



RE-DEFINING PUBLIC GOODS: WHY, HOW, AND TO WHAT EFFECT

By

Inge Kaul*



November 2003

**Prepared for the Conference on “Regional Integration and Public Goods”
United Nations University/Comparative Regional Integration Studies
20-21 November 2003, Brugge (Belgium)**

* Director, Office of Development Studies, UNDP. The views expressed are the author’s and do not necessarily reflect those of the organization with which she is affiliated. Please direct all comments and inquiries to the author at inge.kaul@undp.org.

RE-DEFINING PUBLIC GOODS: WHY, HOW, AND TO WHAT EFFECT

I Why

Globalization and regionalization constitute special dimensions of publicness--of things and conditions being in the open, visible, and available for all or affecting all. Globalization and regionalization entail a reduction of at-the-border barriers; they are accompanied and fostered by a lessening of the claims to strict policymaking sovereignty that characterized the more classical era of the Westphalian nation state. They unleash not only a greater flow of calculated cross-border activity but also a greater flow of cross-border externalities or spillovers, strengthening interdependence among countries and adding further incentives for policy harmonization--the creation of shared policy institutions and common policy practices across countries, including enhanced transparency and mutual accountability.

Yet the concept of public goods does not figure in much of the literature and debates on globalization and regionalization. In fact, only during the past five years or so have "public goods" even appeared in studies and discussions on these topics¹. Although the public goods concept has been met with active interest,² many questions have been raised about its value for better understanding and shaping today's key policy challenges, nationally as well as internationally. Conventionally, goods are said to be public if they are "nonrival in consumption" and/or if their benefits/costs are "nonexcludable". But as many observers point out, essentially excludable goods, such as noise or crime, are in the public domain; and goods with strong nonrival properties, such as knowledge, exist in private forms, e.g. under intellectual property rights protection. So what is the empirical relevance of the current public goods concept? What sort of publicness flows from nonrivalry and/or nonexcludability? Another observation is that the close link, which the current mainstream concept constructs between public goods and the state, appears to have in many respects been overtaken by current realities, notably the re-balancing between the market and the state as well as the growth in civil society that has occurred throughout the world. Very few goods are today produced by the state alone; most contain inputs from a variety of actors, both public and private.

Thus, we are confronting a choice. We can either permit the concept of public goods to continue as an analytical tool that primarily interests the rarified circle of public economics/finance specialists, or we can try to adjust the concept so that it better captures current realities and fills the perceived conceptual void. This paper opts for the latter. The reason is that people's wellbeing clearly depends on two types of goods: 1) private goods that we are expected to obtain through the market, using our own resources (if available); and 2) public goods, i.e. the various things that we encounter or would like to see in the public domain—law and order, control of communicable diseases, or peace and security.

¹ See, among others, Ferroni and Mody (2002), Kaul et al. (1999 and 2003), Sandler (1997), Swedish Ministry for Foreign Affairs (2001).

² See, for example, the knowledge portal on www.gpgNet.net that presents a listing of literature and policy statements since 1999 addressing issues of global public goods.

It is difficult to get this balance right without having a clear notion of public goods and their opposite, private goods? Revisiting the existing concept is thus not only an abstract, theoretical exercise but a matter of high political relevance. As globalization and regionalization are special dimensions of publicness, clarifying the concept is also a matter of being better equipped to shape these processes in line with whatever policy goals we may have.

Accordingly, the main purpose of this paper is to offer a revised concept of public goods. Part I will explore the limitations of the present concept and introduce possible modifications. And part II will illustrate some of the added insights that could be gained from the suggested re-conceptualization.

II How

The present mainstream definition of public goods states that these goods are marked by two sets of properties: 1) nonrivalry in consumption, meaning that one person's consumption of the good does not diminish the availability of the good for additional consumers; and 2) nonexcludability of benefits or costs, meaning that the good's consumption cannot be withheld from those who may seek to avoid paying for it, i.e. who attempt to free-ride. Goods that possess both these properties are called pure public goods; and goods that have only one of these characteristics or possess both only partially are called impure public goods.

Textbook discussions also point out that markets often fail to provide goods with such properties optimally.³ This market failure phenomenon is seen as a justification for state intervention. Consequently, public goods are also often defined as state-provided goods.

Thus, when looked at from the consumption side, public goods are currently defined as having nonrival and/or nonexcludable properties; and when looked at from the provision or production side, they are defined as state-provided. In the following, we will turn to each of these two sides or components of the conventional concept to see whether they require modification, and if so, how this could be done.

1 The social construct-nature of goods: adding a dimension of *de facto* publicness

In most instances it is possible and feasible to modify, if desirable, both, nonexcludability of benefits/costs and nonrivalry in consumption, through various policy interventions. Comparing figures 1 and 2 helps illustrate this point. For example:

³ The main reason for sub-optimal provision in the case of nonexcludable goods is said to be free-riding; and in the case of goods with nonrival properties, the problem is linked to the difficulty of adequately pricing these goods.

