

# **Global Public Goods and Global Governance: A Political Analysis of Economic Theory and Policy Practice**

Richard Higgott

Centre for the Study of Globalisation and  
Regionalisation: University of Warwick

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# Genesis of this paper

- 2004, United Nations Industrial Development Organisation (UNIDO) initiated a project on 'Global Public Goods for Development'. Followed on from earlier UNDP projects of Kaul *et al*, (1999, 2003) and the International Task Force on Global Public Goods ([www.gpgtaskforce.org](http://www.gpgtaskforce.org))
- Dozen papers by notable economists: Collier, Kanbur, Rodrik Sandler, Staiger and others on the theory of global public goods (hereafter, GPGs)
- Realisation at UNIDO that they had commissioned no 'political analysis' of the feasibility of the project.
- I was commissioned to review papers and provide political analysis.
- Essential terms of reference was to provide a critique of the 'political feasibility of the economic theory of global public goods'.
- This presentation is a review of the Report for UNIDO. Paper reflects my views alone.

# (Global) Public Goods: Characteristics

- Initial Standard Definition of (G)PGs
  - Non-rivalrous; non-excludable benefits
  - Examples: provision of fresh air; clean water etc.
  - ‘Undersupply’ is a characteristic of (global) public goods
- But when the public good is trans-national the problem of collective action becomes even more pertinent.
- So, expanding on neo-liberal economic perspectives, concepts such as positive/negative externalities, non-rivalry and non-excludability are introduced to remedy problems of collective action on a trans-national scale and increasingly in development contexts.
- The definition has progressively extended to include the institutional venues for collective action decision making and public goods provision. Intermediate (Institutional) Public Goods; that is the international institutions that provide public goods come to be seen as public goods in their own right.
- Hence, in its endeavours to enhance free trade, according to Pascal Lamy (December 2005) and some of the UNIDO commissioned economists, ‘the WTO is a global public good’. This of course assumes/begs the question of whether free trade is a global public good—more later).

# Questions Addressed in the Report

- Why does sound economic theory with important policy implications—such as that advanced in the UNIDO project on global public goods—invariably prove difficult to implement in practice?
- Why does such economic theory often demonstrate little or no appreciation of the political constraints likely to work against successful policy implementation?
- Why do theoretically sound, policy relevant and technically sophisticated economic understandings of ‘governance’—especially for the provision of public goods—remain oblivious to the nature of the ‘politics’ that can and will derail them?
- What can be done to overcome this malaise?

# Economic Theory and Global Public Goods

- Economic 'political economy' -- 'theory of choice under constraint', using game theoretic models. Offers insights into issues such as scarcity and institutions in the policy process.
- Less comfortable with questions of ideological contest, power, political struggle, representation, legitimacy and accountability; all can make or break the implementation/acceptance of a policy.
- This disjuncture provides a context for discussing global governance, an over-used and under-specified concept. The search for meaningful use reflects despair over the mismatch between the over-development of the global economy and the under-development of a comparable global polity.
- Global governance questions resist the technocratic fix and pose major political and ethical questions about the appropriate manner in which policy is made, decisions are taken and implemented and resources are distributed.

# (Global) Governance: A twofold 'Ideal Type'

- **Governance:** A process of interaction between different societal, economic and political actors and the growing interdependence between them as the interaction between societies and institutions become more diverse and interactive. Government is but one aspect of governance.
- **Global Governance 1: An Economic Theory of Governance (GGI)**
  - The enhancement of effectiveness and efficiency in the delivery of global public goods via collective action problem solving. Governance assumes the mantle of ethically neutral activity—similar to public administration within states throughout much of the 20th century.
  - GPGs an increasingly important vehicle for EGG
  - But actors not ethically neutral and dispassionate. Knowledge on GPGs is embedded in socio-political and methodological-philosophical contexts and these contexts, frustrating as it might be can derail or impede the translation of good economic theory into successful policy practice. Thus, need for:
- **Global Governance (GGII)** Demand for transparency, accountability and representation in extra territorial decision making an essential component of global democracy.
- Need for the GPG literature to engage theorising in positive political philosophy, especially work on of 'justice' and 'fairness' in the successful development of GPGs.

