

Global public goods

“a highly-rewarding investment”

Adequately providing certain “global public goods” would be far cheaper than the price of inaction, according to *Providing Global Public Goods: Managing Globalization**. The book argues that globalization requires a new way of looking at disparate issues such as international air traffic control, peace and security, global health, financial stability, fair trade, clean water and biodiversity from the unified perspective of “global public goods”.

Annual cost of ...	Financial stability	Multilateral trade	Excessive disease	Climate stability	Peace & security
... inaction	\$50 bn	\$260 bn	\$1138 bn	\$780 bn	\$358 bn
... corrective action	\$0.4 bn	\$20 bn	\$93 bn	\$125 bn	\$71 bn

*These figures are drawn from a chapter written by Pedro Conceição in **Providing Global Public Goods**. More details are given later in this briefing note of the report’s discussions of **financial stability** and **excessive disease**, as well as of two other global public goods: **telephone communications & the Internet**, and **communicable disease control**. All figures in dollars at market exchange rates, except for the costs of inaction for the excessive disease burden and climate stability, which are in purchasing power parity exchange rates.*

One chapter of the book provides a first attempt to estimate the current cost of underproviding some global public goods. Around the world, the costs of deficient provision of global public goods are probably over one trillion dollars a year. Corrective actions, on the other hand, would cost between one and ten percent of the costs of continued inaction. The study is not a full cost-benefit analysis, but a rough comparison of the annual costs of inaction with the annual price-tag of interventions which would reduce or eliminate those costs. The enormous scale of the differences makes clear that global public goods are a highly rewarding investment.

Providing Global Public Goods: Managing Globalization analyzes many current global issues, including world trade, peacekeeping and terrorism, through the global public goods lens. It makes a series of detailed

**Providing Global Public Goods: Managing Globalization*, edited by Inge Kaul, Pedro Conceição, Katell Le Goulven and Ronald U. Mendoza, Oxford University Press, New York, 2003.

recommendations for how national governments, the private sector, civil society and the UN system could handle them better.

More details are given below from the Global Public Goods chapter comparing the costs of inaction with the costs of corrective action for four global public goods:

- **financial stability**
- **telephone communications and the Internet**
- **communicable disease control**
- **reducing excessive disease.**

Financial stability, is an especially crucial global public good. In 1975-98, there were 244 significant international financial crises – 158 currency crises, 54 banking crises and 32 crises involving both currency and banking. Recent examples include the East Asian financial meltdown of 1997-8, Russia's 1998 debt crisis and Turkey's 2001 currency crisis. The Argentine debt crisis shrank its national economy by 5-10 percent in 2002, and hiked unemployment to over 20 percent.

The report puts the cost of banking crises alone at about \$8 trillion since the late 1970s. For developing and transition (former communist) countries, the price has been an average loss of \$50 billion a year, comparable to all 1999 official aid programmes (\$56 billion), or to the 1999 debt-service costs of low-income countries (\$47 billion).

The key to preventing major crises in the world's financial markets is capacity-building. Tripling the annual technical assistance budget of the IMF (International Monetary Fund) to \$0.4 billion would, conservatively, save about \$50 billion a year. Of course, this expenditure alone would not abolish international financial instability. But it could reduce it.

Wiring the world: The global public good of communications, says the report, is a powerful engine of economic growth.

Yet more than half the world's people have never spoken on the phone. And even by 2005 only one person in six will be connected to the Internet. Last year, while nearly half the US population had access to the web, only 1 in 40

Chinese and under 1 in 100 Africans were connected. And Internet access costs the consumer ten times more in Africa than in Western Europe.

The lack of access has a high price. Nearly half the difference between Africa's and East Asia's manufactured exports (as a share of GDP) is caused by Africa's poor communications. For developing countries to reach the same teledensity as industrial nations, three billion new phone lines are needed. Innovative technologies, and community rather than individual connections, could provide these new phone lines within ten years for \$5.8 billion a year, says the study.

The benefits would be substantial. By 2003, global business-to-business e-commerce is expected to be worth between \$3.6 and \$6 trillion. If developing and transition countries achieved only a one percent increase in e-commerce, the report states, Asia would gain \$12 billion a year, Latin America \$7.6 billion, Africa \$2.7 billion and Eastern Europe \$1.8 billion.

E-commerce can have an especially strong influence in developing countries because the scope for reducing inefficiency and increasing productivity is much larger than in industrial countries.

Communicable disease control: Smallpox has already been completely eradicated, polio 99 percent eradicated, and drancunculiasis (an African water-borne disease, also known as Guinea worm) 98% eradicated.

But other major communicable diseases remain under-controlled. In 2001, HIV/AIDS, the world's fourth leading cause of death, killed 3 million people. The same year, malaria killed 1.1 million, and TB (tuberculosis) 1.7 million people.

Smallpox was eradicated for about \$300 million, but it generated \$168 billion in benefits between 1978 and 1997, a 46 percent a year return on investment. Complete polio eradication would cost \$2.5 billion, and bring savings of \$1.5 billion a year. Drancunculiasis eradication would cost \$200 million, with a 29 percent annual rate of return.

For other communicable diseases, eradication is not considered possible, but the costs of control by 2007 are put at \$14 billion a year for HIV/AIDS, \$2.5 billion for malaria, \$500 million for TB. High price-tags, but the costs of inaction are far higher. HIV/AIDS lowers annual GDP by 35 percent in Sub-Saharan Africa, and inadequate malaria control cuts output by 17 percent in the same region. Current rates of TB are cutting some countries' GDP by four to seven percent.