- *Land*—can be given a private form: made excludable by assigning property rights and fencing it in; and it can become rival as, let us say, the population of a particular town grows. But it can also be kept public, available for all to enjoy in a relatively nonrival way, if a community decides to hold a certain, large-enough area of land in common and make it accessible to all.
- *Fish* stocks—are a difficult to exclude, rival good, and therefore, they risk over-exploitation. Yet, thanks to our capacity to innovate, we have invented a policy tool in "quotas", which have the potential to be tradeable, and we have thus found a way of promoting a more sustainable use of this difficult to exclude yet rival resource.
- *Knowledge*—is a nonrival good par excellence and one that in the longer run is also difficult to maintain in an excludable form. Yet, in order to encourage innovation and promote dynamic efficiency, intellectual property rights are used to grant knowledge producers a temporary exclusive right to control the use of knowledge they generated. This limits the use of knowledge, and, without complementary measures, it entails inefficiency.
- *Basic education*—has essentially private-good characteristics, yet it has deliberately been made available to all, directly produced or financed by the state

FIGURES 1 and 2 CLOSE TO HERE

The above examples highlight one important fact: publicness and privateness are not innate properties of goods. Rather, they tend to result from policy choices made. They are a social construct: a mantle that society casts over goods. The properties of nonrivalry and nonexcludability are malleable to change, and therefore, they have limited value as predictors of whether and to what extent a good is *de facto* public in consumption—in the public domain, available for all to consume or affecting all.⁴

Considering that the basis for the conventional definition of public goods is Samuelson's 1954 article on *A Pure Theory of Public Expenditures*, perhaps one should call nonrival/nonexcludable goods "pure Samuelson goods."⁵ Such a step would free up the term "public goods" for those things that are actually public in consumption: to be seen, heard, enjoyed or otherwise experienced in public.

But what sort of things would tend to be public? It could be assumed that public goods would fall into the following categories:

⁴ This is not to say that the basic properties of nonrivalry and nonexcludability are not important. Quite to the contrary, they are important predictors of agents' incentives to cooperate, and thus, provide guidance on the design of strategies for the provision of public goods.

⁵ Goods that possess these properties only partially would, accordingly, be impure Samuelson goods.

- *Publicness due to infeasibility of exclusion*—because requisite technology is lacking;
- *Publicness by policy design*—based on a deliberate policy choice reflecting such factors as concerns about efficiency and equity, social norms, income level, or geographic conditions;
- *Publicness due to oversight*—resulting from lack of requisite knowledge or government failure due for example, to lobbying of particular interest groups.⁶

While considerations about nonexcludability and nonrivalry may enter into the deliberations deciding on whether to place a good into the private or the public sphere, they may be neither the only concerns nor necessarily the dominant ones. Equity considerations, for example, can lead to universal provision of such goods as basic education that, in many societies, enjoys the status of a merit good.⁷ Or, in the interest of generating and reaping network externalities, certain norms and standards, such as those for banking provision, may be “rolled out” pro-actively. And many activities or products that produce negative externalities at high cost to society as a whole are often allowed to linger on in the public domain, because small powerful interest groups have been able to capture the ear of the government.

Thus, we need a definition of public goods that captures not only some goods, viz. those that are either what has been termed here pure or impure Samuelson goods, but *all* goods that are *de facto* public in consumption. Hence, it could be useful to have a two-tier definition of public goods, namely:

Definition 1, part 1: Goods have a special potential of being public if they have, in their original state, nonrival benefits, nonexcludable benefits, or both.

Definition 1, part 2: Goods are public if they are de facto nonexclusive, available for all to consume or affecting all.

So far, in this section, we have discussed public goods without reference to the range of their consumption benefits or costs. Yet while much of the theory of, and discussion on, public goods has often either local or national public goods in mind, those with a regional or global span have, over time, been gaining in importance. Some of the trans(national)border public goods are of a naturally regional or global-public type. The moonlight is an example of the latter, and rivers flowing through several countries an example of the former.

⁶ Similarly, the reasons for the privateness of goods would fall into such categories, with the second and the third categories being more or less the same and the first one reading “*Privateness due to infeasibility of giving the good an inclusive character*”. An example would be a live concert. Only a limited number of people will, most likely, be able at any point in time to listen to the performance.

⁷ In addition, of course, basic education and other similar, essentially private goods are made available for the (often even compulsory) consumption of all due to the positive externalities they generate.

Yet, in recent times, a growing number of hitherto national public goods have been regionalized and globalized as a matter of deliberate and often even difficult-to-realize policy decisions. The creation of a common European currency, the Euro, is a regional public good in point and the multilateral trade regime illustrates a difficult-to-negotiate and difficult-to-implement global public good.

In line with the aforementioned definition of (*de facto*) public goods, regional and global public goods can be defined as follows:

Definition 2: A public good is regional, if its benefits and/or costs pertain to a particular geographic or other group of countries.

Definition 3: A public good is global, if its benefits and/or costs span countries in several regions of the world as well as several generations.

