

## GLOBAL PUBLIC GOODS: A NEW CHALLENGE FOR PARLIAMENTS

Draft report prepared by the Co-Rapporteurs

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### Introduction, definitions and context

Although recent decades have seen an emphasis on the importance of the market in addressing economic problems, many would note that governments have, at the same time, become more confident of their place in the economy. This is especially true with respect to the provision of public goods. This note looks at global public goods (GPGs) and the role of international cooperation – through institutions such as the Inter-Parliamentary Union – in identifying needed GPGs and finding a way to provide them.

Before looking at options for choosing and financing global public goods, however, it is necessary to define them. This note uses a commonly accepted economic definition.<sup>1</sup> A public good has two essential properties – first,

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<sup>1</sup> See, for example, Joseph E. Stiglitz, "Knowledge as a Global Public Good," World Bank, 1998. This paper expands on Paul Samuelson's classic paper, "The Pure Theory of Public

consumption of a public good by one person does not reduce the possible consumption by another person, and, second, it is difficult, if not impossible, to exclude any individual from enjoying the good. The two properties, in short, are non-rivalrous consumption and non-excludability.

The example of a lighthouse, used by John Stuart Mill in the mid-nineteenth century, helps show the importance of these properties and how they point to a need for government involvement. Once a lighthouse is built, every ship in the area benefits from its illumination, and one ship's benefit does not lessen the benefit of any other ship. Because the light is there for all, once the lighthouse is built, no ship can be excluded from the benefits. But before any lighthouse is built, when the coast is dark and rocky and dangerous, no single boat will pay for the lighthouse. This is the free-rider (or let-someone-else-do-it) problem. Mill and later political economists recognized the benefit of having government build the lighthouse.

It is not, of course, the bricks, mortar and lamp of the lighthouse that have the social value, but the illumination produced by the lighthouse. This is a distinction that is important. A brief prepared by the European Commission for the 2002 World Summit on Sustainable Development points out:

The 'goods' in this context [a discussion of global public goods] are not merchandise or services (although these may be called upon within the framework that provides the goods). No; rather the goods refer to the advantages to society from the provision of certain utilities and from satisfying particular wants and needs such as the eradication of disease or the elimination of pollution.<sup>2</sup>

In addition to these 'goods' or benefits, there are 'bads' or harm that can arise from projects. Since the end of the twentieth century, pollution has been recognized as such a harm – and a harm that has no respect for national borders. A landmark in this analysis is the 1987 Bruntland Commission Report entitled, appropriately, *Our Common Future*. That report popularized the term "sustainable development," which emphasized that economic and environmental development could be compatible.

With a proper appreciation of global public goods and with government cooperation, the pursuit of economic growth, which is necessary for the eradication

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Expenditure," *Review of Economics and Statistics*, Vol. 36 (1954), which set out the essential properties of public goods.

<sup>2</sup> European Commission, "EU Focus on Global Public Goods," 2002.

of world poverty, does not have to come at the expense of the environment. Again, an example is useful.

Let us imagine a steel mill built next to a river. The mill produces material necessary for economic development, but pollutes the river and the air. Most of those suffering this pollution are neither the producers of the steel nor the buyers; in other words, there are externalities (or effects on third parties) involved in the steel production. Pollution abatement equipment could be used, but this equipment is costly and would lead to an increase in the price of steel, a result not in the interest of the buyers or sellers of steel; the free rider problem, moreover, means that even those individuals who suffer the pollution will not pay for the equipment. Here, as in the case of the lighthouse, the government could step in and pay for the equipment and produce obvious social benefit for its citizens. In both cases, it makes sense to finance the public goods from the government's general revenue.

Two modifications to the steel mill example will serve to introduce our analysis of global public goods, especially the role of international cooperation and the problems of financing global public goods. First, the steel mill will be put in a developing country, and second, it will lie on the border with another country that enjoys a larger per capita income.

The problem is now evaluating the preferences for the public good – cleaner air and water – across citizens of more than one country. If pollution abatement were the only potential global public good, it might be useful to assume that the benefits per citizen were the same everywhere and see if the aggregate benefits exceeded the cost of the necessary equipment.

