



The Princeton Center for
Globalization and Governance

The G20 at the Leader's Level Financing Global Public Goods

Report on the February 27-28 Conference Woodrow Wilson School of International Affairs Princeton University

The purpose of this meeting was to explore potential future international arrangements to address the financing of “global public goods (GPGs)”. The conference explored the question as to whether a meeting of Leaders at 20 (of the countries say, in the G20 Finance Ministers group) could produce some value added actions to finance global public goods, actions that could not be expected to emerge from any other process.

A background paper setting out the context was presented By Inge Kaul. Several draft "conjectural communiqués" (authored by Anthony Clunies-Ross, Bjorn Gillsäter, Andrew Hoerner, John Sewell and Kristin Wenderlich, and Keith Bezanson) were circulated prior to the meeting. Each paper (available online at www.L20.org) outlined a conjecture on a realistic outcome of a first meeting of the L20 on the financing of global public goods. The aim of the conference was to assess whether there is a credible package of initiatives that would convince the major countries that an L20 meeting on this topic would be a worthwhile endeavor.

We discussed the impact of the January 2006 Canadian election, in which Prime Minister Paul Martin was defeated. Paul Martin was the high profile proponent of the L20, publishing articles on the idea, as well as raising the idea in bilateral meetings with other Leaders. The sense of the meeting was that while an articulate champion of the idea had been lost, the Canadian government would continue to support sensible ideas to strengthen multilateralism. It was also pointed out that the L20 concept was very much in the public domain, having been endorsed by groups as diverse as the UN High Level Panel on Threats Challenges and Change, the World Economic Forum, and the Helsinki Process co-chaired by Finland and Tanzania.

The meeting was introduced by a definition of the problem:

International cooperation on financing global public goods is beset by a “twin deficit”: 1) the implementation deficit, that is, the disjuncture between the negotiations side and the operations side of international cooperation (between the forging and the implementation of agreements); and 2) the participation deficit, which at present keeps key—state and non state—actors away from both the negotiating table and the operational implementation of international cooperation.

We reviewed the trends leading to a reduction in these two “deficits”. We were reminded that “reality does not stand still” and of several examples of effective policy ideas (eg

indices to monitor governments) and markets being created (eg emissions trading). It was argued that the international system still needs:

- a new approach that sees financing cooperation as an investment;
- a body that could package global policies, cross bargaining across issue areas;
- a stimulus to innovative financing technologies;
- an issues manager to provide coordination;
- an issue custodian to provide the requisite continuity.

We then asked whether the L20, constituted as a “Top Table” or a council of “First Movers” could fulfill these requirements.

We reviewed the question of composition. The simplest approach is for G20 Finance Ministers to invite their leaders to a meeting. While this may be an appealing finesse, it results in certain notable omissions. One suggestion was to include the 20 countries with the largest populations, and then add Canada and South Africa. We also discussed membership based on regional organizations, as well as variable membership with a core group and variations on the margins with others invited according to the issue on the agenda. Some argued that the membership should eventually be based on “flexible geometry”, a core but with countries selected according to the issue. Others argued given the need for the grand bargain approach, it would be important to keep a set membership irrespective of the current issues, which can evolve over time.

Problematique

We queried the need for a global revenue source to deal with urgent challenges such as avian flu, natural disaster relief, and post conflict reconstruction. We discussed the principles necessary for any successful proposal, the process to be followed in establishing any mechanism and the “machinery” or architecture of any administrative body charged with implementation. We also discussed “reframing” the debate to focus on the positive and minimize the effect of extraneous prejudices.

The discussion covered several topics:

- The definition of GPGs can be contentious. One must be careful not to include private goods that include externalities. Any true GPG will be under-provided. It was noted that the distinction between global GPGs and private goods is particularly difficult because excludability and rivalry are themselves largely social concepts.
- We are starting from a deficit position where politics seems to prevent following through on existing commitments.
- Additionality is a key question - how to avoid financing GPG s by diverting funds from ODA?
- Why would we expect the L20 to be different? (G8 too small – UNGA too large. An L20 would provide domestic political cover to many of its members – absence of follow through would jeopardize continued membership in the exclusive group.)
- How can the L20 relentlessly focus on a series of goals, rather than dealing with the current issue?