2 The present roles of the state, firms, markets and civil society: recognizing public goods as multi-actor products

It is difficult today to think of a public good that is provided exclusively by the state, without any inputs from any other actor group. Moreover, even if the state assumes primary responsibility for the provision of a public good like defense, it now tends to outsource the production of a growing number of these goods' components to private firms. And similar arrangements—often referred to as public-private partnerships—are noticeable in many other, previously state-dominated areas such as research and development (R&D), health care, education, transport, communication, sanitation and water supply, or prison management.

Furthermore, a strengthened civil society today keeps its spotlight on both government and business and demands from both more transparency and accountability. As a result, some parts of business have become more concerned with their role and responsibilities as “corporate citizens,” and governments, as well as intergovernmental bodies, tend to be more interested in consulting with civil society. Thus, government intervention does not always lead to a correction of market failure. Sometimes civil society or also business has to intervene for this to happen, but these two actor groups tend to insert biases and particular interests into the provision process. How a public good is ultimately provided often depends on the interplay between all these factors. Yet it seems that, both nationally and internationally, there exists a trend of more participatory decision-making on which public goods to provide, how much of each should be provided, and how each one is shaped. Sometimes (e.g. in the case of free open software) the state even has no role in the provision process.

Although the state's role is often limited or even flawed, it, nevertheless, tends to be pivotal in many cases. The major reason for this lies in the state's unique powers to coerce and tax.⁸ Yet, as also depicted in figures 3 and 4, the provision of public goods

⁸ For a more detailed discussion on this point, see Kaul (2003).

clearly is a multi-actor process. To achieve adequate provision levels, some form of cooperation—a collective action component (CaC)—is typically required. But even the provision of these CaCs is not a role that is unique to the state: all actors contribute CaCs, with their role in this respect, of course, varying from good to good.

FIGURES 3 AND 4 CLOSE TO HERE

This holds true also, or perhaps even especially, for regional and global public goods. States tend to behave at the international level like private actors nationally: they focus on pursuing their national self-interest.⁹ Thus, cooperation at the international level is quite different from cooperation at the national level: there exists no equivalent of the state internationally; and therefore, cooperation has to happen voluntarily; and for this to occur, cooperation has to be in the mutual interest of all. Often, these conditions are not met; and this explains why many regional and global public goods tend to be under- or malprovided, presenting themselves more as public “bads” than public goods with positive utility for all.

To capture these provision realities, it would thus be desirable to replace the current reference to public goods as state-provided goods with the following characterization:¹⁰

Seen from the production side, many public goods are multi-actor, collective-action goods.

In the case of regional and global public goods there often is not only a need for “horizontal” cooperation, e.g. between the state and nonstate actors, but most importantly, for “vertical” cooperation, i.e. cooperation between various levels of government, at the local, national, regional, and inter-regional/national levels. Accordingly, viewed from the production side many regional and global public goods can also be described as follows:

Regional and global public goods often are public goods that cannot be provided adequately through domestic policy action alone. To be adequately provided, they require international cooperation—and as shown in figure 4---an international collective action component (ICaC).

⁹ From the viewpoint of the world as a whole, national interests can—and often do—have a particular, private character. Similarly, regional interests can be particular or private, deviating from global interests, as for example, reflected in the discussions about the risks of trade diversion that can be associated with the formation of regional trading blocks.

¹⁰ The defining criterion of a public good is in this paper seen to be its *de facto* publicness in consumption. Therefore, the statement about the production process is not labeled “definition” but “characterization”. Also, there are some goods, like certain elements of knowledge, that can be produced by a single actor and do not require collective action. These goods follow Hirshleifer’s (1983) “best shot” aggregation technology.

III Effects (or New Insights to be Gained)

Recent studies on public goods have drawn attention to a number of new insights that can be gained from the revised concept, notably the concept of global public goods. It has been pointed out that the growing importance of these goods calls for fundamental changes in public policymaking, especially in its institutional arrangements. Some of the reforms that have been pressed by the globalization of hitherto primarily national public goods include:

- The recognition of international cooperation as an integral part of national policymaking and the resultant need to link more closely foreign and domestic policy, e.g. by introducing issues such as health, the environment, finance or intellectual property rights into diplomacy and added international negotiation and cooperation capacity into technical ministries;
- The political moves aimed at better matching the circle of stakeholders with the—increasingly global—benefit/cost span of policy issues, ranging from calls to rethink the decision-making pattern in such bodies as the United Nations Security Council, the International Monetary Fund and the World Bank to proposals for expanding the G-7 group of major industrial countries;¹¹
- The dual agenda of international cooperation, comprised of an “aid” (equity) track and a global public goods (efficiency) track.

The main thrust of these reforms is to close three current policy gaps: the jurisdictional gap; the participation gap; and the incentive gap (see, Kaul *et al.* 1999).

Beyond said issues of possible institutional public management responses to the current globalization and regionalization processes, there is another set of issues that comes into focus when examining the world through the lens of the revised definition of public goods. These issues concern the question of where we stand and where we are headed in terms of the balance between the “public” and the “private”.

