PUBLIC GOODS FOR HUMAN SECURITY

ELMAR ALTVATER*

ABSTRACT

The article proposes an extensive reflection on the concept of public goods and their implications. The author makes an historical route from their begining (David Hume) and specially Adam Smith and their entailment to the "commercial security" and the general conditions of production.

The problem of the communal properties has to do, at the present time, with the ecological limits for the reproduction of the human activity, and how these limits express the contradiction between the individual rationality and the provision and satisfaction of basic necessities for all. The repeated economic crises have shown up the impossibility to satisfy these communal properties through the market initiative.
Finally, the author approaches this reflection from the European perspective and the desirable role of the Union in relation to this subject.

KEY WORDS: public goods, positive and negative integration, globalization, European Union.

* Otto-Suhr-Institut for Political Science, Free University Berlin, Ihnestrasse 22, D14195 Berlin, Germany
e-mail: Altvater@zedat.fu-berlin.de

BIENES PÚBLICOS PARA LA SEGURIDAD HUMANA

ELMAR ALTVATER

RESUMEN

El artículo propone una extensa reflexión sobre el concepto de bienes públicos y sus implicaciones de todo tipo. El autor realiza un recorrido histórico desde su surgimiento (David Hume) y especialmente Adam Smith y su vinculación a la "seguridad comercial" y a las condiciones generales de producción.

El problema de los bienes comunes tiene que ver, en la actualidad, con los límites ecológicos para la reproducción de la actividad humana y como, estos límites, expresan la contradicción entre la racionalidad individual y la provisión y satisfacción de necesidades básicas para todos. Las reiteradas crisis económicas han puesto de manifiesto, por otra parte, la imposibilidad de satisfacer estos bienes comunes a través de la iniciativa del mercado. Por último, el autor aborda esta reflexión desde la perspectiva europea y desde el papel deseable de la Unión en relación con este tema.

PALABRAS CLAVES: bienes públicos, integración positiva y negativa, globalización, Unión Europea.

1. INTRODUCTION: FREEDOM AND ORDER OR: NEGATIVE AND POSITIVE INTEGRATION

Why are public goods provided? Obviously because they serve as means to improve human, commercial or socio-economic security, or more simple: The providers of public goods follow economic necessities or/ and the objectives to satisfy human needs. Therefore it is necessary to discuss the provision of public goods together with the security-question and its many dimensions. Two discourses which almost always are separated have to be brought together: the discourse on human security (and on other dimensions of security) including the questions of economic and human development and the debate on (global, regional, national and local) public goods.

The concept of public goods has a long history in economic literature, it can be traced back to the founders of Political Economy in the 18th century, to David Hume and particularly to Adam Smith. Due to the intensification of global economic and political interdependence (and thus also of vulnerability of people) certain public goods went global. Those public goods which cannot reach all people and all countries in a globalised world but nonetheless accrue transborder benefits in two and more countries are regional public goods. National and local public goods mostly are provided by nation states and municipalities, global public goods are the outcome of the work of global organisations and institutions whereas regional public goods either come into existence by the working of institutions built in the course of regional integration or by the activities of regional development banks. (Ferroni 2002; 2004).

It makes sense, although it seems to be surprising, to begin a discussion of public goods and security with a retrospective of utopian narratives of the 16th and 17th century. The reason is that their authors changed between order and freedom as the organising principles of the "good" utopian (i.e. "in a nowhere" located) society. Tommaso Campanella (1568-1639) in his "*La città del sole*" from 1602 preferred the principle of a rational and perfect social order, a kind of "solar totalitarianism" with institutionalised social control from above, imposed by a central authority for the best of the people, whereas Thomas Morus (1478-1535) accentuated the role of freedom. On his utopian island the households (the *patres familias*, not the individuals) use the market for the collection of all those goods and services which are suited to satisfy their needs for the end of human security (although Thomas Morus did not use this term). The freedom of the utopians is tempered by trust so that decentrally undertaken decisions result in a social order built from below.

Only at the end of the 18th century the liberal discourse of Adam Smith and others transformed the controversy between order and freedom into two sides of the same as harmonious interpreted real world: order created by free individual decisions and by the beneficial working of the "invisible hand" of the market. Social order builds on individual freedom; it comes about as the social result of a myriad of individual actions of free persons dealing on markets. Free trade and competition require the increase of competitiveness and thus an improvement of productivity which is the cause of the promised increase of the "wealth of nations". Therefore many authors today classify a free and open trade system as a (global) public good (Kaul et al 2003; Reisen/ Soto/ Weithöner 2004). Although critical towards utopian thinking, they implicitly endorse the free market system, i.e. a negatively integrated system because of the absence of regulations and restrictions as some kind of an utopian "best of all possible worlds", whereas others would prefer a positively integrated order characterised by public intervention and the provision of public goods.

The question however comes up whether freedom of individuals is not better provided by establishing order in the course of consciously and politically arranged rules and the provision of other public goods. Instead of negative integration by the working of free markets, positive integration is required. A crucial issue of positive integration is the provision of common rules (therefore Richard Higgott calls it *de-jure-integration*), common values (what might also be called *de consenso integration*) and of material public goods, such as an infrastructure. Beyond the private sphere of free exchange among individual actors, a public domain exists. It consists of material and immaterial public goods and services (an infrastructure) and of public spaces for discourses, debates and deliberation on issues of public and common concern. "The public sphere… is where 'private' individuals come together as free and equal participants in an informed discussion of matters affecting the common welfare of the community…" (Devetak/ Higgott 2001: 367). So long as the nation state fenced in this community, and so long as the system of nation states, the famous "Westphalian order", was not undermined by economic processes of globalization the public domain in the very first place was a national one. But, in times of globalization, it went partly global.

