable so that PGs stand a good chance even in today's more open, diverse, pluralistic world.

To conclude, PGs are far more varied and complex than the standard definition suggests. In part, they have become so during the past decades – with the world's policy shifts towards enhanced economic and political liberalization, a better educated and informed general public, the growth of civil society, more differentiated market and state institutions, and increasing public-private partnerships. The question now is how to capture these new realities in the definition of PGs? How to take the concept out of the rarified circles of public-finance experts and turn it into a notion that could effectively inform and guide today's policy-making?

### *1.3 Expanding the standard definition*

In light of the foregoing, it seems that the standard definition of PGs requires modification in at least three respects. First, we need a positive – not just a negative --

definition of publicness in consumption. Second, since many PGs are a social construct, and since we live in a world of inequity and disparity, “public involvement in the design of PGs” should be among their defining characteristics. And third, publicness in consumption should be linked with publicness of benefits. We will now examine how each of these modifications could be made more precise and reflected in a revised definition of PGs.

*1.3.1 From non-excludability to inclusiveness.* As we saw, many goods have variable properties. In particular, we can think of them as items situated along a continuum stretching from “fully excludable” to “fully inclusive”. PGs are goods with significant qualities of inclusiveness, i.e. qualities of being nondiscriminatory and there for all. If they discriminate (e.g. place a special emphasis on the poor or other population groups), that discrimination should be in the interest of inclusiveness. Otherwise, the good might be more appropriately classified as a club good, or even, a private good.

Inclusiveness pertains to the formal properties of the good (as opposed to its substantive properties, which we will discuss later, in point 1.3.3). It can have three main origins, namely: one, a deliberate public-policy decision to place – or keep -- a good’s benefits in the public domain; two, non-excludability of the good’s benefits, due to economic and/or technical reasons; and three, inadvertent existence of a good in the public domain. While the first two sub-categories are self-explanatory, the third one may need elaboration. To illustrate, for many years, the emission of CFCs had not been perceived as a negative externality. Nevertheless, it de facto had been one. It contributed to the emergence of a public bad, the thinning of the ozone layer. Similarly,

there may today exist many things that we will only tomorrow acknowledge on a broader, consensual basis as public goods or bads, and this probably only after intensive political struggle and heated debates. It is often not easy to identify the nature of a good. Just think of the current controversies around the issue of genetic engineering.

Another example of an inadvertent public good is non-commercial knowledge. Many elements of that type of knowledge are available in the public domain, offering important insides into, let's say, the workings of policy change. But only a few aid agencies may care to assemble, sort, store and disseminate such knowledge systematically. Mostly it exists in a dispersed, unorganized and inaccessible way. It is being ignored, while people repeat past mistakes and are trying to "re-invent the wheel". Thus, the sub-category of inadvertent public goods is an extremely important one, because it is often contains goods with under-used positive utility or oversupplied public bads. It offers plenty of opportunities for enhancing efficiency.

Defining PGs through the broader criterion of inclusiveness changes the concept from a passive, residual category ("non-marketable") into an active, policy-guided one. PGs now clearly appear as the social constructs they are. They represent outcomes of human choice -- or conversely, results of human failure, i.e. either political neglect or hesitancy caused by lack of knowledge and uncertainty.

*1.3.2 Adding public choice.* Just as an optimal allocation of private goods depends on well-functioning, competitive markets, an optimal provision of PGs depends on well-functioning, consultative and fair processes of political bargaining and decision-

making. The existence of such a political regime of policy-making (just like the existence of efficient markets) constitutes an important PG in and by itself. It is indispensable to matching the preferences of different consumer groups with decisions about allocations (about which goods to provide and how much of each) and designs (about the shape and content of a good).

