Good Morning

The Role of Empirical Analysis in the Policy Process

THE ROLE OF EMPIRICAL ANALYSIS IN THE POLICY PROCESS

- The elements of economic policy analysis

- A framework for economic policy analysis

- The contributions of economic policy analysis to the decision-making process

- Requirements for an effective policy analysis system

THE ELEMENTS OF ECONOMIC POLICY ANALYSIS

- <u>Issue definition</u>: Issues address underlying problems. Symptoms are often mistaken for issues
  - Example: "Maize prices are too high" (symptom). "Maize yields have declined for 3 years causing maize prices to increase. Should the government adopt policies to improve maize yields?" (issue).

- <u>Issue analysis</u>: Identification of groups affected by an issue and economic analysis of the consequences of policy alternatives for each stakeholder group.

- <u>Issue decision</u>: Political decision-maker and economic analyst *must* assess the unavoidable policy trade-offs contained in the issue

A FRAMEWORK FOR THINKING ABOUT PUBLIC POLICY

To analyze policies we must consider:

- Stakeholders: <u>Who</u> is affected by a policy issue and what are their objectives?

- Alternatives: <u>What</u> policy alternatives could be used to address this issue?

- Consequences: <u>What</u> are the consequences of each policy alternative for each of the stakeholders? <u>What</u> is the impact of policy instability on actions of stakeholders?

- Tradeoffs: <u>Which</u> stakeholder objectives will be accomplished and which will not be accomplished (or perhaps made worse) by each policy alternative?

THE POLICY ANALYSIS TEMPLATE:
A FRAMEWORK FOR POLICY ANALYSIS

Policy Stakeholders	Policy Alternatives				
	Alternative 1	Alternative 2	Alternative 3	Alternative 4	Alternative N
Stakeholder Group 1	Consequences of Policy Alternative 1 for Stakeholder Group 1				Consequences of Policy Alternative N for Stakeholder Group 1
Stakeholder Group 2	. . .				. . .
Stakeholder Group 3	. . .				. . .
Stakeholder Group 4					
Stakeholder Group M	Consequences of Policy Alternative 1 for Stakeholder Group M				Consequences of Policy Alternative N for Stakeholder Group M

POLICY ANALYSIS TEMPLATE FOR
A PRICE INSTABILITY ISSUE

Policy Stakeholders	Policy Alternatives				
	Maize Price Ceiling	**Maize Export Ban**	**Fertilizer subsidy**	**Alternative 4**	**Alternative N**
Maize Farmers	Maize P decrease, Q sold on commercial market decrease	Maize P decrease, Q sold on commercial market decrease	Maize P decrease, Q sold on commercial market increase		Consequences of Policy Alternative N for Stakeholder Group 1
Maize Consumers	Maize P decrease if available, but Q available decrease if market shortage	Maize P decrease if available, Q available decrease if market shortage			. . .
Taxpayers	No effect	No effect	Taxpayer cost increase		. . .
Maize Exporters	P decrease for maize purchased , Q available on market decrease – but maize exports increase if not controlled	P decrease for maize purchased , but maize exports decrease	P decrease for maize purchased , Q available on market increase, maize exports increase		
Fertilizer Suppliers	No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease	No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease	Q of fertilizer sold increase		Consequences of Policy Alternative N for Stakeholder Group M

POLICY ANALYSIS TEMPLATE FOR
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Policy Stakeholders	Policy Alternatives				
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Maize Farmers	Maize P decrease, Q sold on commercial market decrease	Maize P decrease, Q sold on commercial market decrease	Maize P decrease, Q sold on commercial market increase		Consequences of Policy Alternative N for Stakeholder Group 1
Maize Consumers	Maize P decrease if available, but Q available decrease if market shortage	Maize P decrease if available, Q available decrease if market shortage	Maize P decrease, Q of maize available increase		No effect
Taxpayers	No effect	No effect	Taxpayer cost increase		
Maize Exporters	P decrease for maize purchased , Q available on market decrease – but maize exports increase if not controlled	P decrease for maize purchased , but maize exports decrease	P decrease for maize purchased , Q available on market increase, maize exports increase		No effect
Fertilizer Suppliers	No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease	No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease	Q of fertilizer sold increase		Consequences of Policy Alternative N for Stakeholder Group M

THE CONTRIBUTIONS OF ECONOMIC POLICY ANALYSIS TO THE DECISION PROCESS

- Effective policy analysis identifies the opportunity cost of policy alternatives
  - Example: What is the opportunity cost of tax revenues used to pay fertilizer subsidies? Education programs? Health programs?

- Effective policy analysis identifies stakeholders that have been omitted from the political discourse

- Effective policy analysis identifies policy alternatives that have been omitted from the policy discourse

- Effective policy analysis identifies short-term <u>and</u> long-term consequences of each policy alternative

THE CONTRIBUTIONS OF ECONOMIC POLICY ANALYSIS TO THE DECISION PROCESS

- Effective policy analysis is an <u>iterative</u> process between the decision-maker and the analyst
  - Must examine a <u>series</u> of alternatives and adjust alternatives to find equitable and acceptable tradeoffs among consequences

- Effective policy analysis must consider "second or third round" effects of policy alternatives
  - Example: Would an export ban or fertilizer subsidy result in increased smuggling to markets outside the country?
  - Would this outcome contribute to corruption that reduces the legitimacy and effectiveness of all legal institutions?
  - Policy analysis must be expanded beyond short-term (first round) effects shown in the template

THE CONTRIBUTIONS OF ECONOMIC POLICY ANALYSIS TO THE DECISION PROCESS

- Effective policy analysis must consider the impact of policy instability on the behavior of stakeholders
  - Example: Will an export ban in year t cause a decrease in production in year t+1 because producers are uncertain about the availability of export markets?

- Effective policy analysis will consider the necessity of multiple policy tools (alternatives) for multiple policy targets (objectives)
  - A single tool usually cannot achieve multiple targets
  - Example: What are the consequences of an export tax combined with targeted food assistance versus a total export ban?

REQUIREMENTS FOR AN EFFECTIVE POLICY ANALYSIS SYSTEM

- <u>Data</u>: The policy analyst must have current data on changing economic conditions

- <u>Human capital</u>: The policy analyst must contribute the theoretical connection between the issue, the alternatives, and the consequences

- <u>Organizational stability</u>: The policy analyst must understand the historical context of policy issues

- <u>Communication</u>: Decision-maker and analyst must use iterative process to identify tradeoffs among objectives