The importance of public goods for a decent life and human security is beyond any doubt. In the understanding of the UN there are "threats with which the world must be concerned now and in the decades ahead". They are a profound challenge on which the provision of public goods can be interpreted as a response. There are "economic and social threats, including poverty, infectious disease and environmental degradation, inter-State conflict, internal conflict, including civil war, genocide and other large-scale atrocities, nuclear, radiological, chemical and biological weapons, terrorism, transnational organized crime" (From: Report of the High-level Panel on Threats, Challenges and Change, United Nations New York 2004: 14passim; www.un.org/secureworld/report2.pdf). Compared with these threats (or public bads), it is not difficult to identify the contrary, i.e. public goods. The UN millennium-declaration mentions ten public goods with global dimensions, from "basic human dignity for all people, including universal access to basic education and health care, respect for national sovereignty, global public health, particularly communicable disease control, global security or, put differently, a global public domain free from crime and violence, global peace, communication and transportation systems harmonized across borders, institutional infrastructure harmonized across borders to foster such goals as market efficiency, universal human rights transparent and accountable governance, and harmonization of technical standards, concerted management of knowledge, including worldwide respect for intellectual property rights, concerted management of the global natural commons to promote their sustainable use, until the availability of international arenas for multilateral negotiations between states as well as between state and nonstate actors." (Kaul et al 2003: 44).

Public Goods therefore are provided in order to heal public bads and to increase the benefits for the people and facilitate economic transactions for economic agency. This simple idea can be transformed into a sophisticated comparison of the costs of underprovision of public goods and the costs of corrective action (Office of Development Studies 2002), e.g. in the cases of the costs of financial crises and the costs of ensuring financial stability, or the costs of the climate crisis compared with the costs of a reduction of the emissions of greenhouse gases. The latter can be found in the "Stern Review" of October 2006, in which the author Nicholas Stern calculates the costs of mitigation of the greenhouse effect as about 1 percent of global GDP, whereas the costs of the consequences of continued CO2-emissions are estimated as to reach 20 percent of world GDP, a loss which superates the costs of the Great Depression of the late 20s and early 30s of the last century (http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sternreview_index.cfm) .

The mentioned catalogue of public goods offers a great variety of heterogeneous good things linked to different aspects of human security. But furthermore there are public goods provided for the retention of commercial security, socio-economic security or state security. In order to approach the problem more analytically and not only by presenting a shortlist of normatively unquestionable goods it is necessary to (1) elaborate on the concept of public goods and (2) relate the provision of public goods to the necessities of creating security for peoples, the economy, the political entity. In the third (3) section questions of financing of public goods will be addressed as well as related issues arising from the contemporary overwhelming tendency towards privatisation of public goods. The last section (4) contains a brief summary and conclusion

2. CONCEPTS OF PUBLIC GOODS AND PUBLIC BADS

Integration by definition gains momentum through the establishment of common political institutions, the emergence of closer communications ties, and the provision of common public services in the whole region etc., i.e. in the case of positive policy- and society-lead *de jure* and *de consenso* integration. A public good is characterised by certain features, one of which is non-excludability. It is simply not possible to have excludable property rights on the good and therefore to sell it only to those people who afford to pay for it. It can be used by everybody. The second feature concerns non-rivalry in consumption, i.e. the consumption of a public good does not remove it from the public space. Many other consumers, if not all, can use the same good. This holds particularly true in the case of knowledge. Use is non-excludable and non-rival. The third feature of public goods is the existence of positive externalities, i.e. the process of production and/ or consumption of a "surplus value" for third parties. Again, knowledge is an exemplary case. Knowledge can grow and improve the more people participate in it, because knowledge consumption as a rule is also knowledge production. The cake of knowledge grows even as more people eat from it.

Positional goods are rather at odds with these definitions. Non-rivalry characterises the 'consumers' or the users of public goods. The characteristic of non-exclusivity refers primarily to the production and provision of public goods. Hence, it involves both demand and supply of public goods, and only within this framework can positional goods be understood. They come into being when the production of public goods is limited in comparison with the consumption

demand. The public good of an intact natural landscape can be destroyed if its use violates the rule of sustainability. Almost all goods, be they private or public, are transformed into positional goods if they are overused. Here the importance of the naturally limited environment for an adequate understanding of economics becomes apparent. The ecological limitation is the reason of the ”tragedy of the commons” (Hardin 1968; Ostrom 1990): Individual rationality and public provision of commons are in conflict with a tendency to destroy the commons by following a strategy of individual maximisation of their benefits. Therefore methods of rationing public goods seem imperative to protect the commons from being transformed into positional goods. Liberals of course prefer rationing by means of privatisation of commons and the regulation of provision and consumption via the price mechanism in free markets. Social democrats and socialists, on the other hand, want some societal mechanism put in place to distribute scarce commons and the services they provide to those in need of them.
The following matrix summarizes the considerations for the production and consumption of public goods and their non rivalry and non-excludability, differentiating between private, positional, club and public goods.