The following five points refer to some of the new insights into the public-private balance that, it seems, the revised concept of public goods could help generate. They are offered here as suggestions for further policy debate and research.

1 An enhanced understanding of the public domain

The revised definition of public goods allows us to establish an inventory of all things that are in the public domain—i.e. all that we can or must consume. Such an inventory could form the basis for assessing the public domain in terms of its composition, size, efficiency and equity as well as its evolution over time.

¹¹ For an overview of recent literature on these and related topics, see the Knowledge Portal at www.gpgNet.net.

The goods in the public domain could, for example, be categorized according to such criteria as: the geographical and/or temporal range of their public spillover effects; and their impact in terms of (dis)utility on society as a whole and on the well-being of particular population groups. An analysis of the last point would be important to answer “Whose public goods are in the public domain?” Or, put differently: Does the public domain contain something for everybody or all those living with public goods that serve particular private interests?

FIGURE 5 CLOSE TO HERE

Judging from available ad hoc evidence it seems that:

- There exists a longer-term trend towards an expansion of the public domain (see, figure 5.1 and for more detail also point 2 below).
- This trend is running parallel to an expansion of the private domain—of private economic activity and the markets (see, figure 5.2).
- The public domain is filled with a significant number of public “bads”, i.e. severely underprovided goods entailing high costs to society and public goods that serve private or “club” interests (e.g. those of private business, rich and powerful nations, or men). This unevenness in the distribution of the utility of public goods across various population groups and countries today makes many public goods as well as globalization and regionalization highly contentious (see, figure 5.3, and for example, Buira 2003).

2 A clearer picture of the evolution of the “basket” of public goods over time

The state apparatus as well as markets have become increasingly sophisticated institutions. Both have become embedded in an ever-denser web of norms and standards. Many public conditions that we accepted in earlier decades or centuries are now generally being seen as something unacceptable (e.g. slavery), and many newly arising challenges (e.g. bioinvasion or Internet-based crime) are being met with new public-good measures.

Judging from available evidence it would appear that:

- There has not only been an expansion of the gamut of public goods (‘good’ and ‘bad’) over time, but there has also been a trend away from more tangible public goods (e.g. the provision of poor houses in the Middle Ages or traffic lights as the number of automobiles rose) towards more intangible ones such as “financial stability,” “climate stability,” “rule of law,” or “knowledge management” (see, Desai 2003).
- The movement of essentially excludable public goods in or out of the public domain is linked to the existence of certain intangible public goods. For example, the growing acceptance worldwide of basic human

rights may explain the provision of various merit goods, such as basic education or public support and guarantees of “free speech” or “freedom from torture” (UNDP 2001 and 2002).

3 New insights into the link between public goods/the public domain and economic-growth and development variables—and into differences in preferences

A better understanding of the nature of individual public goods and the public domain would permit one to explore their linkages with such phenomena as the nature, rate and stability of economic growth and development. A clearer picture of these linkages could also shed new light on how preferences for public goods vary across population groups and countries.

Judging from available evidence, it appears that:

- Sub-optimal (under/over/or mal-)provision of public goods tends to be extremely costly to society as a whole, and often, an inefficient policy choice (Conceicao 2003).
- Within the development process, which interconnects local communities and integrates them into larger jurisdictions, the institutional arrangements encouraging collective action and the provision of public goods in traditional and local societies often collapse. (Besley and Gathak 2003).

4 Recognition that the market-state balance cannot—or can only partially—be equated with the balance between the private sphere and the public sphere.

As the discussion in part II of this paper revealed, public goods are multi-actor products. Similarly, more and more private goods reflect public concerns, because consumers expect socially responsible behavior of private firms. Moreover, the state can be involved in private good production, e.g. by setting norms and standards such as those defining environmental standards or norms of transparency and accountability.

Accordingly, the balance between the private sphere and the public sphere cannot—as is often done—be appropriately measured in such terms as government expenditure as a percentage of the country’s GDP. A better measure—yet difficult to make operational—is the balance between private goods and public goods.

Empirical evidence seems to suggest that:

- Markets have expanded, and the role of the state has changed but its size has often remained the same. On the other hand, both the public-goods and private-goods domains have expanded. (Compare, for example, figures 5.1 and 5.2).

5 Understanding the longer-term trends between the “public” and the “private”

Hirschman (2002 [1982]) developed a theory of shifting involvements between private interests and public action, illustrated in figure 5.4.

Yet when taking the foregoing points 1 to 4 into account, and when also considering current trends towards participatory decision-making at the international level (see figure 6), it seems that the world is headed towards enhanced publicness—a voice for all, and thus, more political competition and more efficient and equitable policy choices—i.e. a public domain that is not just expanding and becoming more efficient in the short-term but also fairer, and, most likely, more efficient in the longer term.

FIGURE 6 CLOSE TO HERE

Thus, despite all current evidence to the contrary, a likely future scenario could be that:

- The policy swings around the private interest/public action axis will be shorter and less amplified than they were in the past. The reason is the embeddedness of markets, the state, and international cooperation in an expanded public goods (regime) framework.