# GPGs: A New Development Paradigm?

- The development of GPGs in the economic literature was in part an attempt to externalize negative cross-border 'spillover effects of events and policies in one country on other countries' which remain 'unmediated by classically competitive markets' (ITF/GPG, 2005: at [www.gpgtaskforce.org](http://www.gpgtaskforce.org)) BUT:
- GPG theory has a limited conception of governance. GG is no administrative 'science' to accompany economic 'science'. It is a contested political domain.
- Neither does the GPG literature have much feel for the relationship between the advocacy and enhancement of public goods on the one hand and questions of state sovereignty and regime maintenance in the developing world (that the introduction of some GPGs may undermine) on the other.
- The solution to the provision of public goods has usually been provided by the sovereign state, which has the authority to legitimately enforce decisions. But at the global level, there is no such authority to mitigate the free-rider problem, collect taxes and secure the provision of a GPG.
- This idea was captured in the principle of 'anarchy' by the theory of international relations long ago. What the scholar of IR recognised, in a manner that much public goods literature still fails to appreciate, is that the problem of collective action, and an absence of authoritative structures at the global level, is not a technical economic problem to be solved, but a fundamental and recurring problem of political contest.

# (Dis) Incentives for Collective Action

- Complicated. Those parts of the world most in need of public goods are least able to engage in the proactive kinds of public policy required to provide them.
- ‘Top-down perspectives’ inherent in the PWC/GG fail to capture the ‘bottom up’ complexities of the collective provision of public goods.
- Incentives to participate are maximised by perceptions of the normative fairness and equity of the system itself. But, viewed through the lenses of the LDCs, these appear less than optimal.
- Moreover, given the free-rider problems inherent in collective action, it is only in the presence of significant ‘selective incentives’ that the cost-benefit ratio of cooperation will be perceived as favourable to the actors involved.
- Constructing a ‘strong network of global participants’—in GPG jargon—fails to take into account the moral hazard question and the absence of selective incentives, both of which will militate against the participation in collective action by developing countries.
- Thus, incentives for participation in ‘governance’ measures by LDCs are reduced not only by resource constraints (material, technical capacity, political will) but also by the differential nature of the burdens of positive and negative externalities incurred across the north/south divide.

# GPGs and Aid

- GPGs are based on a 'global', not 'statist', view of welfare and a rationalist argument for supporting developing countries in an era of aid fatigue. GPGs seem destined to take over many of the traditional aid initiatives.
- But as a theory based on addressing questions of global 'market failure', this could have negative ethical and developmental consequences for communities in crises confined within borders. While the GPGs and aid to specific states can be separated conceptually, this segregation is much harder in overall development practice.
- Mission creep into aid and development by international organisations such as the World Bank and the WTO, designed with somewhat different purposes, could lead to a greater detraction from the assistance given by the developed to the developing and least-developed countries.
- Since GPGs are supposed to benefit all and the rationale for their justification is self-interest, traditional (pure) aid and development efforts could potentially suffer greatly from the institutional reform and reallocation that may result from the ascendancy of GPG theory.
- Considering the current unsatisfactory representation of developing countries in the decision-making bodies of the IEs, it cannot simply be assumed that the developmental aspect would be outweighed by the 'benefit-for-all' element of GPGs in the re-allocation of resources within institutions.