There are, however, numerous, alternative, global public goods. Different countries at different stages of economic development could rank these alternatives differently. The eradication of malaria, for example, may be more important in some countries than the lowering of air pollutants. After difficult choices are made among alternative global public goods, moreover, there is the problem of finding an efficient and equitable way of financing them.

Specific examples may give a better idea of the possible role of the Inter-Parliamentary Union in the area of global public goods.

Examples from Canada, Chile, Sweden

The brief prepared by the European Commission for the 2002 World Summit on Sustainable Development discussed the nature of global public goods:

Broadly, they can be classified into five main types: environment, health, knowledge, peace and security, and governance. These headings are of course both abstract and broad. While it is easy to agree that peace and security are important, it may be quite difficult to agree on the form that investment in peace and security should take. Some see definitional problems as a reason for rejecting the entire notion of global public goods. Certainly, scarce investment funds should not be dedicated to something that is as yet ill-defined, but an international forum such as the Inter-Parliamentary Union allows parliaments to work together on making definitions more precise and to discuss how to channel scarce investment resources to their most productive uses.

Within each of these sectors goods can be identified that bring advantages to society as a whole and to which every individual has an equal entitlement,<sup>3</sup> even if the real world is more complicated and these pure types can overlap. It is useful to look at some examples of actual global public goods to get an understanding of the complexities involved. This section looks briefly at three examples provided by Canada, Chile and Sweden.

Acid rain has long been a problem affecting the sources of water and the forests along the border of Canada and the United States. Because of the direction and force of prevailing winds, the activities causing the acid rain were causing harm in distant cross-border areas. In 1991, the U.S. President and the Canadian Prime Minister signed the Canada-U.S. Air Quality Agreement that committed both countries to fight the air pollution causing acid rain.

Chile recently announced what has been called a landmark in the fight against climate change. The Chucabuquito run-of-the-river hydropower project in the Chilean Andes is a 26 megawatt plant designed to be especially efficient with respect to the reduction of greenhouse gases. Apart from the obvious global public good aspect to the plant, the financing stands out as innovative. The plant will be able to finance itself, in part, by selling carbon dioxide reduction credits to Prototype Carbon Fund (PCF) participants. The PCF includes six governments and 17 companies that teamed up with the World Bank to create the fund.

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<sup>3</sup> Commission, "EU Focus on Global Public Goods," 2002.

Sweden, which with France and the UNDP, has been a strong advocate of global public goods, initiated a study in 2001 on transboundary water management as a global public good and an important complement to development assistance. The study noted that about 40 per cent of the world's population lives in internationally shared river basins. An important conclusion, and one emphasizing the possible need for a body such as the IPU to become involved in the area, was that, "Overall, from the case studies, it is apparent that the costs of reaching agreements – such as setting in place politically feasible environments – are relatively high, compared to the costs of financing actual institutional agreements."<sup>4</sup>

The costs of reaching agreements stem from various sources. The main difficulty arises from the concern that global public goods could be defined so broadly as to reduce the role of States and governments in national decision making, bringing an element of intrusiveness from across national boundaries through direct interaction between outside agencies and civil society groups. It is also feared that issues which some countries feel should be treated on a bilateral basis might be presented as a GPG and thus taken to regional or international for a. Thus, the concept of global public goods has not been accepted in inter-governmental negotiations or declarations so far.

However, the examples above demonstrate the potential benefit from international cooperation in defining global public goods, in pinpointing those which could originate consensus, and in deciding which to invest in and how to finance them. Countries are trying to improve their economic well-being, and as with international trade, global public goods programmes pose opportunities that need not sacrifice national sovereignty.

#### The Problem of Choosing among Possible Global Public Goods

The availability of goods in the market is a function of the price system. Prices bring supply and demand into line and, by influencing expected profitability, determine what gets produced in an economy. Without price signals, the decision about whether to fund a public good becomes a government task. But with many

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<sup>4</sup> Arcadis Euroconsult,, "Transboundary Water Management as an International Public Good," Ministry of Foreign Affairs, Sweden, 2001.

countries affected by global public goods, an efficient way of bargaining among countries is needed.

### Financing Global Public Goods

That governments are directly involved in global public goods leads many to suppose that the government is the only (or the principal) source of funds for them. This view is misleading and causes an understatement of the resources available for GPGs.