Of course, the opposite could also occur: the existing framework could be dismantled so that the building of the public domain would have to recommence all over again. Yet the future is not—or not alone—a matter of fate. In large measure it depends on the policy choices we make. And since publicness and privateness are a matter of choice, we, individually and collectively will have to choose the balance between the “private” and the “public” that we would like to shape our life in the future.

Conclusion

In addressing the question “*why*”, this paper argues for a redefinition of the current concept of public goods in order to gain an analytical tool that could help us better understand the public/private dimensions of ongoing policy reforms and challenges, including the processes of regionalization and globalization.

Turning to the “*how*”, this paper suggests that the goods currently referred to as public—viz. those that have properties of nonrivalry and/or nonexcludability—be in future referred to as “Samuelson goods”. The term “public good” could then be used to denote goods that are *de facto* public in consumption, i.e. actually in the public domain, available for all to consume or affecting all. The paper also underlines the importance of differentiating between local, national, regional and global public goods.

A further proposal is to recognize that today only very few goods are exclusively provided by the state. Therefore, the present characterization of public goods as state-provided should be replaced by a description of public goods as multi-actor, collective action products.

Finally, regarding the “*effect*” of, or the new insights to be gained from, this re-conceptualization of public goods, this paper points to the new insights in terms of possible policy responses aimed at enhancing the provision of public goods, notably that of global public goods. And most importantly, it suggests for further research and debate a series of issues pertaining to a better understanding of the public and private spheres, e.g. the composition and size of the public domain and its evolution over time, the factors that may determine differences in preferences for public goods, the balance between the public and the private sphere, and likely future scenarios in terms of Hirschman’s (1982) shifting involvements between private interests and public action.

The overall conclusion is that current trends point towards a more stable, synergistic (as opposed to antagonistic) relation between the public and the private, the global/regional and the national/local. Yet since publicness and privateness are a matter of policy choice—our choice—we need to continue re-affirming our preference for enhanced publicness, or put differently, institutional embeddedness of markets and states.

References

Besley, Timothy and Maitreesh Ghatak. 2003. "Public Goods and Economic Development." Prepared for *Policies for Poverty Alleviation* (ed.) Abhijit Banerjee, Roland Benabou, and Dilip Mookherjee. (mimeo).

Buira, Ariel, ed. 2003. *Challenges to the World Bank and IMF: Developing Country Perspectives*. London: Anthem Press.

Conceição, Pedro. 2003. "Assessing the Provision Status of Global Public Goods." In Inge Kaul, Pedro Conceição, Katell Le Goulven and Ronald U. Mendoza, eds., *Providing Global Public Goods: Managing Globalization*. New York: Oxford University Press.

Desai, Meghnad. 2003. "Public Goods a Historical Perspective." In Inge Kaul, Pedro Conceição, Katell Le Goulven, and Ronald U. Mendoza, eds., *Providing Global Public Goods: Managing Globalization*. New York: Oxford University Press.

Ferroni, Marco and Ashoka Mody, eds. 2002. *International Public Goods: Incentives, Measurement, and Financing*. Kluwer Academic Publishers and the International Bank for Reconstruction and Development / The World Bank.

Kaul, Inge. 2003. "Public Goods: A Positive Analysis." Presented at the Conference "Public Sector, Private Sector: New National and International Frontiers What Are Public Goods", 02 - 03 Oct 2003, Centre Saint-Gobain, Paris.

Kaul, Inge, Isabelle Grunberg, and Marc A. Stern, eds. 1999. *Global Public Goods: International Cooperation in the 21st Century*. New York: Oxford University Press.

Kaul, Inge, Pedro Conceição, Katell Le Goulven, and Ronald U. Mendoza, eds., *Providing Global Public Goods: Managing Globalization*. New York: Oxford University Press.

Hirshleifer, Jack. 1983. "From Weakest-Link to Best-Shot: The Voluntary Provision of Public Goods." *Public Choice* 3:271-86.

Hirschman, Albert O. 2002 [1982]. *Shifting Involvements: Private Interest and Public Action*. Princeton: Princeton University Press.

OECD (Organisation for Economic Co-operation and Development). 2003. *OECD Economic Outlook No. 73*, June. Paris: OECD.

Samuelson, Paul A. 1954. "The Pure Theory of Public Expenditure." *Review of Economics and Statistics* 36 (4): 387-89.

Sandler, Todd. 1997. *Global Challenges: An Approach to Environmental, Political, and Economic Problems*. Ann Arbor: University of Michigan Press.

Sweden Ministry for Foreign Affairs. 2001. *Financing and Providing Global Public Goods: Expectations and Prospects*. Study 2001:2. Prepared by Francisco Sagasti and Keith Bezanson on behalf of the Institute of Development Studies, Sussex, U.K. Stockholm. <http://www.utrikes.regeringen.se/inenglish/policy/devcoop/financing.htm>.