Table 2 Private, Public, Positional, and Club goods

Consumption / Production	Rivalry in Consumption	Non-Rivalry in consumption
Excludability in Production	Pure private Good/ marketable commodity Private property rights (e.g. private money)	Club good („for members only“ who payed for the provision) assigned user rights (e.g. tennis club)
Non-excludability; Inclusiveness in Production	Common pool resource/ Positional Goods (Negative effects of the numbers of consumers on the quality of the good, e.g. a public park or public museum)	Pure public good (e.g. knowledge; financial stability)

Source: Adjusted from Kaul 1999, and Stalgren 2000: 9

It is also important to consider negative trade-offs of positive integration, because the question arises for whom something is “good” or, conversely, ‘bad’ and therefore ‘not good’. Obviously, in the dispute over public goods, normative definitions are inevitable. For example, the public good of financial stability in the Euro-area only can be reached by a rigid monetary and tight fiscal policy, the first imposed by the ECB, the second realised by national governments under the pressures to abide by the Maastricht criteria. Monetary stability policy, however, is detrimental to another public good: social equity based upon a high degree of employment. Financial stability can be conceived as a public good, whereas financial assets, credits as well as bonds, are by definition private goods, which are transferred from one place in the global space to others, in order to optimise the yields. The owners of the purely private good “financial wealth” are benefiting from the public good “financial stability” (for an alternative interpretation: Underhill 2001: 279). But its provision is experienced as a public bad for many other people, such as in the case of the stability policy of the Euro-region. On the one hand the application of the Maastricht criteria by economic policy institutions is good for monetary wealth owners but it also exerts harm on the working population because of the negative effects on the labour market and employment and hence on social justice. John M. Keynes already described financial stability policy under conditions of currency competition as detrimental for the development of the real economy. In other words, the concept of public goods cannot avoid or overcome the contradictions between functional income groups or classes within a capitalist society. Only (neo)liberal economists believe in the possibility of a reconciliation of finance and labour. They are *contra factu* convinced that financial stability in the last instance is also good for employment.

Financial crises exhibit huge social costs of private banking and speculation for society as a whole. The restoration of financial stability in countries and regions (Asia, Latin America, CIS), which have been hit by a financial crisis, was extremely expensive. Mexico had to pay just under 20% of GDP in order to resolve the banking crisis of 1994/ 95. In Ecuador it was even more, i.e. 25%. In Russia the banking crisis reduced the GDP by 40% in the second half of the 90s. In Indonesia the costs were 50% of GDP, in Argentina in the period until 1997 the costs amounted to 30% of GDP and during the most recent financial crisis at the beginning of 2001 the burden transferred to the ordinary citizen probably reached more than 60% of GDP (de Luna Martinez 2002; Wyplozs 1999). It is astonishing that in the literature on global and regional public goods financial stability is interpreted as an unquestionable public good (Kaul et al 1999; Wyplosz 1999; Griffith-Jones 2003), that the experience of widespread dispossession associated with the provision of financial stability for monetary claim holders is repressed, and that the negative effects on employment and equity are not taken adequately into consideration.

Also with regard to the built environment there are very often joint negative effects on the natural environment (also without any doubt a public bad). With reference to thermodynamic economics the production of negative side effects on nature is inevitable in any process of transforming energy and matter. This already was the theme of K. William Kapp in his seminal book on the “Social Costs of Private Enterprise” (1950). He called capitalism "indeed an economy of unpaid costs. Unpaid, because a substantial part of real production costs is not included in the cost calculations of firms. Instead, these are shifted to third persons or to society as a whole" (German version, p. 200). The society which Kapp had in mind was a national society; in his times regional integration and globalisation were not themes of scientific concern, what has been refered to as the “spatial range of spillovers” (Stalgren 2000: 13) was comparatively small. His time horizon was wider than the space horizon. However, the examples of social costs which Kapp already discussed in the mid-twentieth century are still topical in the context of regional integration and globalisation: ranging from air and water pollution, exhaustion of energy reserves, costs of technical progress, or of unemployment and of economic monopolies burdened on the people.

Many of the "neighbourhood effects" (Ferroni 2002b: 109) of private enterprise may be beneficial and positive, but some of them exert negative effects on the society as a whole to a degree which should be neither overlooked nor understated. A similar concern can be made with regard to infrastructural resources. They have beneficial effects on a given (also transborder) region and in most cases also have negative effects on nature and the living conditions of peoples affected by the built environment (e.g. by noise molestation and air pollution of a motorway or an airport etc.).

3. THE PROVISION OF PUBLIC GOODS - FOR WHAT NEEDS?

An issue of paramount importance lies in the question of what aims the provision of public goods are serving The first preliminary answer is, that they serve the satisfaction of human needs. In a second approach, however, we have to differentiate between human needs and human security, the necessities of the economy and thus commercial security, the public goods for state security in the sense of sovereignty, and those for socio-economic security for the working population. The different dimensions of security are reproduced on the "supply side" of public goods, and they are not fully compatible. Two relationships between the "system of needs" of human beings and the "system of production" of public goods are possible. Either public goods are provided for the satisfaction of human needs regardless of the monetary purchasing power of the users, or they are supplied as commodities against money and the needs are transformed into monetary purchasing power on the market. In capitalist societies, there is a strong tendency towards the private supply of public goods via market mechanisms. But it is not certain that all needy persons can translate their needs into monetary purchasing power, and therefore the privately supplied public goods only serve a part of a given population. This actual ambiguity is reproduced in theory. Philippe Hugon (2004) argues that the concept of public goods as well as the assessment of the social, economic and political dynamics in their provision depend on the theoretical approach. According to Hugon the concept is market-centric in neoclassical and more state-centric in Keynesian approaches. It builds on collective action and the setting of common rules in institutional economics or on the protection of the natural heritage in ecological approaches (Hugon 2004: 2p). Moreover there are many cases "in between" private space and public domain to which Daniel Drache calls our attention: In the USA "…there are so many private institutions functioning as public museums, art galleries, opera houses and music halls etc. They are not public institutions because they are private creations, owned and managed for profit even when subsidized. What is significant is that they present themselves as protectors of the public interest and needs…" (Drache 2001: 11). This statement refers to the ambiguities in the distinction between private and public which has to be taken into account.