Adding this dimension to the definition of PGs leads us right into the deep, controversial waters of preference revelation. A vast literature exists on this issue, with few, if any, positive, practical-political results. Arrow's impossibility theorem represents one of the major conclusions of that strand of literature. It suggests that: "There is no consistent method by which a democratic society can make a choice (when voting) that is always fair when that choice must be made from any three or more alternatives" (Arrow 1951, p.5).<sup>10</sup>

However, the studies on preference revelation – and also those on the construction of a social welfare function -- have typically chosen a technocratic approach rather than a participatory, political one. Their concern has been with making people reveal their preferences or defining rules for nondiscriminatory political decision-making. Here, the focus is on giving people added opportunity to participate and bringing them more into the decision-making process. History and present-day reality show that the latter is needed and that it can work. Markets function on decentralized, continuous decision-making. And the provision of PGs can benefit from a similar approach. Throughout the world CSOs have sprung up to complement, through more issue-focused and continuous political advocacy, networking and lobbying, the democratic systems of periodic elections of legislatures and governments. Apparently,

people find that the latter do not give them an adequate political voice. This not only because they fear government failures in the periods between elections but because they are keen to do more than just vote for political representatives. Many like to be actively involved in the political process – to reveal their preferences.

Of course, advocacy groups may overstate their concerns. But if all groups are properly and fairly represented, political bargaining – especially if it is institutionalized and set in a longer-term timeframe – can, in large measure, take care of that. When push comes to shove, advocacy groups may also expect others to foot the bill. This not necessarily because they try to free-ride but because they represent “voiceless” and “penny-less” concerns, e.g. the poor or intergenerational issues such as environmental sustainability. But if the public agenda is not to reinforce but complement, or even, correct private consumption opportunities and decisions, then political persuasiveness and efforts to rescue society from a prisoner’s dilemma should also count as a contribution, a contribution in kind. In effect, many times, political advocacy groups are able to demonstrate that society as a whole, including those who will pay the bill, can realize positive net gains from a suggested policy measure. The struggles of labour unions for enhanced working conditions – and increased workers’ productivity – are a case in point. And so is the present struggle for poverty reduction and fighting growing global inequity. If disparities assume explosive magnitudes, the current political and economic systems will lose legitimacy and all will pay the price.

More concretely, the suggestion here is to ensure that major PGs be designed in a fully participatory way. All key actors and stakeholders should, on a PG-by-PG basis, have a fair opportunity to help shape the good in question, monitor its production,

assess its impact and recommend if necessary, adjustments in its design. In many instances such consultations are already happening. “Townhall meetings”, for example, are a well-established practice in many local communities. But also at national and international levels policy-making has been opened up. Just think of the massive CSO involvement that marked such international conferences as the Earth Summit in 1992, the World Social Summit in 1995, or the 1999 WTO (World Trade Organization) meeting in Seattle. CSOs and other stakeholder groups are already claiming a more regular seat on the policy-making tables that were hitherto primarily reserved for governments. Similarly, consultations between governments and business actors are increasingly moving from behind the scenes into more open, public policy-making arenas. The Davos Forum and the Business Compact of the United Nations Secretary General, for example, bear testimony to that.<sup>11</sup> Increasingly one also hears calls for a new form of tripartite policy-making, involving governments, civil society and business (see, on this point, Kaul et al. 1999b, p.478-485). The challenge now is to draw lessons from these and other such initiatives, which have so far mainly evolved in a spontaneous, ad hoc fashion, and to develop a more systematic approach to public policy partnerships.<sup>12</sup>

*1.3.3 Building in fairness.* The fairness and justice of public policy-making, and hence that of PGs, has troubled many authors. The contributions to this topic include such diverse body of thought as for example, represented by Buchanan, Musgrave, Rawls, Tullock, Sen and Wicksell. Recognizing that notions of fairness and justice vary widely across population groups, cultures, countries, times, issues, and other dimensions, the emphasis has been on devising rules to ensure a fair process of



decision-making rather than defining the characteristics of a just policy outcome. To a certain extent, the foregoing discussion (in point 1.3.2) reflects this concern with “fairness of process”.