UNDP (United Nations Development Programme). 2001 and 2002. *Human Development Report*. New York: Oxford University Press.

US Office of Management and Budget. 2003. *Budget of the United States Government, Fiscal Year 2004*. Washington, D.C.: US Government Printing Office.

Annexes

Figure 1

The basic properties of goods: a conventional approach to public goods

		RIVAL	NONRIVAL
EXCLUDABLE	QUADRANT 1^a	Examples: <ul style="list-style-type: none"> • Milk • Land • Education 	Examples: <ul style="list-style-type: none"> • Research and development • Noncommercial knowledge (such as the Pythagorean theorem) • Norms and standards • Property rights regimes • Respect for human rights • Television signals
	QUADRANT 4	Examples: <ul style="list-style-type: none"> • Atmosphere • Wildlife 	QUADRANT 3^b
NONEXCLUDABLE			

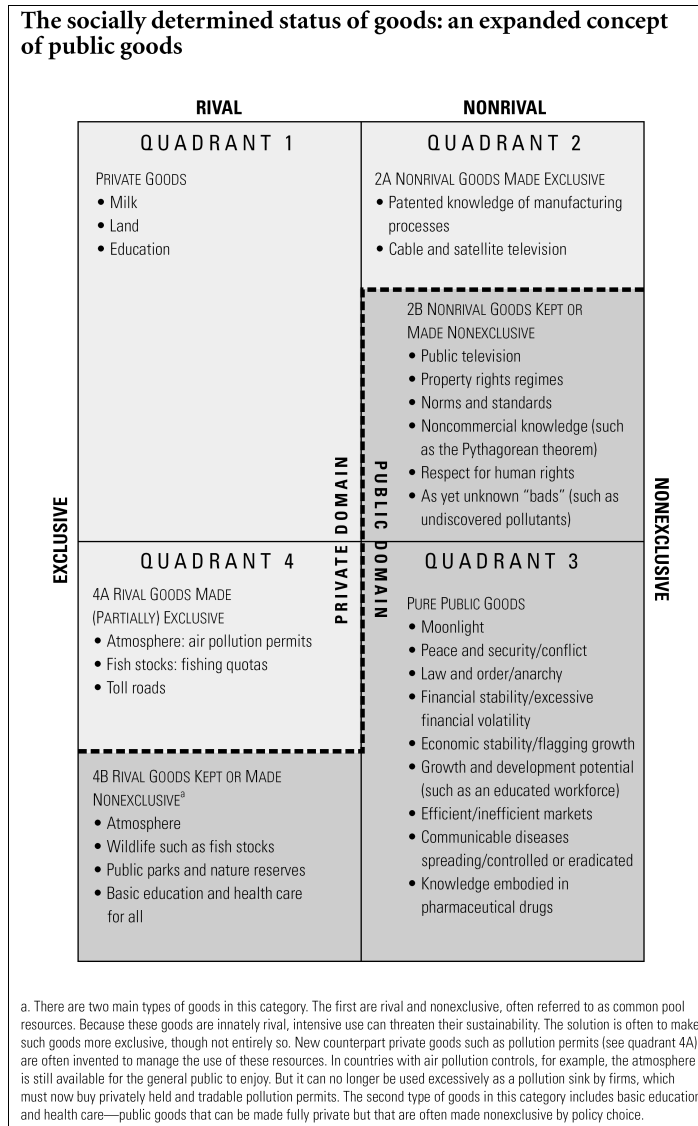
Note: These properties are basic in that they have not been altered by public policies or other human actions.

a. In the literature, goods that fall into this quadrant—those with rival and excludable benefits—are often automatically deemed private goods. But as argued in this chapter, the properties of (non)rivalry and (non)excludability only signal a good's potential for being (public) private—not its de facto provision status.

b. Goods that fall into this quadrant are often called pure public goods—nonrival and nonexcludable in consumption. Most of these can exist in variable quantities, ranging from adequately supplied (as with peace) to inadequately supplied (as with open conflict). But the available "amount" of the good is the same for all consumers.

Source: Kaul and Mendoza (2003)

Figure 2



Source: Kaul and Mendoza (2003)