# State Capacity and Political Will

Three further conditions militate against the meaningful engagement of many developing countries in the international collaboration for the provision of GPGs

- The debate over what constitute public goods have to date largely been conducted in arenas in which developing country influence over the debates is at best limited. But while 'free trade' is an unalloyed public good in most economic theory (but note Samuelson, 2004), this is not axiomatically the case for many developing world political regimes.
- The dynamics of multilateral collective action emerging throughout the early 1990s at both global and regional levels has been altered under the impact of financial crises in Asia and Latin America. In developing countries the priority has become one of minimising 'public bads' rather than supplying public goods.
- The sovereignty issue overrides the willingness and capacity of many developing countries to engage in the GPG agenda. State policy making elites bruised and humiliated by the financial crises of the last century are clearly conscious of their diminished sovereignty in the new one.

# What is to be done?

- Self-evident Proposition: *Without reform of the conceptions of governance at the global level, successfully implementing GPGs is unlikely to be achieved.*
- But the prospect for reform in the absence of constructive global leadership is a problem impeding the development of widely acceptable GPG strategies.
- Lack of a positive role by the USA, especially in its attitudes towards multilateralism, remains crucial in this process. A necessary but not sufficient condition
- Only with a serious discussion about responsiveness, representation and accountability can the discussion about governance become anything other than a dialogue of the deaf between rule-makers and the rule-takers.
- Questions of GG (should) pose major political and ethical questions about the appropriate manner in which policy is made, decisions are taken, implemented and resources are distributed.
- GGI as effective and efficient provision of GPGs and GGII as enhanced accountability are not for de-linking.
- If GPGs are a principle manifestation of GGI (multilateralism from above) then their prospects of successful acceptance and implementation are weakened in the absence of GGII (multilateralism from below).

# A Reformist Agenda for Global Governance: 1

- The divorce of markets from politics and institutions — or of the private from the public — is unsustainable.
- What constitute 'global public goods' will continue to be contested.
- Spotlight of public authorities is minimising public bads associated with market failure, social exclusion, financial volatility.
- But we have no way of up-scaling the public domain to the global level. We cannot extend the 'domestic democratic analogy' to the global context. International institutional constraints that exist have little purchase on major powers, especially the contemporary hegemon. Both the ability and political will of the US to offer self-binding hegemonic leadership, underwriting multilateralism as a principal institutional form of global governance, will continue to be problematic.
- Nor is there a meaningful global public sphere/public domain/global agora in a legal or a sociological sense in which market and non-market social relationships might be mediated.
- Thus for GGII to be meaningful—that is acceptable to principal actors in global politics and at the same time remain supportive of GG1--there has to be an understanding of the fundamental differences between systems of accountability that can have real political purchase in global public policy rather than unrealisable conceptions global democratic governance found in much pietistic literature of a cosmopolitan genre.

# A Reformist Agenda for Global Governance:

## 2

- Next steps in the enhancement of GG2 need to be modest. Will not deliver 'ideal-type' global cosmopolitan democracy (with universal participation) predicated on up-scaling the domestic analogy *pace* naïve cosmopolitan exhortations for a 'global covenant' (Held, 2004)
- Any reform must enhance existing or nascent patterns of legitimacy and accountability. Legitimacy must be embedded in shared norms (usually of elites, but wherever possible of national publics, of the major state actors) and be under-written by judicial instruments (such as the ICC and the dispute settlement mechanism of the WTO).
- Must be enshrined in negotiation practices that are not only efficient (GGI) but also open and inclusive (GII). Enhancing these capabilities should be at the core of a reformist agenda to enhance GG2.
- This is not abstract political theorising. Its core concerns cast massive policy shadows. The key issue is the degree to which these shadows can be positive or negative.

