GLOBAL PUBLIC GOODS: THE CHANGING ROLE OF PUBLIC SECTOR IN THE CONTEXT OF GLOBALIZATION

Neli Popova[99]

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Abstract: *Traditionally public finance theory has analyzed the interactions between the government and market participants (households and firms) in the domestic context exclusively, without taking into account the external world. However, public policies are increasingly influenced by factors that are exogenous to the national economy, such as financial markets instability, pollution, climate change, trade liberalization, criminal activities, health issues, etc. Globalization gives rise to a growing number of regional and global challenges. Addressing these challenges is considered a global public good, since it would generate benefits that transcend country borders. Many regional and global problems cannot be tackled by individual actions of any country. Instead they require collective actions both in the framework of existing intergovernmental organizations and mechanisms, and through the establishment of new forms of international cooperation. The present paper is devoted to global public goods, which are at the core of the so-called New public finance. The purpose of the paper is to outline the current state and prospects for the further development of this relatively new field of research, and it's application in public policies. The paper is structured, as follows: the introduction describes the main characteristics of a global public good; the second part presents a concise review of the literature; the third part dwells on the possibilities and obstacles to the provision of global public goods; and the fourth part concludes.*

Key words: *New Public Finance, Global Public Goods, Globalization*

1. INTRODUCTION

In public finance theory, public goods are defined as products and services that cannot be efficiently supplied in the markets, due to their economic characterisitcs - non-rivalry and non-excludability [1]. Because of the impossibility of market participants to supply Pareto optimal quantities of public goods, the latter are supplied by governments. Private good, in contrast, are rival in consumption and excludable, and thus can be freely traded at the current prices. Another important feature of public goods is the limited geographical scope of their benefits and costs - a municipality, a region or a country.

However, globalization gives rise to a number of challenges that transend national borders, such as financial markets instability, pollution, climate change, international crime, etc. There is a growing recognition that these challenges cannot be addressed by the efforts and resources of a single country and that they require international action.

Therefore, over the last years the concept of global public goods was introduced. A global public good can be defined as a public good whose benefits and/or costs are strongly universal across countries, people, and generations [2]. It has the traditional features of non-rivalry and non-excludability, but it is also characterized by a universal spread of the benefits and costs (See Table 1).

[99] University of National and World Economy, 1700 Sofia, Students' Town, Bulgaria

Non-rivalry	***Non-excludability***	***Universality***
•Public goods are intended for collective consumption. •The consumption by an individual of a certain good not reduce the quantities available to all other individuals.	•No individual can be excluded from the benefits of a public good even if they do not pay its price. •This stems from the indivisibility of a public good which makes exclusion either technically impossible or too expensive.	•The benefits and/or costs of the public good are strongly universal across countries, people,and generations.

Table 1: Characteristics of a global public good

As a theoretical concept global public goods have a relatively short history. In practice, however, they date back to the middle of 20th century. The first case, cited in the literature, was the Marshall Plan for reconstruction of Europe after the Second world war. Its implementation was based on the idea that supporting the rebuilding of Europe was an investment in international peace and security. In the aftermath of the war, the Bretton-Woods institutions were also established with the task to maintain the financial stability and prevent economic crises. Today many organizations and initiatives exist with the aim of providing global public goods (and in some cases regional public goods).

2. LITERATURE REVIEW OF THE THEORY OF GLOBAL PUBLIC GOODS

The term "global public good" was introduced by *Joseph Stiglitz* in 1995, who also listed five examples of such goods – international economic stability, international security, the global environment, international humanitarian assistance and knowledge. Eversince the literature has grown significantly. The main theoretical contributions belong to economists Inge Kaul and Pedro Conceição, who are authors (and co-authors) of many articles, papers and books. A large part of their research is done under the auspices of the United Nations Development Programme.

Neli Popova *was born on 29th of September 1982 in Sofia, Bulgaria. From 1996 to 2001 she attended Private Professional High School "Banker" in Sofia.*
In 2007 Neli graduated from the University of National and World Economy with a master's degree in International relations.
Due to her interest in academic career, in the same year she applied for a vacant position as a PhD student in the Economic Research Institute at the Bulgarian Academy of Sciences and she was admitted. The subject of her doctoral thesis was "Opportunities and risks to the tax policy of Bulgaria in the context of membership in the European Union". In December 2011 after a public defence, she obtained PhD degree in Economics.
In 2012 she was appointed as assistant professor at the Department of Finance of the University of National and World Economy. She teaches Public Finance and Introduction to Finance. As from the academic year 2018-2019 she will also teach International Public Finance.
Her research interests are in the field of taxation, tax coordination and public debt.

Kaul, Grunberg and Stern (1999), in their book “Global Public Goods: International Cooperation in the 21st Century”, distinguished between three types of global public goods:
- Natural global commons – the atmosphere.
- Human-made commons – world's knowledge stock, universal norms and standards, etc.
- Policy outcomes – international market efficiency, financial stability, equity, peace and security, environmental sustainability, etc.

Barrett (2007) offered another classification of global public goods related to the manner in which they are provided:
- Weakest links – the provision of this type of goods depends on the efforts of all countries, even those that can contribute least. A typical example is the eradication of infectious diseases.
- Aggregate efforts - such public good can be provided only if every country cooperates. The most important example here is climate change.
- Single best efforts – only the efforts and resources of one key country (or a small group of countries) are necessary for the provision of the public good. A good illustration is research and development [3].