Figure 3

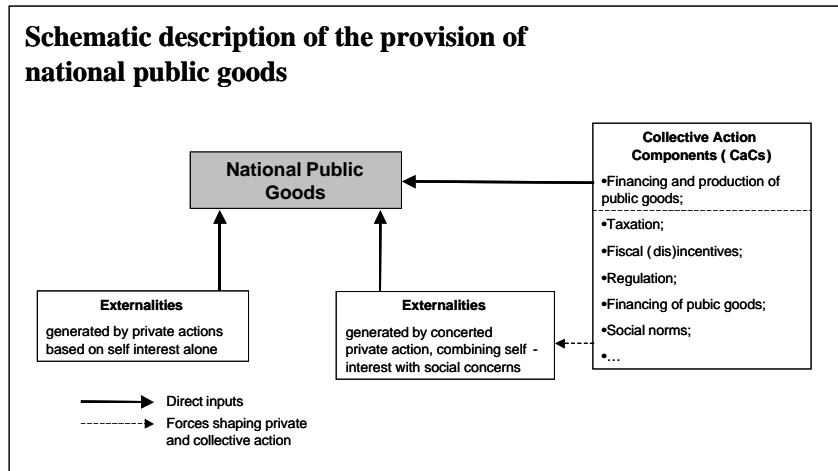


Figure 4

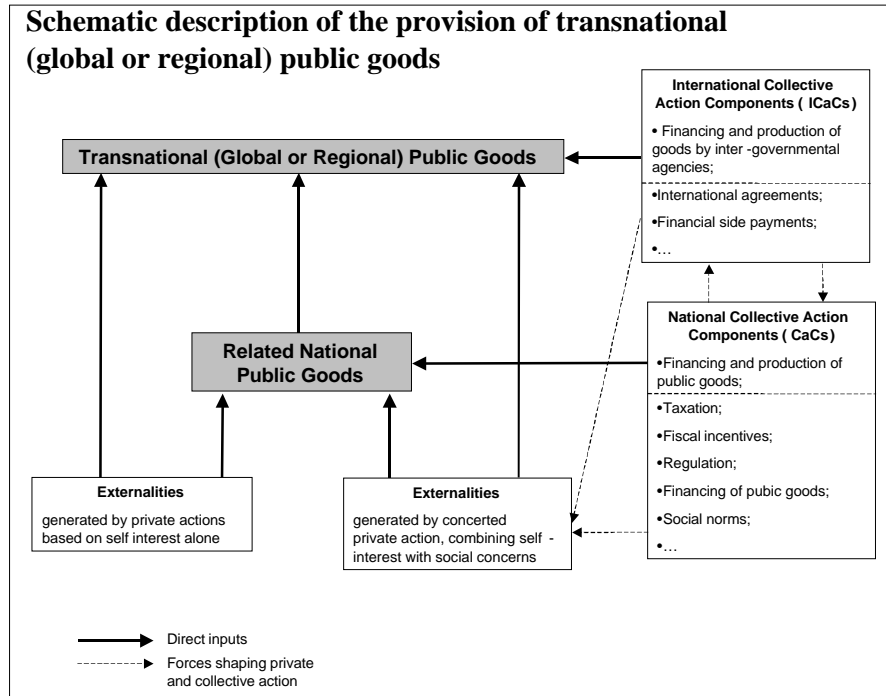
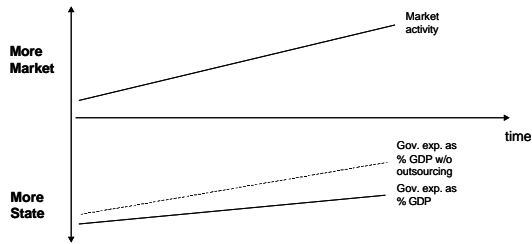
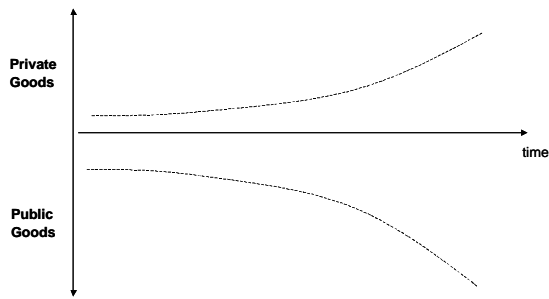


Figure 5

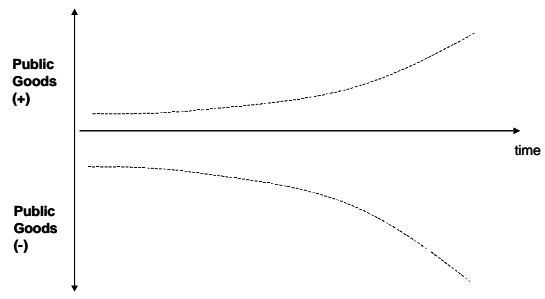
Assessing the balance between the “private” and the “public”



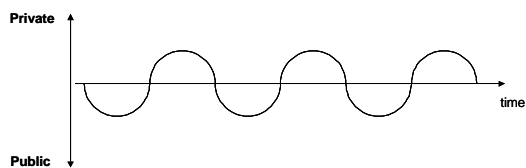
5.1 Markets are expanding, while the size of government is shrinking



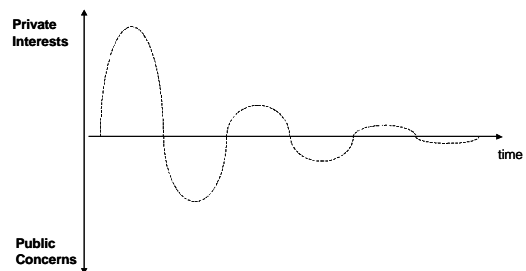
5.2 The range of public and private goods has become more diversified