# Legitimacy and a New Diplomacy

- GPG theory has little understanding of the salience of ‘real world politics’. It cannot distinguish between ‘governance’ and ‘politics’ and particularly whether a policy is deemed to be politically ‘legitimate’ or not.
- The movement from cooperative regimes to incipient, ‘legalised’ systems of governance (Keohane, 2005: 9) epitomised in the shift from GATT to the WTO—has raised the stakes on the legitimacy question and increased the range of actors with a right to ‘voice’.
- If governance increases the expectations of compliance from the governed, then it also raises expectations of accountability from the institutions (and their agents) seeking the compliance. GGII demands superior levels of justification for the decisions taken by global institutions.
- New systems of diplomacy and negotiation for the acceptance and implementation of global public goods, and the decision making processes of intermediating institutions that provide public goods, are therefore required
- Nothing illustrates this better than the debate over the status of free trade as a global public good and the role of the WTO as the intermediating facilitator.
- In the absence of institutional change reflecting new understandings of legitimacy it is hardly surprising that WTO ‘rule-takers’ assume that the WTO operates primarily by the conventions of power politics delivering

# Towards a New Institutional Legitimacy

- The 'legitimacy issue', seen through the eyes of the rule-taker, will be the deal maker or deal breaker in the development of a GPG strategy for the early 21st century.
- Three things required in a reformist strategy:
  - Institutions and institutional actors need to treat deliberative democracy seriously. (Develop Habermasian arguments here)
  - The primacy of the principle of 'procedural fairness' in the negotiation process for the delivery of GPGs must be established (see Albin, 2003)
  - In the absence of absolute legitimacy (normative legitimacy plus sociological legitimacy) agents should strive for greater institutional accountability from the multilateral institutions, or what Keohane (2005) calls 'contingent multilateralism'.

# Treat Deliberative Democracy seriously

- Many participants in the current MTN do not accept that the negotiation process, as currently constituted, is rationalist and produced through deliberation.
- Rather, as historical record suggests, MTN processes are characterised by a semblance of law based negotiation in the launch phase followed by restricted (green room) deliberations of major powers and issue specific coalitions (increasingly on a N-S basis.)
- Enhanced deliberative democracy—what Habermas (1990:86-7) calls an ‘ideal speech situation’—might ensure greater inclusive, free, rational, symmetrical and non-coercive discussion.
- This would reduce power asymmetries and help secure a fairer bargaining process than currently exists within the context of multilateral trade negotiations.

# Establish Principles of Procedural Fairness: 1

- **Justice:** a principled set of: ‘... general standards for allocating collective benefits, opportunities and burdens among members of a community.’
- **‘Fairness’** a more applied concept that ‘...gives guidance to what is a reasonable way to implement justice in a given context’.
- In any negotiation, and especially an MTN Round, it is invariably a few powerful states or coalitions of states that set the agendas at the expense of weaker, less technically equipped and politically well organised states.
- Hence, without justice and fairness prospects of negotiating the successful implementation of GPGs will be limited.
- Overall aggregate welfare that is generated by the WTO’s regulatory footprint is not necessarily perceived to be spread equally across all participants in the global economy. WTO in fact producers losers as well as winners.
- More generally, perception is as important as reality in many instances of N/S dialogue. Irresponsible or selfish use of GPGs (over consumption or free riding) leads to resentment and resistance.
- Notwithstanding the attempts to embed GPGs in a developmental framework, it is usually stronger states that behave in an irresponsible way, as in the use of environmental resources. Since GPGs need multilateral cooperation to produce them, collective action is unlikely if this resentment and stand-off prevails.

# Establish Principles of Procedural Fairness: 2

- No surprise that 'procedural fairness' is often as, if not more, important for the mostly developing world rule takers rather as is 'outcome justice'.
- Radicalising southern positions on WTO negotiations no doubt appear irrational for advocates of an economic theory of public goods, underwritten by methodological assumptions of rational self interest,
- But it is the structurally asymmetrical, politically charged, negotiating processes, as much as the substance of negotiations, that generate questions of institutional legitimacy for the WTO.
- Learning curve to self-empowerment of developing countries as negotiators, in the absences of procedural fairness, may prove to be a serious obstacle to collective action problem solving in general and the provision of Northern inspired global public goods via the WTO in particular.
- The absence of both procedural fairness, as much as 'outcome fairness', emboldens developing countries and anti-WTO groups, such as Focus on the Global South and Third World Network, to try to thwart the aspirations of the developed countries. This is only likely to grow.