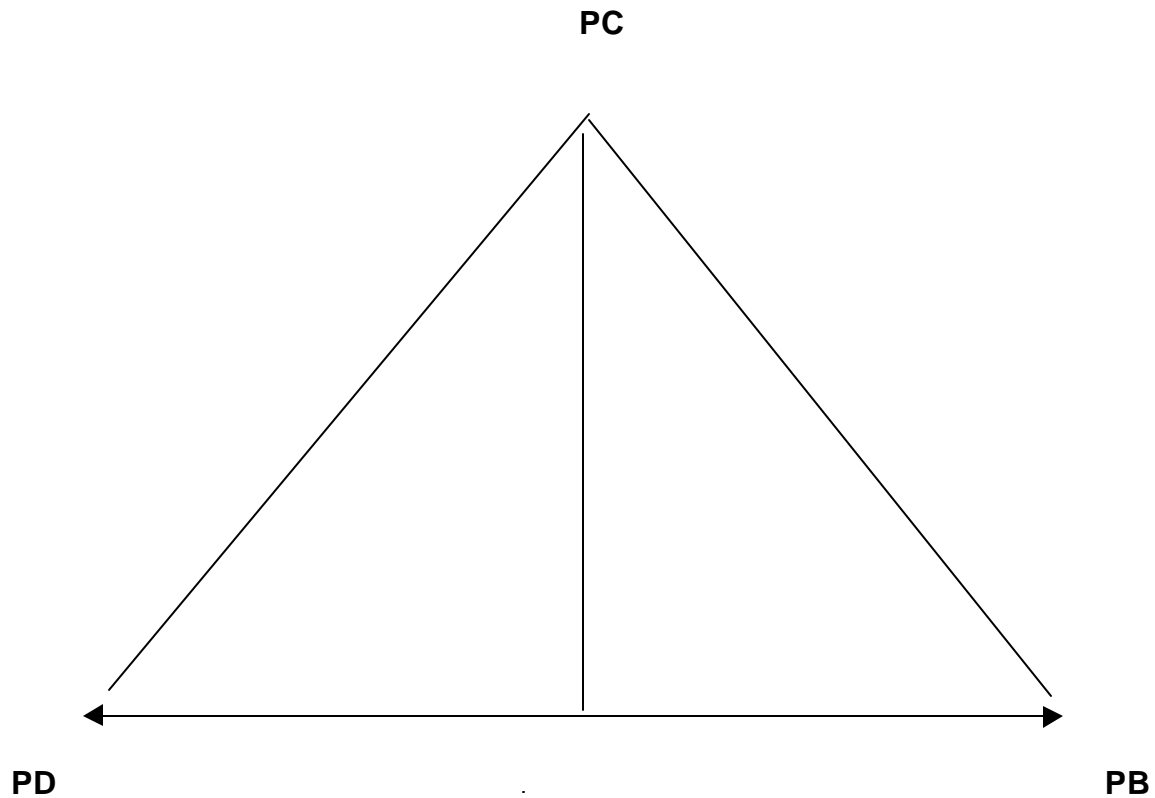
Certainly, fairness of process is in and by itself an important facilitator of justice. It provides people with a voice, and if they feel that they cannot make themselves adequately heard, they could even walk out of the consultations, demonstrating their dissatisfaction and exposing the problems they perceive. However, another important element of ensuring fairness and justice is transparency, and hence, information. Public policy-making should not be guesswork. It should be based on rigorous policy analyses, including disaggregated socio-economic impact assessments of PGs, ex-ante appraisals as well as ex-post analyses. People should know what benefits they can expect from a certain PG and whether their expectations have materialized. Again, reality seems to be ahead of our thinking on this point. Just consider the many so-called “watches” that have emerged in the areas of human rights, social development and the environment. Increasingly, we also see impact assessments, notably on such issues as “trade and human development” or “trade and the environment”.<sup>13</sup> If these types of studies present sufficiently disaggregated measurements, people themselves would be able to decide whether and up to what point they consider a particular PG as a fair deal.

Thus, the revised definition of PGs characterizes these goods as inclusive (public in consumption), based on participatory decision-making and design (public in provision) and just (public in benefits).<sup>14</sup> PGs meeting these three requirements will be called “genuine”. (See Figure 1: Triangle of Publicness).