5.4 Some key public goods are severely under or mal provided

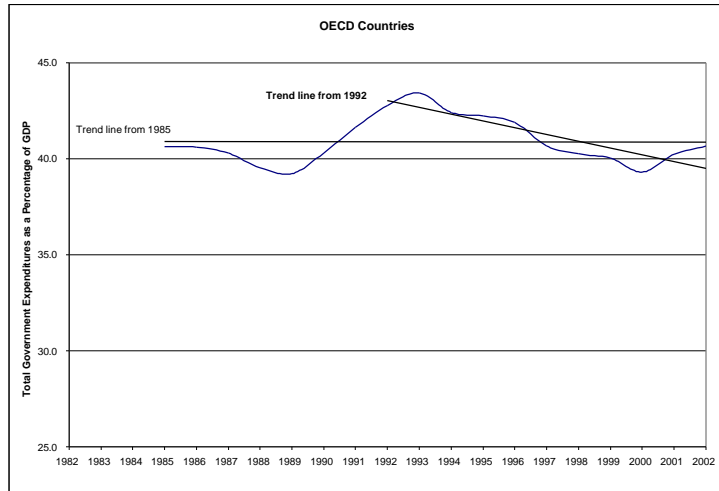


5.4 Hirschman's Shifting Involvements

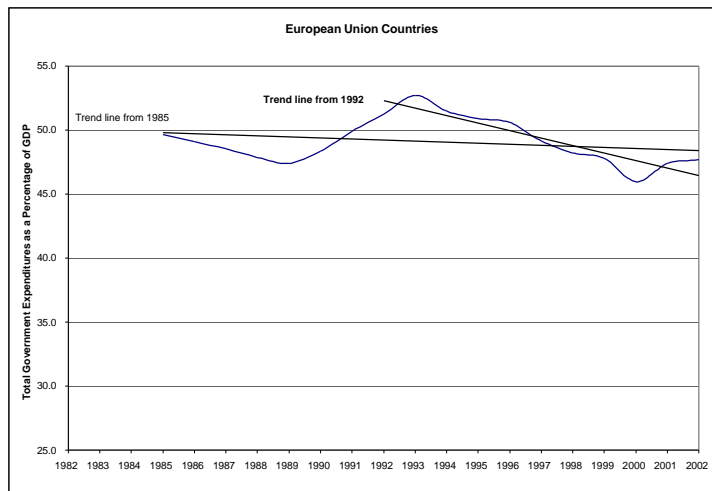


5.5 The swings are/will be less amplified

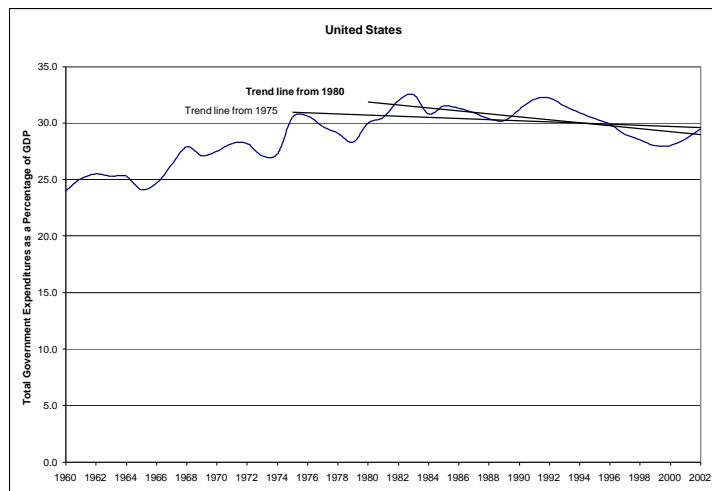
Figure 5 (addendum: data on government expenditure)



Source: OECD (2003), Annex Table 26.



Source: OECD (2003), Annex Table 26.

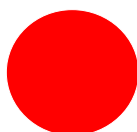


Source: US Office of Management and Budget (2003), Historical Tables. Table 15.3.

Mismatch between the Circle of Decisionmakers and Stakeholders

E.g.: Decisionmaking on international financial architecture reform and new codes and standards

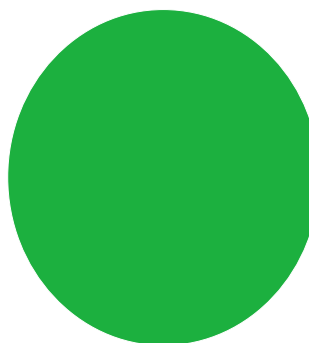
Decisionmakers



CIRCLE OF DECISION MAKERS

The Financial Stability Forum (FSF) brings together senior representatives of national financial authorities (e.g. central banks supervisory authorities and treasury departments), international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. In all, 37 agencies and institutions are represented by 42 individuals.

Stakeholders



CIRCLE OF STAKEHOLDERS

The global capital markets facilitate financial flows to over 180 developing countries and over 20 industrialized countries. Everyday, trillions of dollars change hands, directly involving millions of investors, debtors and creditors, and impacting on the lives of billions of people in the developed and developing world.