Kaul and Le Goulven (2003) made a clear delineation between global public goods and official development assistance (See Table 2). The first difference is related with their objectives. Official development assistance pursues reducing global inequalities of income and standards of living. Thus, it is related mainly to the distributive role of public sector. On the other hand, the provision of pure public goods is aimed mainly at achieving or restoring economic efficiency, i.e. at the more rational use of the scarce resources of the world. Henceforth, the provision of global public goods can be viewed as an extension of the allocation branch of the public sector in the international context. The difference in the objectives determines also a difference in the instruments applied. Official development aid is based primarily on resource transfers from richer to poorer countries, whereas global public goods require a variety of tools and resources, that should be provided by both rich and poor countries. Beside the wider spread of the costs, global public goods also have a wider scope of the benefits – it could be a group of countries, a continent or even the entire world. Their provision is not aimed only at increasing the beneficiaries’ welfare, but also serves the interests of the donor countries, since the latter also gain. In this context, official development assistance can be viewed as an example of global public good.

	Official development aid	***Global public goods***
Rationale	Equity	Efficiency
Public sector role	Redistributive	Allocative
Tools for implementation	Transfer of resources	Variety of tools
Focus of the activity	Country/-ies	Issue (public good)
Principal net beneficiary	Developing countries	Many/ all countries

Table 2. Comparison between official development aid and global public goods [4]

Mendoza and Conceiçao (2003) studied the mechanisms for adequate provision of global public goods. They pointed out that the model of optimal supply of public goods, developed by Paul Samuelson in the 1950s, is not applicable to global public goods, because of difficulty (sometimes even impossibility) to identify and aggregate the marginal benefits of each separate country of a certain global public good. But even if this is possible, there is a risk that potential users express their preferences for the quantities of a given global public good without having sufficient information of its full benefits and costs. Therefore, the authors suggested a criterion for full provision of a global public good, instead a criterion of optimal provision. Full provision, according to them, can be defined as the level from which no further enhancements are feasible, given the good's innate or defined properties and the current state of knowledge and technology [5].

3. CHALLENGES TO THE PROVISION OF GLOBAL PUBLIC GOODS

Currently the provision of global public goods is outpaced by globalization, due to a variety of reasons, such as insufficient awareness, lack of political support, financial constraints, etc.

A main challenge to the provision of global public goods are difficulties in determining which global public goods to supply, what amounts, and how to finance them. Within national and sub-national jurisdictions, all these decisions are made through voting. In the international context, collective decision-making is much more difficult, because different countries have preferences for different global public goods and different resources to contribute.

Three policy gaps are defined in the literature, that prevent the more active development of global public goods:

- Jurisdictional gap – it refers to the disparity between the global scope of many issues and the national boundaries, in which policymakers operate.
- Participation gap - it is related to the fact that international cooperation is still limited primarily to intergovernmental process without taking into account the existing non-governmental participants.
- The incentive gap - it means that moral justifications are not sufficient to to persuade concerned countries to participate more actively in international cooperation [6].

Another major issue is related to the accumulation of the necessary financial (and other) resources. Most international initiatives and organizations are financed by the contributions of participating countries and in some cases through voluntary donations by governments, non-profit organizations, private companies, etc. These funds are of crucial importance, but are not enough. The problem with voluntary contributions is that nation-states are likely to consider spending on international cooperation only if it is in their national self-interest. In addition, non-excludability of mant public goods may cause free-riding, because potential users have an incentive to conceal their true preferences and consume the public good free of charge, leaving the financing costs to other users. The fear of freeriding deters the donors from allocating more resources to the provision of global public goods.

At present, other financing mechanisms seem even more difficult to apply. Taxes are a potential instrument for mobilizing funds, with the main "candidates" for this role being the levies on negative externalities, such as carbon taxes or financial transaction taxes. Indeed, taxes can be imposed in the context of already existing international organizations, such as the United Nations, the Organization for Economic Cooperation and Development, and regional integration communities. The problem with taxes is that even in the most highly integrated organizations, like the European Union, member States oppose to the idea of common taxes. For most countries fiscal policy is a strictly national territory and the transfer of taxing powers to international (or supranational) institutions is equivalent to giving up national sovereignty.

Stiglitz (1995) suggested also Special Drawing Rights (SDR) as a financing tool. According to him, SDR should not be issued by the IMF, but by another, better governed, institution [7].

Another possibility can be found in the global public-private partnerships (GPPP), which are an instrument for cooperation between international organizations and private companies. Public-private partnerships have many positive aspects - they transfer risk to the parties best suited to bear it, smooth the flow of public expenditures, and take advantage of each actor's comparative strength to improve results. These and other benefits help to realize efficiency gains and provide scope for reducing public spending or for doing more with the same level of public resources [8].

4. CONCLUSIONS

The term "global public good" was suggested in analogy to the concept of pure public goods, that are provided by governments within a specified jurisdiction. In addition to the traditional features of non-rivalry and non-excludability, a global public good is also characterized by the universality of its benefits and costs among countries and generations. Theoretical research in this field focuses in particular on the classification of different types, the formulation of a criterion for full provision, as well as the identification of appropriate mechanisms for their financing.

In today's world there is a wide variety of international organizations and initiatives, aimed at meeting the common needs and the solution of common problems of participating countries. Nevertheless, the provision of global public goods does not keep pace with globalization and its negative effects on social welfare. The elimination or at least mitigation of these effects requires more active international cooperation and the allocation of more efforts and resources on the part of nation-states to global public goods. It is also important to increase efficiency in their provision and to guarantee the equitable distribution of their benefits.

The enhancement of international cooperation faces many challenges, such as overcoming the difficulties in collective decision making in the international context, as well as the elaboration of acceptable and feasible tools for mobilization of the necessary financial and other resources for the provision of the goods.

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