

Keeping fiscal storms at bay

THE NEW PUBLIC FINANCE SHOWS HOW

The New Public Finance: Responding to Global Challenges shows how new policy approaches and financing technologies are providing more affordable, self-sustaining responses to many of today's global policy challenges.

Almost every day the media reports on global catastrophes inflicting huge losses on the world.

- The tsunami catastrophe that struck Asia in December of 2004 claimed more than 140,000 lives and devastated wide stretches of land, with economic costs of \$14 billion.
- Global climate change could cost the world some \$270 billion a year.
- The SARS outbreak in 2003 cost the world \$140 billion—even though it was “successfully” contained fairly quickly.
- The threat of terrorist attacks costs about \$75 billion a year in added trade frictions alone.
- Computer hacking costs \$200 billion a year in productivity losses, business opportunities forgone and increases in insurance premiums.
- Counterfeiting costs the world \$450 billion a year—corrupt transactions another \$1 trillion a year.
- A full-blown avian flu pandemic could cost the world \$3 trillion in just one year.

The list could go on.

What the examples show is that inaction—allowing crises to linger and deepen—is costly, a “luxury” the world can ill afford.

Governments are feeling the pinch from the fiscal burden of these challenges.

* *The New Public Finance: Responding to Global Challenges* (edited by Inge Kaul and Pedro Conceição; New York: Oxford University Press, 2006).

So are fiscal storms brewing on the horizon? Not necessarily. *The New Public Finance* shows how they can be kept at bay, thanks to new policy approaches and financing tools.

- Enhanced risk management—saving the costs of crises.
- Public-private partnering—leveraging private finance.
- New products to be traded in new international markets, such as those for carbon emissions allowances or reduction credits—fostering global efficiency.
- A focus on social returns on investments rather than on terms of expenditures—promoting a more productive use of public revenue.
- The right incentives in international cooperation—ensuring that international cooperation makes good political and economic sense for all.

The new approaches and tools discussed in *The New Public Finance* promise huge welfare gains. Applying such tools to only six global challenges could generate savings and welfare gains amounting to hundreds of billions of dollars a year (briefing note 1).

“The world has entered a new era of globalization—an era of more sustainable, better managed globalization”, say the co-editors, Inge Kaul and Pedro Conceição, both of UNDP. They argue that the new financing instruments reflect the emergence of what *The New Public Finance* calls the intermediary state (briefing note 2).

All the new policy approaches and financing instruments have already been tested and applied, but many still are not widely used.

The pace of adopting some of these measures is quickening, as illustrated by important breakthroughs in 2005: trading greenhouse gas emissions, securitizing aid commitments, making advance market commitments for new vaccines, providing drought insurance for developing country farmers, to name a few (briefing note 3).

The familiar concept of international cooperation is being rethought, for the bulk of international cooperation today is not happening abroad, beyond national borders. It is happening—and has to happen—behind national borders, within the domestic realm (briefing note 4).

Nor is international cooperation any longer purely an intergovernmental process (if ever it was). It is national and international, a multiactor process. The wave of reengineering the state that has swept through national policy domains since the 1980s is now reaching intergovernmental organizations (briefing note 5).

A more open and riskier world need not spell fear and human tragedy. Largely drawing on the opportunities brought about by globalization, the tools for enhanced risk management are becoming more sophisticated, more effective and more focused on people’s needs, including those of workers and farmers, in rich countries and poor (briefing note 6).

According to Nobel prize winning economist, Joseph Stiglitz, “This book is a landmark—it provides the important beginnings of a field that will be tilled for years to come.”

Trevor Manuel, South Africa’s Minister of Finance, says, “This is a bold and penetrating compilation of papers on the most profound challenges of modern public finance—how to construct better partnerships between governments and private sector players and how to strengthen cooperation between nations in pursuit of common interests.”

Gordon Brown, Chancellor of the Exchequer of the UK, and one of the primary proponents of public-private partnering and the proposal for an international finance facility that would frontload the financing of foreign aid to the world’s poor, notes, “*The New Public Finance* shows how we can equip people and countries for the future... important reading for today’s policymakers.”

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About the book

The New Public Finance: Responding to Global Challenges is published by Oxford University Press for the United Nations Development Programme (UNDP).

For more background information visit: www.thenewpublicfinance.org

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ISBN 0-19-517997-8 Paperback
ISBN 0-19-517996-X Cloth