# Drive for greater institutional accountability: 1

- How do we disaggregate the notions of democracy and accountability?
- Can we identify some principles of accountability that do not necessarily emanate from an essentially liberal, western theory of democracy?
- How do separate the notion of legitimacy from accountability?
- Put as a question, is it possible to think about global accountability when there is no global democracy?
- Being accountable assumes the presence of 'norms of legitimacy', but this is not the same as being democratic.
- In much contemporary analysis of global governance, democracy and accountability have, all too often and all too wrongly, been conflated.
- In the context of a given state, direct democracy, with full participation, is held up as the ideal type of representative government (Dahl, 1999). Global governance is never going to approximate this ideal type.
- We thus need to think of a situation that, while sub-optimal to this ideal type, nevertheless makes provision for a meaningful degree of accountability. Grant and Keohane (2005) offer us two basic kinds of accountability—
  - accountability as participation
  - accountability as delegation.

# Drive for greater institutional accountability: 2

- In theory, IEs are accountable to governments that create them. And, in participatory mode, to the developing countries they aim to 'assist.'
- It is in this sense, with the implications of the empowerment of traditionally weaker actors, that accountability as participation and representation, and by extension democracy, is often conflated and confused.
- It is this confusion that, often wrongly, leads us to question the legitimacy of the international institutions.
  - Can they be legitimate, and in part accountable, without necessarily being democratic by the yardstick of the 'domestic analogy'?
- In many ways the international institutions are indeed accountable, and often more accountable than many of the NGOs (for whom the 'rhetoric of illegitimacy' has proved so useful) that criticise them.
- But they are not accountable in a way that satisfies those who equate legitimacy with democratic theory underwritten by the 'domestic analogy'.

# Drive for greater institutional accountability: 3

- Rather than argue in vain for an unrealisable conception of cosmopolitan global democratic governance (the globalisation of a pure domestic analogy) we need to upgrade our *systems of accountability* that can have real, albeit limited political purchase on global public policy. Can identify three elements:
  - *Improved standards and the acceptance of norms of behaviour that are considered fair and just.* Difficult, but there are signs of the growing unacceptability of inequality in the global economic order.
  - *Enhanced information provision and transparency.* Modern communication and their global diffusion makes information, and hence transparency, a more important political tool than at any time in history.
  - *Ability to apply sanctions in an issue specific context where and when necessary.* Has implications for sovereignty. But the WTO dispute settlement mechanism is an example of how this can happen
- Enhanced accountability of global governmental actors will do nothing to alter the asymmetrical nature of global power in the short term, although it may do so in the longer run. But, importantly, it introduces greater procedural fairness (and by extension, 'outcome justice') and may help resist abuses of power between rule-makers and rule-takers in global economic governance

# Conclusion

- Any consideration of the role of the principal IEs in theory of GPGs must focus on their role as venues for negotiations and as venues to ensure that a GPG theory is under written by assumptions of justice and fairness. Collective action problems require *negotiated* outcomes and these are secured in political activity between the principal actors. It is a largely a statist activity
- This is not simply an issue of technical efficiency or of bridging the participation gap (*pace* Kaul et al 1999.) More civil society inclusion is not the main answer. This is an issue of politics requiring negotiated settlements.
- These are questions about power, or more accurately the asymmetries of power that remain key to explaining outcomes in WTO negotiations. Asymmetries in negotiation processes damage Ruggie's (1993) generalised principles of multilateralism--indivisibility, non-discrimination and diffuse reciprocity.
- WTO is a vehicle for the advancement of so-called public goods that, rather than being global, serve the interests of the developed world first. (Less than rock solid promises to end agricultural subsidies were pushed on developing countries in return for commitment to open their markets to developed world service providers at HK ministerial.)
- Missing ingredients: principles of justice and fairness and how these are to be delivered under conditions of persistent asymmetrical negotiating power between developed and developing countries. Without them, successful implementation GPGs will be limited