## **Applying the Revised Definition to Global Public Goods**

So far, we have discussed PGs without specifying the geographical or jurisdictional reach of their benefits, i.e. whether their effects are local, national, regional or global in scope. In fact, much of the PG literature is silent on this issue, assuming implicitly that the benefits of PGs are of national reach and that their provision can be ensured through domestic actions. If the jurisdictional issue is raised, it is usually to highlight local PGs. However, with increasing globalization -- openness of borders, a growing volume of border-transgressing economic activity and interdependence among countries – international (regional and global) PGs are gaining in importance.

**Figure 1: Triangle of Publicness**



PB: Publicness in the distribution of benefits

PC: Publicness in consumption

PD: Publicness in decision-making

In the following, we will, especially, focus on global PGs (GPGs), i.e. PGs whose benefits cut across several countries and generations, present and future (see, Kaul et al., 1999a, p. 11). Some GPGs, such as the international trade regime, the international

financial architecture or the global environmental issues, are currently embroiled in considerable political turmoil and controversy. Can the revised definition of PGs help us understand the reasons for these conflicts?

Before attempting to answer this question, it is useful to take a closer look at GPGs, and in particular, to distinguish between the traditional class of GPGs and a new, emerging class of GPGs. It is mainly the latter group that is facing political problems today.

Traditional GPGs are largely external to countries and national borders. Dealing with them involves what is usually called “foreign affairs”. Access to the oceans or the use of the sky is, for example, governed by *international* agreements *between* nations. The beginnings of these agreements date back to the 17<sup>th</sup> century. They proliferated as international economic activities – transport, communications, trade and investment -- intensified during the 19<sup>th</sup> and 20<sup>th</sup> centuries. If these agreements are multilateral and of worldwide coverage, they are, in PG parlance, public in consumption – inclusive, and even, non-rival. The traditional class of GPGs remains important, because the volume of international economic activity continues to be large and new means of interaction, such as the Internet, are emerging and calling for new rules and regulations.

Yet the global challenges figuring most prominently on the international policy agenda today are of a different nature. They are not just external to states, but crosscutting, and therefore, calling for increased policy harmonization and cooperation *behind* national borders. Examples are banking regulation, the recognition of property rights, investment laws, human rights, good governance, the protection of the ozone

layer, the stability of the global climate, and control of infectious diseases. Providing these PGs requires joint, concerted policy-making among nations.<sup>15</sup>

Why then are these GPGs in trouble? Take, for example, the case of Seattle, i.e. the demonstrations and street battles, which accompanied the WTO meeting in Seattle in 1999. CSOs from around the world had spared no effort to travel to the meeting in order to voice concerns about the present international trade regime. Their messages were quite diverse, but all felt betrayed by the present shape and content of the GPG “international trade regime”. It was perceived as unfair to poorer countries and poorer people, and as secretive – negotiated by technocrats from executive branches of governments, often without adequate inputs from politicians and the public at large.<sup>16</sup> Or, take as a further example, the present debates about a new international financial architecture, prompted in particular, by the harsh social costs of the Asian financial crises of the late 1990s. Many CSOs and other observers felt innocent by-standers, such as the poor, suffered while private investors often walked away “without a hair-cut”. Now, there are strong demands for involving all stakeholders in the policy debates prevention and management of financial crises, and preferably, to agree ex ante on good social principles to respect, such as exempting basic social spending from any budgetary cuts that crises prevention and management may require.<sup>17</sup>

If we examine these policy events through the lens of the revised definition of PGs, it becomes evident that the GPGs in question are marked by an important discrepancy between their various dimensions of publicness. While ranking high in terms of inclusiveness (judging from the number of people and countries they affect), they are lacking in the view of many, in terms of publicness in decision-making as well

as publicness of benefits. The international financial architecture reveals a similar picture. Looking at the negotiations pertaining to climate change, for example, at the issue of tradable pollution permits, we find that concerns about equity are decisive in holding back support from developing countries.

