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

• Issue definition: 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).

• Issue analysis: Identification of groups affected by an issue and economic analysis of the consequences of policy alternatives for each stakeholder group.

• Issue decision: 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: Who is affected by a policy issue and what are their objectives?

– Alternatives: What policy alternatives could be used to address this issue?

– Consequences: What are the consequences of each policy alternative for each of the stakeholders? What is the impact of policy instability on actions of stakeholders?

– Tradeoffs: Which 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

<table>
<thead>
<tr>
<th>Policy Stakeholders</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Alternative 1</td>
<td>Alternative 2</td>
<td>Alternative 3</td>
<td>Alternative 4</td>
<td>Alternative N</td>
</tr>
<tr>
<td>Stakeholder Group 1</td>
<td>Consequences of Policy Alternative 1 for Stakeholder Group 1</td>
<td></td>
<td></td>
<td></td>
<td>Consequences of Policy Alternative N for Stakeholder Group 1</td>
</tr>
<tr>
<td>Stakeholder Group 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder Group 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder Group 4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder Group M</td>
<td>Consequences of Policy Alternative 1 for Stakeholder Group M</td>
<td></td>
<td></td>
<td></td>
<td>Consequences of Policy Alternative N for Stakeholder Group M</td>
</tr>
<tr>
<td>Policy Stakeholders</td>
<td>Policy Alternatives</td>
<td>Maize Price Ceiling</td>
<td>Maize Export Ban</td>
<td>Fertilizer subsidy</td>
<td>Alternative 4</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------</td>
<td>---------------------</td>
<td>------------------</td>
<td>-------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Maize Farmers</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maize Consumers</td>
<td>Maize P decrease if available, but Q available decrease if market shortage</td>
<td>Maize P decrease if available, Q available decrease if market shortage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers</td>
<td>No effect</td>
<td>No effect</td>
<td>Taxpayer cost increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maize Exporters</td>
<td>P decrease for maize purchased, Q available on market decrease – but maize exports increase if not controlled</td>
<td>P decrease for maize purchased, but maize exports decrease</td>
<td>P decrease for maize purchased, Q available on market increase, maize exports increase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilizer Suppliers</td>
<td>No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease</td>
<td>No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease</td>
<td>Q of fertilizer sold increase</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**POLICY ANALYSIS TEMPLATE FOR A PRICE INSTABILITY ISSUE**

<table>
<thead>
<tr>
<th>Policy Stakeholders</th>
<th>Policy Alternatives</th>
<th>Maize Price Ceiling</th>
<th>Maize Export Ban</th>
<th>Fertilizer subsidy</th>
<th>Alternative 4</th>
<th>Alternative N</th>
<th>Consequences of Policy Alternative N for Stakeholder Group 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize Farmers</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td>Maize P decrease, Q sold on commercial market decrease</td>
<td></td>
<td></td>
<td></td>
<td>Consequences of Policy Alternative N for Stakeholder Group 1</td>
</tr>
<tr>
<td>Maize Consumers</td>
<td>Maize P decrease if available, but Q available decrease if market shortage</td>
<td>Maize P decrease if available, Q available decrease if market shortage</td>
<td>Maize P decrease, Q of maize available increase</td>
<td></td>
<td>No effect</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxpayers</td>
<td>No effect</td>
<td>No effect</td>
<td>Taxpayer cost increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maize Exporters</td>
<td>P decrease for maize purchased, Q available on market decrease – but maize exports increase if not controlled</td>
<td>P decrease for maize purchased, but maize exports decrease</td>
<td>P decrease for maize purchased, Q available on market increase, maize exports increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fertilizer Suppliers</td>
<td>No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease</td>
<td>No effect in short run – Q of fertilizer sold may decrease in long run if maize P decrease</td>
<td>Q of fertilizer sold increase</td>
<td></td>
<td></td>
<td></td>
<td>Consequences of Policy Alternative N for Stakeholder Group M</td>
</tr>
</tbody>
</table>
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 and long-term consequences of each policy alternative

THE CONTRIBUTIONS OF ECONOMIC POLICY ANALYSIS TO THE DECISION PROCESS

• Effective policy analysis is an iterative process between the decision-maker and the analyst
  – Must examine a series 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

• **Data**: The policy analyst must have current data on changing economic conditions

• **Human capital**: The policy analyst must contribute the theoretical connection between the issue, the alternatives, and the consequences

• **Organizational stability**: The policy analyst must understand the historical context of policy issues

• **Communication**: Decision-maker and analyst must use iterative process to identify tradeoffs among objectives
Thank you!