3.1 Human security

In the understanding of UNDP, human security is ensured by the provision of public goods. The providers today in most cases are nation states, but also regional and global institutions, the EU, OECD, FAO, World Bank and many others. Providing human security involves eliminating avoidable forms of

insecurity that prevent people from conducting a life of their own choice and taking collective action to build their future. There are many avoidable forms of insecurity, e.g. 'illegal work', where people are in demand as workers but in actual fact have no rights, are unable to exert their free will and are at the mercy of others - right down to modern forms of slavery. Other avoidable forms of insecurity are intrusions on the ecological system, the effects of which are unforeseeable, because there is no certainty about the consequences; radical restriction of these intrusions would increase human security. The same applies to old-age security systems based on the returns of investment funds. This makes the chances of having a decent income in old age dependent on the vicissitudes of developments in deregulated, hence liberalised and privatised global financial markets.
This seemingly unambiguous statement is by no means uncontested. First of all 'human security' in a society structured by social conflicts does not have the same meaning for everyone. This becomes vividly clear in the neo-liberal understanding of 'order', which is supposed to offer security and reliability for management decisions. But whether 'corporate security' always coincide with 'human security' is more than questionable.

3.2 Commercial security and "general conditions of production"

Therefore we also have to deal with commercial security, as opposed to human security. Modern texts on public goods usually use highly abridged quotes from Adam Smith who – in functionalist fashion -- pointed out the necessity to supply public goods to fulfil the tasks of a community considered to be indispensable. "Certain goods," writes Adam Smith, "which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature that the profit could never repay the expence to any individual or small number of individuals, and which it therefore cannot be expected that any individual or small number of individuals should erect and maintain" (Smith 1776/ 1976; Book V, ch. 1).
Goods whose production does not bring profit are not thrown onto the market and can only be offered as public goods, if they are nonetheless (despite the 'handicap' of not being able to be produced privately and for profit) considered advantageous for society. It is assumed that there is a social need for these goods that cannot be neglected and that society has reached an understanding that goods which cannot be privately produced as commodities nevertheless should be made available *as public goods*.
Adam Smith treats material public goods in the chapter on "Expenses of the Sovereign". These entail expenditures for defence to guarantee external security, the judicial system for legal security, the education of youth, religious instruction of people of all ages and, not least, "public works and public institutions". Elsewhere he states that they must serve the purpose "of facilitating the commerce of the society". In this understanding, public goods have an unambiguous function. They are supposed to be beneficial to "commerce". As examples of public works, Smith mentions "good roads, bridges, navigable canals, harbours…". The expenditures to finance them must be "properly defrayed" from the public revenue. But then the public institutions can be operated on a private basis, for example, by giving toll rights to canals to

private operators whose interest it must be to maintain the canal, as Smith writes. This could be interpreted as an example of today's 'public-private partnerships' (PPP). Smith discusses all public institutions under the aspect of the interests of commerce: "The object of the public works and institutions... is to facilitate commerce...". Embassies abroad are necessary to promote British foreign trade or to support British trading companies. But this applies only to "civilized nations"; for "barbarous" nations the maintenance of military "forts" is envisaged to support British "commerce". Hence, public goods must be put at the service of British colonialism. Adam Smith deduces the normative justification of his functionalistic interpretation of public goods unequivocally from British colonial trade interests (Smith 1776/ 1976: 244-255).

Marx, too, discusses public goods - "general conditions of production" or *"travaux publics*" (Marx 1953: 524) - as conditions for the smooth maintenance of the capitalistic reproduction process. Marx' arguments are just as functionalistic as that of Smith, but without the latter's positive reference to the interests of commerce and not without considering the dependence of "general conditions of production" on the historical development of capitalism. He assumes that "capital undertakes only *advantageous* undertakings, advantageous in its sense" (Marx 1953: 430). But there are also tasks that are necessary for a frictionless functioning of the reproduction process but that are not advantageous for individual capital and hence would not be undertaken if they were entrusted to individual capitalists. Consequently they must be financed and made available by the public treasury. In agreement with Smith, Marx writes that funds must also be defrayed from the "country's revenue" through taxes: "All *general, communal* conditions of production - so long as their production cannot yet be accomplished by capital as such and under its conditions - are therefore paid for out of a part of the country's revenue - out of the government's treasury - and the workers do not appear as productive workers, even though they increase the productive force of capital" (Marx 1953: 432).

Here a twofold distinction becomes obvious that is important to Marx: first the distinction between individual capital and total capital, and second that between productive work producing surplus value and unproductive work, which may be necessary but does not produce surplus value. Public goods are necessary for the maintenance of the total capitalistic reproduction process, but for the individual capitalist they are not profitable and thus work cannot be productively employed, i.e. for the production of a surplus value.

