

Lecture # 1 -- What is Policy Analysis?

I. What is Policy Analysis?

- What is policy analysis?
 - It is more than just a simple interpretation:
 - If we pass bill A, we will have as a consequence outcome X.
 - More likely, multiple goals are considered.
 - If we pass bill A, using strategy S, we will have as a result aggregate social costs C, aggregate social benefits B, and disproportionate benefits for group 1 and disproportionate costs for group 2.
 - More specifically, Weimer & Vining note that it involves advice that “relate(s) to public decisions” and that is “informed by social values” (p. 30)
 - Two key questions:
 - Is policy intervention necessary?
 - How can policy address the problem?
 - That is, which policy options should be used?
 - Where are policy analysts found?
 - Government
 - Non-profit organizations
 - Consultancies
- The role of clients
 - Policy analysts, in either public or private settings, have clients for their advice who can participate in public decision making.
 - This distinguishes “policy analysis” from “policy research”
 - Whereas *policy research* is designed to inform policy decisions, there typically isn’t a specific client in mind
 - Often done by academics
 - Think of the Brookings Institute as an example of a think tank doing policy research
 - Would like to inform policy, but not targeted at a single client
 - Leads to Weimer & Vining’s definition: “Policy analysis is client-oriented advice relevant to public decisions informed by social values” (p. 30).
- Why is policy analysis important for Public Administration?
 - Public administration has historically focused on policy implementation
 - However, administrators need to be able to secure resources and defend implementation decisions in the policy process
 - Often seek to influence both adoption and implementation of policies
 - Understanding impact of different alternatives is important.
 - How a policy will be implemented depends on how a program is set up

- How will you use policy analysis?
 - Most of you are unlikely to perform policy analysis
 - Large governments (national, state, even large cities such as NYC) will have policy analysts on staff
 - Smaller organizations often hire consultants for analysis
 - What is important is being an informed consumer of policy analysis
 - Understanding what goes into a policy analysis
 - What are the key assumptions?
 - What are the potential limitations?
 - Have the right questions been asked?
- What do you need to be a policy analyst? Which of those skills will you develop in this course?
 - Weimer and Vining list preparation in five areas as important for policy analysis:
 1. The ability to gather, organize and communicate information in situations where deadlines are strict and access to information is limited / specialized.
 - The EMPA capstone course will develop these skills, as will all your other courses
 2. An ability to put the problem in question in context of a larger theoretical structure
 - This is the primary goal of this course. More on it below.
 3. Technical skills to predict and evaluate the consequences of alternative predictions/ an ability to express in the language of the policy world (economics and statistics) the alternative outcomes.
 - We'll begin to develop your economic skills here.
 - Other courses can develop your econ and stats skills in more depth.
 4. Understanding of political and organizational behavioral context of the client. Presenting information that they can use in their particular setting in a way that they can use it.
 - Management courses, such as executive leadership, can help understand the context
 - In this class, policy memos will work on how to present technical information in understandable ways.
 5. Ethical framework in which to conduct analysis and present findings.
 - We'll discuss briefly, but an in depth analysis will come in your leadership course.

- This course particularly develops the second skill above: An ability to put the problem in question in context of a larger theoretical structure
 - Use microeconomic theory of markets and market failure as the guiding concept
 - A market failure is when the pursuit of private interest through markets does not lead to an efficient use of society's resources
 - However, other goals may also matter
 - Distributional goals, such as equity, may be important
 - Thus, we'll consider not only whether or not a policy is efficient, but ask *who* is affected and *how* they are affected?
 - Who are the winners and losers?
 - Also need to consider whether government can capably implement a proposed policy intervention
 - What are the incentives of policymakers and regulators?
 - Is regulatory capture an issue?

II. What is Microeconomics?

- The main goal of this course is to introduce you to the application of the principles of microeconomic analysis to policy questions.
- Economics is the study of the allocation of scarce resources.
 - Economics is a theory of how markets can be used to allocate scarce resources.
 - However, note that markets are not the only way to allocate scarce resources (e.g. command economy).
- Microeconomics studies the interaction among individual economic units.
- Key questions:
 - How to utilize resources most efficiently.
 - What to produce?
 - How to produce it?
 - E.g. how much capital and how much labor
 - How to allocate the goods and services that are produced.
 - In a market economy, goods and services are allocated based on ability to pay.
- Two types of analysis
 - Positive economics – studies how the economy actually functions. It is purely descriptive. Positive theory leads to a testable hypothesis.
 - E.g. What would the effects of raising the gasoline tax be?
 - Normative economics – the study of whether or not the economy produces socially desirable results.
 - Requires value judgments
 - E.g. What is the best way to reduce gasoline consumption (e.g. tax, CAFÉ, oil import tariff)?

- We can distinguish between goals (that reflect some normative objectives) and policies (the practical steps available to realize these goals).
 - Goal is kept abstract, policy is specific.
 - Normative economics is about specifying goals
 - Example: Goal is to reduce poverty
 - Policy could be a negative income tax, raising the minimum wage, direct employment by state government...
 - Positive analysis looks at what effect each policy will have
 - Identify the benefits that the policy will lead to in terms of the goal.
 - Identify the costs that the policy will lead to in reaching the goal.
- Goals for the course:
 - Develop a theory of the market
 - Look at what happens when the market breaks down (e.g. monopoly, pollution, etc.)
 - Ask what role the government can play in the market

III. Key Concepts in Economics

- We end class today with a discussion of some of the most important concepts in economics. These are concepts that we will come back to throughout the year, as they are fundamental to the way economists think. I introduce them now to highlight their importance.
- Marginal analysis
 - Economists focus on things at the margin – that is, what is the benefit of the next good that is bought or sold.
 - Once you have purchased something, what matters is what you will do next. Can you make yourself any better?
 - Our goal is to maximize total net benefit: the value of the good minus the cost.
 - To do this, we focus on the marginal benefits and marginal costs.
 - If $MB > MC$, total benefit will increase. You should purchase.
 - If $MC > MB$, total benefit will decrease. Do not purchase.
 - The only time that total benefit will not rise or fall is when $MB = MC$.
 - This is where total net benefit is maximized.
- Cost concepts
 - Sunk costs
 - Sunk costs are expenditures that have been made and cannot be recovered.
 - Following from marginal analysis, sunk costs should be ignored.
 - Since sunk costs cannot be changed, they should not influence decision-making.

- Opportunity costs
 - Opportunity cost is the value of the best alternative use of a resource.
 - It is the cost of forgone opportunities.
 - For EMPA students, could have been working and earning a salary. The opportunity cost of going to Maxwell is tuition plus the salary you forgo by not working.
 - Opportunity costs are important to consider, but often ignored.
 - Opportunity costs relate to the key concept of scarcity. Once a resource has been used, it cannot be used for something else.