Several points were raised in the discussion:

- The distinction between the L20 as a body to set priorities or a body to act, to pursue priorities set elsewhere;
- The concern that the priority setting function was too much like central planning;
- The degree to which we must carefully define global public goods more carefully, or just act on them;
- Whether the L20 could improve on the G8's propensity to flit from issue to issue, rather than sticking with a focus for the requisite period of years;
- Would the L20's apprehended decrease in efficiency relative to the G8 (just by virtue of its larger size) be compensated by its increased representativeness;
- Doubt that the L20 would perform better than the G8 and the UNGA in implementing commitments;
- Chinese interests in Africa suggests pride of place on the agenda for issues of concern to Africans;
- Only an L20 could catalyze action to create an International Bankruptcy Court or an analogue to Chapter 11 for countries. This essential reform will not result from deliberations of Finance Ministers or the IMF;
- To the extent possible, "fees" for financing GPGs should be collected by the relevant international organization – IMO for shipping related charges, IATA or ICAO for aviation related charges, and so on;
- The L20 can leverage needed changes in the governance arrangements of international organizations like the World Bank and the IMF, as well as press for greater efficiency and better results from the many actors in the UN system.

We reviewed the characteristics for any effective agreement to deal with externalities and ensure that there was a benefit to being part of the agreement:

- Set a high (e.g. 90%) threshold for it being binding;
- Set minimal negotiation costs;
- Link the public good to a "club member" good, like tax coordination (improving tax enforcement);
- Start with modest subset of small investments, recognizing that b/c ratios are usually highest at investment levels below the optimal.

Reframing the Question

Given the antipathy of the current US administration to multilateral processes, any approach will be unsuccessful unless framed in an appealing way. We need to make the small "c" conservative case – as distinct from the small "l" liberal argument to increase ODA. One example would be to delete the word "tax" from the discourse (except for imperative alliterative reasons such as when referring to Tobin's proposal). The tax power is more jealously guarded than military power, in terms of ceding responsibility to international institutions. Use terms like "benefit fees" or "resource rents". We should include as an intrinsic part of any proposal credible commitments to improve the efficiency of the existing international system and make better use of already available resources. This would appeal to a US audience, including the current administration.

The message should be the L20 is dealing with risk management. We created a competitive global order which entails risk and volatility. Reducing volatility requires a strong focus on cooperation and a new range of Global Public Goods, such as in the health area.

Proponents must emphasize this is not solely a question of public money – it is also a question of endorsing publicizing and promoting new market based tools and private initiatives. There are elements of the solution with no short term political costs. There must be a role for non-donors; there must be commitments that they can contribute – such as information, which can reduce transaction costs for private investment.

One brutally direct approach is to frame the L20 as a parochial instrument of a country's foreign policy priorities. For example one could argue that the L20 could be deployed to implement US foreign policy goals:

- Infectious diseases – deal with avian flu;
- Law enforcement – contain and defeat terrorism (the L20 can go where the US cannot);
- Effective supervision and reform of international organizations;
- Enforcement of intellectual property rights.

Even climate change can be addressed with pollution permits in a free market framework. A Tobin Tax could be operated with an electronically managed market mechanism, in partnership with the present interbank system. The exchange could be a private–public partnership owned jointly by the foreign exchange houses with brokerage facilities, and the World Bank and UN.

Each L20 Leader can believe, correctly, that the group is a device to get others to bear a larger share of the disproportionate burden they presently carry.

Process

We discussed process, and administrative requirements:

- A “receptacle”– an allocating intermediary – into which funds would be paid and which would interpret priorities is required;
- A shadow group of notables or elder statesmen could be established to prepare for L20 meetings, perhaps 3 from each country representing its government, business and civil society;
- There must be conservatives in the preparatory process;
- To deal with the key challenge of coordination, L20 would have to appoint an “Issue Manager”. They are the only group with the weight to legitimize such an appointment;
- There is widespread opposition to an L20 Secretariat, but an L20 will not happen without a permanent one. The OECD is not the answer. The Secretariat must be “light”, but provide an effective independent information source and assure policy continuity and consistency over time;
- A troika version of chairmanship would be appropriate with a 2 year term for the chair to assure “sustained executive attention”.