PGs, and GPGs are no exception, pose the challenge of ownership – just as private goods do. Yet ownership in their case is not defined through excludability and clearly established property rights. Rather, it is fostered through active participation, fairness of process and justice of policy outcome – through people having a stake in the good.<sup>18</sup>

### **Implications for Future Research and Policy Debate**

Judging from the discussion in part II, the suggested redefinition of PGs -- as goods that are inclusive (public in consumption), participatory in decision-making (public in provision) and offering a fair deal for all (public in benefits) seems to be a potentially useful one. It appears to shed new light on this category of goods and to help us better understand, and respond to, their provision challenges. At the same time, the proposed modifications raise a number of issues that warrant further study and debate.

First, it would be interesting to establish a *typology of PGs* based on the suggested, revised definition, categorizing goods according to the different criteria that establish their inclusiveness, or publicness in consumption. The distinguishing properties might include, for example: publicness by policy design (e.g. universal

applicability, coverage or accessibility), (innate properties of) non-excludability, inadvertent and contested publicness.

Second, the present paper recommends establishing for major PGs at least, consultative groups composed of representatives of the key actors and other stakeholders. As indicated, many such bodies have evolved in a spontaneous ad hoc fashion. There also exist extensive experiences with various consultative mechanisms at the local level. The time may be ripe to analyze the experiences gained and to develop best-practice recommendations on how to organize such consultative mechanisms. For example, of special interest in this connection might an exploration of how to ensure legitimacy of such consultative groups and how to relate their advice to the decisions taken by other bodies involved in the public policy-making process, notably those of legislative bodies. A further question could be whether and how the structure and functioning of consultative groups vary with the geographical/ jurisdictional reach of the PG's benefits. In other words, does it matter whether the benefits are local, national or international in scope?

Third, publicness in benefits has, here, been defined as positive utility for all, or *fairness* in the distribution of benefits. It has been suggested that the definition of what is fair and just should be left to the consultative groups themselves to decide (and one would hope that they would, in turn, do so in closest consultation with the groups they claim to represent). Yet their decision-making on this point can be facilitated in a number of ways. One would be to develop more operational definitions of fairness and justice and to illustrate how they could be applied to different issues and concerns and with what effects. Another facilitating step could be to develop easy-to-use but robust

methodologies for social impact assessments of PGs. Some of the indices developed for example in the *Human Development Reports* (UNDP 1990-2000) could be of relevance in this context.

In addition, it may not always be appropriate to assess the fairness of public-policy bargains only on a good-by-good basis. A more cross-cutting perspective might, sometimes, be needed, and in particular, a clearer idea of facts and figures on the public domain as a whole. In many countries the public domain is probably huge – in size (or form). Yet it may be filled with a large volume of negative externalities, e.g. noise, pollution, risks, crime, or violence, i.e. matters that have been left there as public bads – either due to policy neglect or by policy design. In order to gain a clearer picture and understanding of local, national and international public domains, domain profiles could be a useful tool, listing PGs with (positive) benefits as well as those with costs.<sup>19</sup>

If some of the suggested concepts and instruments existed, we could re-introduce a concern about economic ends and goods, private and public, into our debates about where societies and economies are headed, and ought to be heading. We could move beyond the issue of balancing markets and states and discuss with fervour not just what means to employ but also what goals to pursue. Re-inserting into the discourse a recast notion of PGs, along the lines suggested here, would, in particular, be critical. It would allow us to delineate more deliberately and clearly the boundaries of the public domain – the common ground which, if curtailed too excessively, will adversely affect social cohesion as well as economic efficiency, nationally as well as internationally. The fact that we are at present living in a world in



turmoil might be a sign that recapturing a notion of PGs and of the public domain is a challenge that requires urgent attention.

## **Endnotes**

\* The author is Director of UNDP's Office of Development Studies, New York. The views expressed here are hers and do not necessarily reflect those of the organization with which she is affiliated.

<sup>1</sup> For an excellent overview of the literature, see, for example, Cornes and Sandler 1996; and for a discussion on the historical evolution of the concept, refer among others, to Musgrave 1985 and 1987.