The prevailing capitalistic tendency is the conversion of all work into productive work that increases surplus value. Therefore the financing of public goods from tax revenue is, according to Marx, rather an expression of backwardness. Marx writes: "The highest development of capital exists when the general conditions of the process of social production are not paid out of *deductions from the social revenue,* the state's taxes - where revenue and not capital appears as the labour fund, and where the worker, although he is a free wage worker like any other, nevertheless stands economically in a different relation - but rather out of *capital as capital.* This shows the degree to which capital has subjugated all conditions of social production to itself, on one side; and, on the other side, hence, the extent to which social reproductive wealth has been *capitalized,* and all needs are satisfied through the exchange form; as well as the extent to which the *socially posited* needs of the individual, i.e. those which he consumes

and feels not as a single individual in society, but communally with others - whose mode of consumption is social by the nature of the thing - are likewise not only consumed but also produced through exchange, individual exchange" (Marx 1953: 431).
The Marxian progress with regard to Smith and others is, that he relates the publicness of public goods for the economy to the stage of capitalist development. Today the conditions to privatise the provision of public goods are highly developed, more than at the times of Marx. For example, the technical devices to exclude non–payers from the use of goods are available (protection against copying of programmes, pay TV, isolation of single genes and patents on them), while the legal framework exists to ensure private property rights even on the international level (GATS, TRIPS etc.). In a similar vein, financial innovations aim at a further privatisation and valorisation of the public sphere and, last but not least, the ideological background of neoliberalism is unequivocally supportive towards the privatisation of public goods. At the end of the day, commercial security can be guaranteed by the supply of private goods. However, there are many arguments which doubt this interpretation, because the public sphere remains as an indispensable positive contribution to the private sector, for commercial security of private corporations within the country concerned and on foreign markets. The latter is Adam Smith's case of the British commerce protected by British embassies and forts. Today, commercial security for transnational corporations is secured by regional and global agreements and treaties, but also the military presence on bases to protect the provision of resources and energy supplies for the developed world. The "new" security doctrines and strategies of nation states and regional alliances aim at energy security, security of resource flows, security against unwelcome migration and organised crime. Hence, commercial security in the globalised world is unevenly distributed among nations and it becomes part of military and political security of strong states and alliances.

3.3 Socio-economic security

Contrary to commercial security, socio-economic security can be derived from the declaration of universal human rights of 1948 together with the extension of the declaration on social rights from 1966. The concept of socio-economic security has been chosen by the ILO in recent years as a response to the dismantling of labour rights in the course of economic globalisation and the connected informalisation of labour (for a discussion of informal labour and socioeconomic security see Altvater/ Mahnkopf 2002). It includes "basic securities", such as security of food, shelter, education and health. All these securities require the provision of public goods on different levels following the principle of subsidiarity. The nation state is, in the first instance, responsible for these basic securities, but in the less developed world basic securities only can be realised by recourse to international assistance. The provision of public goods for basic socio-economic securities thus is a global and regional endeavour going beyond the reach of the nation state.
More specifically, socio-economic security refers to the labour market and employment. It includes income security, securities of representation in the workplace, of employment, security on the job (including. career prospects, also health and safety and security of skill reproduction, and the possibility of

acquiring qualifications). The concept obviously is tied to the debates on the welfare state and the perspectives of a de-commodification of labour. Socio-economic security is security against the instabilities of the market and against over-exploitation in the labour process. This characterises socio-economic security as the opposite to the above mentioned informalisation of labour. It calls for an element of positive integration through political action to provide public goods on a national and on a regional level, e.g. in the EU. Here, the struggle on the “European social model” clearly shows that the provision of public goods for socio-economic security is a contested field.

4. PRIVATISATION AND FINANCING OF PUBLIC GOODS

The privatisation of public enterprises, facilities and services that hitherto have been operated by the state, from the local to the supranational level, is a dominant strategy (Altvater 2003). It is included in global trade agreements (whether it is the GATS, the Agreement on Trade-Related Intellectual Property Rights or TRIPS), it is key to the structural adjustment programmes of the Bretton Woods institutions, and to the Broad Policy Guidelines of the European Union. The privatisation of public facilities and services is an integral part of the global concept of so-called ‘good governance’ (Soederberg 2006). Again we meet the paradox that a public good, in this case the global rules of good governance, are used for the dismantling of the public domain on the national and local, but also on the regional level.

First, privatisation takes place in many different forms. The provision of public goods by private suppliers requires an evaluation whether the provision of certain public goods by public institutions or private providers is better and more efficient in satisfying the needs of the public (this is the theme of Drache 2001). There are many examples of an improvement in the provision of public goods by private firms (especially in the telecommunications sector in countries where people have money to spend), but there are also many examples where the privatisation of the provision of public goods had serious negative effects, from the British railway system to the drinking water supply in Canadian, in Latin-American and African cities to private security-firms which often first create insecurity in order to afterwards sell security-services; they act as market makers.

Second, the access to public goods might be privatised as exemplified by the restricted access to motorways or to health service-stations or to educational institutions. Privatisation of access is always selective and therefore excludes all those who do not have the necessary purchasing power or entitlement certificates at their disposal.

A third form of privatisation should also be mentioned: the feminisation of responsibilities for the provision of public goods. The withdrawal of the public sector from public services results very often in additional work for women, e.g. in child-care or caring for the elderly in private households instead of public establishments. Thus privatisation of public goods does not only have an effect on the distribution of goods between classes and strata, but it raises a gender aspect as well.

A fourth aspect of privatisation has to do with financing of public goods. In times of globalisation, the financing of public goods has without any doubt a global dimension even when the public goods are established and used on a local, national or regional level or whether they are financed through public or private sources or a combination of “private-public-partnerships”. The plea to “go regional” (Ferroni 2004) cannot be extended to the financing of regional public goods even when regional development banks are the main donors and regional private public partnerships (PPP) are formed to raise investment funds for the provision of public goods. Regional development banks also refinance their investment outlays through recourse to global financial markets. Financial markets are more interrelated than other markets and therefore interest rates differ only because of different risk assessments of projects or of countries and regions with the spread on the LIBOR, EURIBOR or the Prime Rate. Hence, regional integration areas formed by strong and creditworthy states are better placed to access investible funds than regional integration projects involving weak and poor member countries. In this case, it is meaningful to subsidise interest rates and other costs of the provision of public goods while also to avoid free riding and moral hazard. (Stalgren 2000).