Elements of a package

Our meeting focused on possible elements of a package deal, mindful that we must focus on the proposals that can be implemented with “flexible geometry” (not Tobin Tax – nor SDRs). We were reminded of Eisenhower’s maxim that one way to solve a big problem is to make it bigger. It was acknowledged that burdens and benefits should be introduced across policy areas.

Various criteria were suggested for elements in the package:

- Pick “soft targets” like the air ticket tax or resource rents, with no “deadweight loss” or a topical issues, like natural disasters;
- Focus on proposals currently on the table;
- Insist on new insurance mechanisms and screening out all but the “innovative providers”. Focus on new tools of financial technology, like “catastrophe bonds”;
- Do not insist on universal application;
- Ensure those who participate do not suffer competitively; breathe life in and apply Article 50 of the UN Charter, which provides for compensation to those affected by sanctions;
- Aim for double dividends (eg energy savings and emission reductions from air ticket tax);
- Set a good precedent, stimulate a ratchet effect;
- A progressive charge where charges to each nation do not exceed its own benefits;
- Any system to collect and allocate resources must be unimpeachable – a prerequisite is absolute trustworthiness and accountability of the organization entrusted with the responsibility and the resources, buttressed by independent evaluations;
- Aim for agreement by groups of countries to a multiplicity of pilot projects;
- Any proposal should be “sunsetting”, i.e. time bound.

Various suggestions were made with respect to individual elements in the package or the shape of a “Grand Bargain”. Ideas for individual elements included:

- Give the Secretariat to the US;
- Put Iraq, global over fishing and climate change on the table as a package.

Reasons to be skeptical

The enumeration of possible elements of L20 action is long and complex. The exact contours of a package deal will depend on the vagaries of the moment, as well as the personalities and governments that initiate and sustain the process. Throughout our deliberations we were also mindful that there are many reasons to be skeptical of the L20 process. Among them:

- L20 should not be convened to solve problems that may solve themselves without L20 action. For example, if there is a stampede to join the recent French announcement of an air ticket tax, there is no need for Leaders meeting on the issue.

- The US cannot be brought to the table (unless an issue of interest to the US, such as multilateral cooperation to assist reconstruction of Iraq, is on the agenda). Some argued that the L20 should nonetheless be convened without the US, who will subsequently find a way to save face and join a later meeting. Others noted that an L20 without the US would be pointless.
- Governments find it very difficult to look and invest beyond 2 to 3 years, but investments in most global public goods projects have amortization periods of 10-25 years.
- There is no legal basis for the L20, as there is by contrast for the Security Council.

Conclusion

There is a vacuum in international coordination – a lack of sustained high level executive attention. Existing mechanisms suffer from inefficiency or illegitimacy.

The existing mechanisms, such as the UN Security Council, are unlikely to produce a “Grand Bargain” since their mandate is limited to security-related issues. An L20 balances efficiency with credibility – better balance than any other group.

The G20 was created (and most significant international initiatives occur) because of a crisis. Appropriate homework must be prepared in the event a future crisis occurs such that an L20 would be favoured by the four or five key countries. A necessary condition would be the guarantee of credible, effective and accountable delivery organizations. Composition is a sticking point. There will have to be a permanent Secretariat.

The first meeting must succeed. The agenda would ideally comprise 3 topics – a hot button issue (such as avian flu); one that shows give and take that can only take place in L20 (emission regimes and agricultural subsidy regimes); perhaps a long run information sharing topic, such as improvement of migration data. The meeting could also be cast as breaking deadlocks to implement existing agreements, fill gaps and attack areas for which we do not have solutions and fight the current fire of the day.

The financing required for GPG may have to be raised both nationally and globally, as it is for the moment. Domestic taxation sources from rich countries may provide the bulk of funding at the outset, but long-term sustainable and predictable finance will be necessary as the number of issues requiring global cooperation and solutions increase. Pilot initiatives should show that they CAN work.