

## Private Provision and Global Public Goods: Do the Two Go Together?

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INGE KAUL

## *Private Provision and Global Public Goods: Do the Two Go Together?*

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Can and should global public goods sometimes be privately provided? The analysis in this forum contribution suggests yes. To explain why, the contribution will discuss three points: (1) the definition of public goods; (2) how globalization and public goods are linked; and, (3) how private provision can help enhance the provision of global public goods.

### DEFINING PUBLIC GOODS

Economic theory defines goods as ‘public’ when they are available for all to consume. Goods that meet this criterion in a full or pure form have two properties: (1) They are nonrival in consumption, meaning that their enjoyment by one actor does not reduce their utility for other actors; and (2) they are non-exclusive, meaning that they do not discriminate between potential consumers. Goods (or services) that possess only one of the two criteria are called impure public goods.

In other words, a good’s consumption properties determine whether it is public or private. And private goods have the opposite properties of the public ones: they are rival in consumption and exclusive – only available for those who own them.

Because they can usually be parceled out and made exclusive, private goods (such as bread, shoes, cars, or television sets) lend themselves to being provided through the market. Public goods, however, pose special provision problems – precisely because of their publicness in consumption.

Think, for example, of law and order. It would be very difficult, if not impossible, for any one person to produce law and order unilaterally. In most instances, a collective effort will be required: all have to follow the law so that a community’s life can be orderly, safe and tranquil. Most public goods are also public in provision, meaning that they require collective action in order to exist.

However, it is important to underline that only in very few cases is ‘privateness’ or ‘publicness’ of consumption an innate property of a good. Rather, it is a matter of policy choice.

### GLOBALIZATION AND PUBLIC GOODS

Some public goods can be consumed worldwide. An example is the atmosphere. It has been used as a sink for depositing greenhouse gas emissions by all countries, with some, no doubt, having made more use of it than others. The atmosphere and other natural commons thus constitute global public

goods. However, they are impure-public: they are rival in consumption; and therefore, we are facing today multiple challenges of environmental deterioration and systemic risks, like that of global climate change.

Besides the natural global commons, there are two other main types of global public goods. As national borders have become more open and economic transborder activity increased, the national public domains of countries have become interlocked. As a result, public 'goods' or 'bads' existing anywhere can more easily spill across borders. Just think of how easily today a disease such as Severe Acute Respiratory Syndrome (SARS) can spread, or for that matter, a computer virus. As a result, public goods such as 'public health' or 'computer safety' have become globalized – public in consumption and calling for international cooperation to ensure their adequate provision.

Other so far essentially national public goods have also undergone globalization. Among them financial codes and standards but also human rights, including labor standards. They are being harmonized in terms of form, content and level of provision to create such global public goods as 'efficient world markets' or 'universal realization of basic human rights'. And these examples of globalizing public goods underlines once again the point stressed earlier – the fact that publicness is a matter of choice.

Global public goods are in a way public in two ways: first, they are public as opposed to private; and second, they are global as opposed to national. From a global perspective, being national means being particular and limited, exclusive.

#### PROVIDING GLOBAL PUBLIC GOODS

The origins of the current public goods theory lie in the 1950s–1960s, when in many countries the state had a strong economic role, partly because markets were not as developed as they are today and partly because income was not as high as it is in many countries and population groups today. Since the mid-1970s there has been a growing trend towards privatization and economic liberalization, often significantly affecting the provision of public goods. What had to be learned at high cost in many instances is the importance of distinguishing between the consumption and the provision properties of goods. Public goods in the sense we have been discussing them might be better provided privately albeit within the framework of collective responsibility for their provision.

For example, the public good 'communicable disease control' requires many private-good inputs, e.g. vaccines, needles, or doctors and nurses, who can be hired in the labor market. Hence, it is possible for states to contract out the provision of these inputs. However, the state retains a critical role: ensuring that health services remain public in consumption and that the desired public good, in this case communicable disease control, is adequately

provided. To this end, the state may have to take regulatory action, provide subsidies, or if necessary, provide some services directly.

Or, where scarcities arise, states are now often creating new property rights and helping to create new markets for managing resource use, e.g. that of roads, rivers, land and air.

Very similar approaches are also being used more and more to promote an adequate provision of global public goods. For example, the Kyoto Protocol and the national pollution allowances it establishes create the precondition for developing international markets for the trading of pollution permits or other similar products that could help in reducing greenhouse gas emissions. Countries are also now providing more and more frequently joint, pooled incentives to encourage, for example, private pharmaceutical companies to undertake needed R & D to control such global diseases as HIV/AIDS. Public-private partnering in public good provision is an increasingly common practice, nationally and internationally.

However, in the case of global public goods there exists a second provision challenge worth highlighting in the present context. Recall that we noted before that global public goods are public in a twofold sense – as opposed to private and as opposed to national. And at the international level, states often behave like private actors nationally: they may seek to free-ride – let others provide a global public good and then enjoy it free of charge. For example, they may over-borrow, and when a crisis occurs, let others bear the costs of any cross-border effects. From a global viewpoint, e.g. that of ‘global financial stability’ such ‘beggar-thy-neighbor’ policies are, of course, undesirable. And in these and other instances (the universalization of human rights is one of them) an enhanced provision of global public goods clearly requires less privateness behind national borders.

In other instances, states may want to curb such privateness (i.e. national shortfalls or other differences) but not have all the means to do so, money or institutional and human capacity. In such cases, improving the overall provision of global public goods for all might require supporting the endeavors of the ‘weakest link’ in the provision chain.

But who creates the incentives for individual states to be either willing or able to overcome privateness? Sometimes, intergovernmental agreements play this role. Yet more and more, it is global business and global civil society who urge states to be less particularistic and more in line with universal norms or to help other states, e.g. via development aid, to be able to do so.

## CONCLUSION

Thus, global public goods and private provision can, and sometimes even, must go hand in hand. However, under conditions of globalization and increasingly porous national borders we must rethink the notions of ‘public’ and ‘private’. Individual firms and households pursue self-interests; and states

can provide incentives for them to jump over their hurdles of self-interest and contribute more to the provision of global public goods. But individual states also often act in narrow quasi private self-interest. And then it is often the role of global business and civil society to urge nation states to think more global and make their contribution to global public goods (see Kaul et al., 2003).

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The author is Director, Office of Development Studies, United Nations Development Programme, New York. The views expressed here are hers and do not necessarily reflect those of the organization with which she is affiliated.

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