The implications of privatising public goods and services are of utmost importance. They can be seen by looking at “cross border leasing” which until 2005 played a crucial role in the European privatisation business. It is a telling example for the Marxian statement that the question whether “general conditions of production” are financed by deductions from public tax receipts or by private investors can only be answered by taking financial innovations on global markets into account. How do private investors succeed in “valuating” (“in Wert setzen”) public goods when it is, as a rule, impossible to produce commercial market values? Opera houses and public swimming pools, street cars and canal systems for sewage disposal usually have to be subsidised and their services cannot be sold profitably. But innovative financial agents stepped in after the full liberalisation of financial markets with new financial instruments targeted at the “emerging markets” of the newly industrialising countries. After the Asian financial crisis, investors turned their attention to capital investments on the big US-American stock markets, pushing the stock prices of even the most dubious companies to giddy heights. In summer of 2000 the bubble of shareholder-value capitalism burst and huge amounts of capital were destroyed, the dream of the “New Economy” was over. But enormous sums were still free and on the lookout for new investment opportunities.

In this moment, a financial innovation of global dimensions appeared in the form of cross-border leasing (CBL), which is nothing less than an attempt at increasing tax exemption by investing in a complicated structure of leasing-contracts on mostly municipal public goods in European cities. By the beginning of 2005, the party was suddenly over, due to a change in the US-American tax legislation, after a veritable boom of CBL-contracts between global investors operating from the USA and from Offshore Financial Centers with European municipalities.

The basic principles of CBL are quite simple. A local government leases the ownership of a public good (e.g. an opera house in Berlin, the sewage treatment plant in Dresden, the streetcar system in Zurich, the exhibition grounds in Essen) for 99 years to an US-American investor (“head leasing”) using a fiduciary trust (located in an offshore financial centre beyond the sphere of influence of the tax authorities, mostly in the Bahamas) as a mediator. The local government then immediately leases the opera house or sewage treatment plant or whatever back (“subleasing”) with the obligation to keep the facility operating in such a manner that it retains the value for the investor laid down in the leasing contract by technical experts. The leasing agreement is sweetened for the local government by the circumstance that it participates in the tax benefits that the so called investor claims in the USA. According to US tax law, the leasing contract, which is valid for 99 years, was treated like a foreign investment to purchase property; it generates benefits in the form of tax write-offs on the depreciation of the purchased »property«. The reduction of taxable profits achieved in this way can be discounted from the current value of the property over a period of three decades. From this sum, the local government from which the public good originally was leased usually gets paid a small percentage immediately as »cash value«. This bait is what interests the municipal treasurer.

CBL is thus a means of exploiting US tax regulations for the benefit of private financial institutions in the USA with the co-operation of local European governments. The contractual construction is not without its absurdities, it makes the same object the property of two owners, namely that of the European municipality on the one side and that of the trust or investor on the other side of the Atlantic. It is no coincidence that the business relations are extraordinarily complex; US-American and European financial institutions, law and engineering firms, rating agencies and, last but not least, the municipalities themselves are all involved. And they all take their share of this privatisation deal which must be shouldered by the US-American tax payer. But the raid does not end there. The European municipalities as well can become victims. This is the case when the trust in the offshore centre is losing its tax benefits in the USA due to a change in the tax legislation. It also could happen if the municipality were no longer able to keep the leased facility fully operational and if this were certified in value appraisals by the engineering firms (as stipulated in the contract). In this way, local or national public facilities are turning into an area for capital investment and being integrated into the mechanisms of the global financial markets. So we end up with the paradoxical result that by privatising public goods – when they turn into an investment for private capital – the public means of financing public goods that stem from streams of income (i.e. from deductions of the tax revenue) decline.

5. CONCLUSION

Public goods are used by people living in local neighbourhoods, being citizen of a nation state and knowing that they are affected by decisions undertaken at the European and global levels. Most of the natural and cultural commons are heritage of mankind and therefore global public goods which must be *preserved and protected* against their overuse. The material infrastructure, however, is *constructed*. It is as relevant for local communities as for national societies and regional integration communities. Regional public goods are most important for positive integration whereas negative market-led integration very often is accompanied by a dismantling of local and national public goods without providing a replacement on the regional level. This contradiction played a decisive role in the quarrels on the Free Trade Area of the Americas (FTAA) in the Mar del Plata summit in November 2005. The Bush government, backed by several Latin American governments, preferred the trajectory of negative, market-led integration, whereas the governments of Brazil, Argentina, Venezuela and some smaller countries sought to build upon the creation of a continental material infrastructure, from a pipeline-system reaching from Venezuela to Argentina and including Brazil, Bolivia, Uruguay and other countries to a Latin American TV-channel.