<sup>2</sup> To elaborate, a club good is an intermediate case between a pure public good and a pure private good. With a club good, exclusion is possible. An example would be a swimming pool or a film screening. In both cases it is possible to limit access to the good and to levy an entrance fee. An externality arises when an individual or firm takes an action (consumption or production) but does not bear all the costs or does not enjoy all the benefits. Air pollution through the use of a private vehicle is an example of a negative externality; and beautifying one's house not only to one's own enjoyment but also that of others is an example of a positive externality or spill-over of a private action into the public domain.

It is also worth noting in this context that some authors, e.g. Demsetz (1970), Hirshleifer (1959) and Kindleberger (1986) consider non-rivalry as the crucial determinant of publicness. Others, among them Olson (1965), take non-excludability as the hallmark.

This author tends to associate herself with the latter view. In fact, Kaul et al. (1999b) show that the different causes of publicness entail quite different provision challenges. See on this point, also Starrett (1988) and Stevenson 1991).

<sup>3</sup> For a discussion of various collective action problems linked to different PGs, see for example, Sandler (1997).

<sup>4</sup> Cornes and Sandler (1996) also provide a detailed account of the literature on which the discussion in this section draws. But the interested reader might also want to refer directly to some of the contributions to the debate, including for example: Bergstrom et al. 1986; Buchanan 1965; Coase 1959; Demsetz 1970; Heal 1999; Hirshleifer 1959; Kaul et al., Eds. 1999; Kindleberger 1986; Malkin and Wildavsky 1991; Margolis and Guitton, Eds. 1969; Musgrave et al., 1970; and Olson 1965.

<sup>5</sup> The publicness of knowledge resides in its non-rival benefits. Sharing a recent insight with others does not erase the newly won knowledge from the inventor's mind. At the same time, however, knowledge is a privately produced good. It is individuals who develop new ideas and insights. And therefore, knowledge is, at least in the shorter term, excludable. It can be withheld. Elaborating on the concepts of dynamic and static efficiency, Stiglitz (1999, p.311), for example, writes that: " Inventors obtain a return on their innovative activity either by charging through the use of a patent (licensing) or by charging a monopoly price on the product. In either case there is inefficiency. The gain in dynamic efficiency from the greater innovative activity is intended to balance out the

losses from static inefficiency from the under-utilization of the knowledge or from the underproduction of the good protected by the patent". As the current discussion about HIV/AIDS vaccines demonstrates, there are many ways of compensating for the short-run privatization of knowledge through other policy options. In the case of HIV/AIDS medicines, a vaccine-purchasing fund has, for example, been proposed to better balance dynamic efficiency (private R&D efforts) with static efficiency (the availability of pharmaceutical drugs). On the proposal for a vaccine-purchasing fund, see Sachs (1999).

<sup>6</sup> Because of the variability of the goods' properties, some analysts, among them Malkin and Wildavsky (1991), suggest that the distinction between public and private goods be abandoned. Since their argument is close to the one developed here, it is important right from the outset, to clarify the differences in view between, for example, Malkin/Wildavsky and this author. Even though the properties of goods are – and should be – socially and politically determined, once a decision has been taken, the goods in question possess certain properties. Even though eventually only of a temporary nature, the properties affect actors' decisions, e.g. whether or not to reveal their true preferences for a particular good. Hence, a good's properties are critical to its provision, irrespective of their degree of permanence and durability. Also, as discussed later, non-rival goods, such as for example, knowledge, stay non-rival, even though they may temporarily fall under intellectual property rights protection. It would, for example, be difficult to judge the appropriateness of specific patents and their duration without the idea that essentially knowledge is a public, non-rival good and that the marginal costs of

making it available to additional users tend to be zero, or at least, relatively modest. Hence, it is true that a good's qualities are social constructs. But at any point in time, a good possesses certain qualities that ought to be taken into account in determining its provision strategies.

<sup>7</sup> In fact, PGs with negative utility or costs are often more appropriately called "public bads".

