Rearranging deckchairs or changing course? The World Bank and global public goods

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Talking points

- Global public goods (GPGs)
- GPGs and the World Bank record
- Practical obstacles
- Theoretical issues
- Conclusions

What are Global Public Goods?

- Rooted in the theory of public goods pioneered by Paul Samuelson (Samuelson 1954; Samuelson 1955) and Richard Musgrave (Musgrave 1959)
- Non-rivalrous and non-excludable (rarely both - ”mythical beasts”)
- “Goods demanded and supplied through political institutions” (Buchanan 1968)
- GPGs can be collectively consumed by most and ideally all countries, and once the good has been produced, all countries are free to consume it without restrictions
- GPGs will be structurally undersupplied (a rationale to step in?)
- Examples: climate stability, knowledge, global health, preserving biodiversity or multilateral trade rules

GPGs: an ”elusive” definition

- Goods whose supply depends critically on international collective action, even though they may not be fully global (they may be regional) and have some excludability (as with some critical components of global knowledge whose use is restricted by patents) or rivalry (as with the exhaustion of high-seas fishery resources or biodiversity) (World Bank 2007)

Global Public Goods: some controversies

- GPGs belong more to a political manifesto than to the scientific realm (Long and Woolley 2009)
- Samuelsonian roots (neoclassical economics) have been used only to legitimize what is often a set of loosely related ideas
- The discussion is lacking an analytical rigor and GPGs are nothing more than a “rhetorical device” and “catch-all” phrase
- To persuade rather than explain (Long and Woolley 2009)
- GPGs are attractive precisely because they are abstract (Long and Woolley 2009)
- A rigorous and restrictive concept has been transformed into a slogan, “a mixture of pure economic rationality and wishful thinking” (Carbone 2007)

World Bank and GPGs

- Surely not alien to the World Bank, yet is used rather liberally if not arbitrarily
- World Bank itself as a GPG?
- Little effort to go deeper in a conceptual sense, and more importantly – in an operational one
- Lack of reporting on GPGs, lack of trying to quantify the Bank’s spending on GPGs on a systematic basis
- Potemkin-like GPGs (Kapur 2002) and post-factum GPGs
- ”Marginal” and “peripheral” at best

World Bank and GPGs, rationales

- **Jumping on the bandwagon:** "there is clearly an incentive to justify any activity by any agency as an international public good" (Kanbur 2002)
- **Preventing setbacks**: "we'll have 100 million more people living in poverty by 2030" and "133 million climate migrants"
- **Legitimizing raison d'etre:** ... otherwise, the Bank risks "becoming simply another aid agency managed by the rich countries to provide assistance to the poorest countries" (Birdsall and Subramanian 2007)
- **New kids on the block:** GPGs as an exit strategy from a field which is increasingly crowded (BRICS dev. bank, CDB, AIIB, etc.)
- **The crisis of multilateralism and the US lukewarm attitude**: the US not likely to push for the overhaul of the Bank's mandate or increase its contribution to producing more GPGs
- **Theoretical** (?): GPGs will be structurally undersupplied if decisions about their production are left to markets or individual countries that have suboptimal incentives to spend

“Separating the wheat from the chaff”

1. Country-specific programs or projects with a regional (international) spillover component
   - E.g. co-financing a clean technology power plant in Poland

2. Production of international public goods with a transnational or multi-country interest in mind
   - Trust funds (“begging bowls”, not effectively owned by the WB)
   - Research, production of knowledge, “one-stop shop for development data” (Ravallion 2016)

Obstacles (1): the Mandate

- Day-to-day routine is organized around country-specific operations
- Loans have been at the very core of the Bank's model since the early days ("a reluctant lender")
- Multi-country loans are intrinsically difficult to structure
- Members' mindset: "the Bank is there for their benefit, not the benefit of the global community"
- More GPGs would require borrowing countries to sacrifice their own development
- ... Middle-income countries and low-income countries are the biggest source of resistance
- Any serious discussion about GPG risks "sending the shareholders to their entrenched battle lines" (Morris and Gleave 2015)

Obstacles (2): Bureacracy and lending culture

- Next to the interests of the most powerful members and “economic ideas, fashions, and orthodoxies”, the most critical force shaping the Bretton Woods institutions and determining their development (Woods 2006)
- “An old ship” with “all kinds of barnacles – sticky budgetary accretions and transaction costs –on its hull, steadily impeding its speed and performance” (Kapur 2015)
- World Bank has evolved into an institution with the ambition to please all possible stakeholders and to be “everything to everyone” (Birdsall and Subramanian 2008)
- Risk-aversion deeply embedded in the institution’s DNA + low morale among its staff (Kapur 2015)
- ”Pushing loans” and “moving money” model: aid volumes are still more important than benefits to the end users of aid (Easterly 2002)

Other theoretical issues

- Aggregation of preferences, is the World Bank fit?
- Can the World Bank be really considered an impartial knowledge creator in social sciences?
- Aggregation of preferences vs revealing of preferences
- An intergenerational nature of GPGs
- Aggregation technology (Sandler 1997; Barrett 2006)
  - Summation (e.g. controlling global warming)
  - Weakest link (e.g. surveillance of a contagious disease outbreak)
  - Best shot (e.g. a tropical agriculture breakthrough)
- "… those global and international public goods that need either a significant push or only a smaller coax" (Sandler 2003)

Conclusions

- Many international organizations have embraced the idea of the GPG agenda quite happily
- Once wielding a near monopoly in the business of lending to developing countries, the Bank is no longer alone on that stage (time to move on?)
- Yet, most changes have occurred “at a mental level” rather than operational one (“rearranging the deck chairs on the Titanic”)
- The current model is ill-suited to deal with international spillovers and cross-border challenges
- Unless new sources of finance are found, the trade-off is to much to bear
- The World Bank is arguably the best the world has to embrace GPGs, yet – given the above – such an endavour still borders on political fiction

Thank you
for your attention