It is also important to take the objective of the provision of public goods into consideration, whether they serve an improvement in the different aspects of human security or, as Adam Smith already understood it, the “commerce”. Since commerce is more and more influenced by regional integration processes, public goods are provided by the authorities of a region, e.g. the EU, in order to facilitate communication, transport, energy-distribution by establishing a minimum of physical infrastructure, of a built environment. But also *immaterial rules* matter, and they reach from the local to the global level. Financial stability, for example, is a global public good which often requires “structural adjustment” on the regional and national level. Here it is also obvious, that public goods for some might be public bads for others. Therefore, there does not exist a non-contested definition of public goods. Public goods are discursively and publicly constructed (Kaul 1999; Martens/ Hain 2002); here, a reference to Habermas’ early considerations on the structural change of Publicness (Habermas 1962) could be useful in order to avoid a “technical, managerialist” and “non political” (Higgot 2005: 16) approach to the problem of providing public goods for the maintenance of the public domain.

The financing of public goods is left to public institutions on the local, national, regional (regional development banks) and global level. Only those public goods are financed privately which promise a high return on capital investment, often because public entities take the risk and private money lenders take the benefits (through public-private partnerships). After the Asian crisis, the crises in Mexico, Brasil and Argentina, the stock market crash at the end of the “new economy” there are only a few areas of profitable financial investment left. The privatisation of public goods seems to belong to these areas of interest to private investors. They are realising high yields on assets by using innovative financial instrument, e.g. “cross border-leasing”-mechanisms or new instruments in the financing of real estate. Thus the provision of public goods is being transformed into a business of global players, of funds based in Offshore Financial Centres. The process of privatisation of public goods has been described as a process of “accumulation by dispossession” (Harvey 2003) Here, European regulation is absolutely necessary in order to avoid a deterioration of the provision of public goods as well as a possible financial crisis of European cities and municipalities.

LITERATURE

ADB: Asian Development Bank Institute and International Organization for Migration (2005): Managing Regional Public Goods: Cross Border Trade and Investment, Labor Migration, and Public Health – 2 Parts, Bangkok, June 2005 (http://www.adbi.org/files/2006.05.17.public.gooda.proceedings.part_1.pdf, download may 31 2006)

Altvater, Elmar/ Mahnkopf, Birgit (2002): Globalisierung der Unsicherheit. Arbeit im Schatten, schmutziges Geld und informelle Politik (Westfälisches Dampfboot) Münster

Altvater, Elmar (2003): Was passiert, wenn öffentliche Güter privatisiert werden?, in: Peripherie, Zeitschrift für Politik und Ökonomie in der Dritten Welt, Nr. 90/ 91, 23. Jahrg., August 2003: 171-201; english: What happens when Public Goods are Privatized?, in: Studies in Political Economy, 74, Autumn 2004: 45-77

Anderson, Kym/ Blackhurst, Richard (Eds). (1993): *Regional Integration and the Global Trading System*, New York/ London et al. (Harvester Wheatsheaf)

Anderson, Kym/ Blackhurst, Richard, ed. (1993): Regional Integration and the Global Trading System, (Harvester Wheatsheaf) New York/ London etc.

Bhagwati, Jagdish (1993): Regionalism and multilateralism: An Overview, in: de Melo, Jaime/ Panagariya, Arvind, ed. (1993): New Dimensions in Regional Integration, (Cambridge University Press) Cambridge

Cecchini, Paolo et al (1988): The European Challenge: 1992 (Wildwood House) Aldershot

Devetak, Richard/ Higgott, Richard (2001): Saving the social bond and recovering the public domain, in: Drache, Daniel (2001), ed: The market or the public domain? Global governance and the asymmetry of power, (Routledge) London and New York: 360: -380

Drache, Daniel (ed.), *The Market or the Public Domain:Global Governance and the Asymmetry of Power*, (London: Routledge, 2001)

Ferroni, Marco (2002a): Regional Public Goods: The Comparative Edge of Regional Development Banks, paper for a Conference an Financing for Development, Institute for International Economics, February 19, 2002

Ferroni, Marco (2202b): International Public Goods, in: 10. Berliner Fachgespräch zur Globalisierung “Global Public Goods – das Zukunftskonzept für die internationale Zusammenarbeit des 21. Jahrhunderts?, Kreditanstalt für Wiederaufbau. Berlin: 107-114

Ferroni, Marco (2004): Regional Public Goods and the Regional Development Banks, in: the Courier ACP-EU, No 202, Jan-febr-march 2004: 35-36

Griffith-Jones, Stephany (2003): International Financial Stability and Market Efficiency as a Global Public Good, in: Kaul, Inge/ Conceicao, Pedro/ Le Goulven, Katell/ Menonza, Ronald U. (2003): Providing Global Public Goods: Managing Globalization, Oxford 2003: 435-454

Habermas, Jürgen (1962): Strukturwandel der Öffentlichkeit. Untersuchungen zu einer Kategorie der bürgerlichen Gesellschaft, (Luchterhand) Neuwied

Hardin, Garrett (1968) The Tragedy of the Commons, in: *Science*, Nr. 162 (1968): 1243-1248

Harvey, David (1989): The Limits to Capital, Basil Blackwell) Oxford, repr. (Vereso) London 1999

Harvey, David (2003): The New Imperialism, (Oxford University Press) Ocford

Hass, E., (1958). "The Challenge of Regionalism." *International Organization* 12 (4): 440-458.

Hettne, B (1999): The New Regionalism: A Prologue, in: Hettne, B./ Inotai, A/ Sunkel, Osvaldo, ed.: Globalism and the New Regionalism, (Macmillan) London

Higgott, Richard/ Stubbs, Richard (1995): Competing Conceptions of Economic Regionalism: APEC versus EAEC in the Asia Pacific, in: Review of International Political Economy, 1995 (quoted after Mimeo)

Higgott (2005): The Theory and Practice of Global and Regional Governance: Accomodating American Exceptionalism and European Pluralism, in: European Foreign Affairs Review 10, 4, 2005

Hugon, Philippe (2004): Global Public Goods and the Transnational Level of Regulation, in: Issues in Regulation Theory, No. 48, April 2004

ILO (2000): International Labour Organisation: *InFocus Prgramme on Socio-Economic Security*;
http://www.ilo.org/public/english/protection/ses/about/index.html

Kanbur, R., Sandler, T., with Morrison K., M. (1999). The Future of Development Assistance: Common Pools and International Public Goods. Washington, ODC: 106.