<sup>8</sup> An extensive literature has emerged on the issue of private provision of PGs, some theoretical, others experimental or empirical. For an overview, refer again to Cornes and Sandler (1996), especially p. 483-535. In addition, the literature on non-market or government failures has shown that state interventions may sometimes not only be unnecessary but unhelpful to the provision of public goods. For a brief overview of this literature, see, for example, Acocella, 1998.

<sup>9</sup> See, on this point of making cooperation work, also Axelrod (1984) and Ostrom (1990). Interestingly, it seems that international relations theory has, in general, been more interested in the issue of cooperation incentives than the literature that deals with PGs at the national level. The reason could be that the international relations theory examines cooperation among states, i.e. a case of cooperation, which does not offer the easy recourse to the coercive power of the nation state that exists for analysts of national PG situations. In addition, as Sen (1969) noted, many studies of cooperation are much better at explaining why cooperation fails than how it could succeed.

<sup>10</sup> For other contributions to the theory of preference revelation and demand for PGs see, for example, Buchanan and Tollison (1984); Buchanan and Tullock (1962), Clarke (1977), Lindahl [1919](1967), Wicksell (1896), and Vickrey (1961).

<sup>11</sup> For information on the Davos Forum, see World Economic Forum [www.weforum.org](http://www.weforum.org); and for information on the United Nations Secretary General's Business Compact, see [www.unglobalcompact.org](http://www.unglobalcompact.org).

<sup>12</sup> An interesting assessment of public policy partnerships is presented in Reinicke et al, 2000. As this study shows many partnerships are of a transnational nature, indicating the growing globalization of PGs which we will address in part II of the present paper.

<sup>13</sup> See, for example: Ree, 2000; Sampson/Pronk, 2000; UNDP, 2000.

<sup>14</sup> In effect, the provision process of public goods has two main dimensions, viz. (one) the political process and (two) the production process. Both dimensions are closely interrelated. Yet the PG literature has in most part focused on the first aspect, the political process and how to reach incentive-compatible agreements on cooperation or coordination. Much less attention has been devoted to the second dimension, the production process of PGs. This probably because the production of the goods was often assumed to take on the form of government programmes and services. As we saw, in today's multi-actor world, the production process has become more complex and

often poses significant management challenges. This in particular in the case of international PGs to which we will turn in section II of this paper. There are calls, nationally and internationally, suggesting to also accord preference to participatory production processes. For example, the emphasis often placed on the decentralized implementation of agreements is an indication of that. Yet, for the time being, publicness in production may not be as indispensable a requirement as publicness in decision-making. And therefore, it is not a part of the revised definition. That may have to change one day; and right now, adjustments might have to be made for some select goods for which large population segments have a preference to be more directly involved.

<sup>15</sup> For a more detailed discussion on the concept of GPGs and the policy implications see Kaul et al. 1999 a and b; and for an application of the concept of GPG to various issue areas – such as knowledge, health, peace and security, environment, equity, international trade and financial stability – see the collection of issue case studies in Kaul et al. 1999.

<sup>16</sup> For more detail on CSO analyses of the international trade regime, see for example, the web site of the International Forum on Globalization, [www.ifg.org](http://www.ifg.org) or Focus-on-Trade at [www.focusweb.org](http://www.focusweb.org).

<sup>17</sup> On the issue of the social costs of the Asian financial crises and possible policy responses, see among others, Griffith-Jones and Ocampo (2000).

<sup>18</sup> This lesson also emerges from the aid literature, especially from studies on the effectiveness of conditionality and donor-driven policy change. See for example, Nelson/Eglinton, 1993; Crawford, 2000.

<sup>19</sup> Kaul et al. (1999b, p 469-473) recommend the design of country externality profiles to guide international cooperation and diplomacy. Such profiles could result from, and be a part of, the domain profiles suggested here.

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While public goods are defined as non-rival and non-excludable, there are degrees of excludability. This paper reports on the results of a series of experiments designed to investigate the role of preferences on individual willingness to contribute to the provision of a group (excludable) versus a global (non-excludable) public good. The results of this experiment show that when the average per ...  
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