The following, adapted from a table in a study prepared for the Swedish Ministry of Foreign Affairs, shows the possible sources of financing for global public goods.<sup>5</sup>

### Financing Mechanisms for Global Public Goods

- Users and Beneficiaries (Internalising Externalities)
  - Market creation or strengthening
  - Taxes, fees and levies
- Private Sources
  - Corporations (for profit)
  - Corporations (not for profit)
  - Individuals
- Public Sources
  - National
    - Developed country sources
    - Developing country sources
- International
  - International financial institutions
  - International organisations and agencies
  - Partnerships (Combination of various different sources)

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<sup>5</sup> F. Sagasti and K. Bezanson, "Financing and Providing Global Public Goods: Expectations and Prospects," Ministry of Foreign Affairs, Sweden, November 2001.

What the table helps emphasize is the complexity of financing schemes available for global public goods – and the imagination needed to find a way to fund these projects. One thing that should be noted is that there is scope for private sector funds and even for schemes that attempt to mimic market solutions. A system of taxes on polluters, for example, could lead them to invest in pollution abatement equipment.

Governments may also find a way to facilitate the use of the private sector in providing obvious public goods. Here again, lighthouses offer an example. Centuries ago in Britain, private individuals could be granted the right to build and operate lighthouses and to levy tolls (collected at nearby ports) on ships benefiting from the illumination. Lighthouses would be built where they were most needed (and most lucrative) without direct financial involvement by the government. The authority of the crown or parliament to levy tolls was a necessary element, but these lighthouses were private.

#### The Necessary Role of the Inter-Parliamentary Union

The widespread – in some cases, universal – benefits of global public goods are acknowledged by most. Unlike private goods supplied by the market, there is no simple price mechanism guiding the production and supplying the finance for global public goods. When several or many countries are affected by any potential global public good, political bargaining problems can easily arise. Here, the Inter-Parliamentary Union has a valuable role to play. Given its traditions and credibility, the IPU can help lessen frictions in choosing among alternative global public goods and it can help, perhaps with other international organizations, in putting together the financing needed for global public goods.



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Standing Committee II -

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Sustainable Development,

7

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Finance and Trade

## GLOBAL PUBLIC GOODS: A NEW CHALLENGE FOR PARLIAMENTS

Draft resolution prepared by the Co-Rapporteurs

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The 109<sup>th</sup> Assembly of the Inter-Parliamentary Union,

- (1) Recognising the increased globalisation and interdependence among world economies,
- (2) Stressing the importance of the United Nations Millennium Development Goals in reducing world poverty and economic instability,
- (3) Emphasising the collective responsibility of nations to debate resolutions to accelerate the process of development assistance by helping determine, with the appropriate parliamentary debates and national consultations of constituent groups, the definition of Global Public Goods and the way to finance them,
- (4) Noting the emphasis placed on Global Public Goods by the World Bank, the United Nations and the Inter-Parliamentary Union in tackling the problem of world hunger,
- (5) Further noting that governments have become more confident of their place in the economy especially in respect to provision of Global Public Goods at the domestic level,

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(6) Considering the impact of Global Public Goods on neighbouring countries and regions,

(7) Emphasising that consumption of Global Public Goods by one person does not reduce the possible consumption by another, irrespective of income levels,

(8) Acknowledging that countries have differing incomes, economic structures and social priorities,

1. Calls on both developed and developing countries to recognize that Global Public Goods have transnational effects;
2. Emphasises the need for government cooperation if Global Public Goods are to play a role in the pursuit of economic growth, which is necessary for the eradication of world poverty, but which should not be achieved at the expense of the environment;
3. Urges the representatives of States to meet to evaluate preferences for Global Public Goods that cross borders;
4. Encourages governments jointly to identify and rank various Global Public Goods in order of financial feasibility and ease of implementation in order to lessen friction arising from choices among alternative Global Public Goods;
5. Urges the governments of developed and developing countries to ensure that Global Public Goods are not financed at the expense of traditional sources of development finance;
6. Calls on governments to convene in a forum to exchange information about various financing mechanisms, including innovative use of private sources of funding;
7. Calls on the IPU Member parliaments to monitor the pursuit by governments of the above-mentioned objectives.