Kapp, K. William (1950): The Social Costs of Private Enterprise, (Harvard University Press) Cambridge Mass.

Kaul, Inge (2005): Die zentrale Rolle globaler öffentlicher Güter, in: Weed, Informationsbrief Weltwirtschaft & Entwicklung, Sonderdienst Nr. 3-4, April 2005: 6-8

Kaul, I., Grunberg I., & Stern M., A., Eds. (1999a). Introduction. *Global Public Goods: International Cooperation in the 21st Century*. New York, Oxford University Press.

Kaul, I., Grunberg. I., & Stern M., A. (1999b). Defining Global Public Goods. *Global Public Good*. I. Kaul, Grunberg. I., & Stern M., A. New York, Oxford University Press.

Kaul, Inge/ Conceicao, Pedro/ Le Goulven, Katell/ Mendoza, Ronald U. (2003): Providing Global Public Goods: Managing Globalization, Oxford 2003

List, Friedrich (1841/ 1982): Das nationale System der politischen Ökonomie, (Akademie-Verlag) Berlin

Luna Martinez, José de (2002): Die Herausforderungen der Globalisierung für die Schwellenländer: Lehren aus den Finanzkrisen von Mexiko und Südkorea, (Logos Verlag) Berlin

Martens, Jens/ Hain, Anton (2002): Globale öffentliche Güter, Zukunftskonzept für die internationale Zusammenarbeit?, Heinrich Böll Foundation, Papers No. 20

Marx, Karl (1953): Grundrisse der Kritik der politischen Ökonomie, (Dietz) Berlin

Melo, Jaime de/ Montenegro, Claudio/ Panagariya, Arvind (1992): *Regional Integration, Old and New*, World Bank Research Working Papers Series No. 985, Washington D.C. (The World Bank)

OECD (1993): Regional Integration and Developing Countries, Paris (OECD)

OECD (2004): OECD Development Centre, Working Paper No. 232 Reisne, Helmut/ Soto, Marcelo, Weithöner, Thomas: Financing Global and Regional Public Goods Through ODA: Analysis ans Evidence from the OECD Creditor Reporting System, OECD January 2004 DEV/DOC (2004) 01

Office of Development Studies (2002): Profiling the Provision Status of Global Public Goods - An ODS Staff Paper, UNDP, New York, December 2002

Ostrom, E. (1990). *Governing the Commons. The Evolution of Institutions for Collective Action*. Cambridge, Cambridge University Press.

Reisen,Helmut/ Soto, Marcelo/ Weithöner, Thomas (2004): Financing Global and Regional Public Goods Through ODA: Analysis and Evidence from the OECD Creditor Reporting System, in: OECD Development Centre, Woking Paper No. 232, January 2004

Samuelson, P. (1954). “The Pure Theory of Public Expenditure.” *Review of Economics and Statistics* 36(November): 387-89.

Sandler, T. (1998). "Global and Regional Public Goods: A Prognosis for Collective Action." *Fiscal Studies* 19(3): 221-247.

Smith, Adam (1776): An Inquiry into the Nature and Causes of The Wealth of Nations, (repr. 1976, Chicago: The University of Michigan Press)

Soederberg, Susanne (2006): Global Governance in Question. Empire, Class and the New Common Sense in Managing North-South Relataions, (Pluto Press) Ann Arbor/ London

de Soto, Hernando (1991): The other Path, New York (Harper and Row)

de Soto, Hernando (2002): Freiheit für das Kapital, (Rowohlt Berlin Verlag) Berlin

Srinivasan, T.N. / Whalley, John/ Wooton, Ian (1993): Measuring the effects of regionalism on trade and welfare, in: Anderson, Kym/ Blackhurst, Richard, ed. (1993): Regional Integration and the Global Trading System, (Harvester Wheatsheaf) New York/ London etc., S. 52-80

Stalgren, Patrik (2000): Regional Public Goods and the Future of International Development Co-operation. A Review of the Literature omn Regional Public Goods, Expert Group on Development Issues – Ministry of Forein Affairs, Stockholm, Sweden, Working Paper 2000: 2

Underhill, Geoffrey (2001): The Public Good versus Private Interests in the Global Monetary and Financial System, in: Drache, Daniel (ed.), *The Market or the Public Domain:Global Governance and the Asymmetry of Power*, (London: Routledge, 2001), pp. 274-295

Van Langenhove, Luk (2005): Regionalism as a Political Vision, UNU-CRIS Occasional Papers, 0-2005/ 15, Bruges

Väyrynen, Raimo (2003): Regionalism: Old and New, in: International Studies Review, 5 (2003): 25-51

Viner, Jakob (1950/ 2000): The Customs Union Issue, (Carnegie Endowment for International Peace) New York, 9th edition, Penguin Books London 2000

World Bank. (1997). *The State in a Changing World*. New York, Oxford University Press.

Wyplosz, Charles (1999): International Financial Instability, in: Kaul, I., Grunberg. I., & Stern M., A. (1999b). Defining Global Public Goods, Oxford University Press Oxford and New York: 152-189