PLS 304 – Introduction to Public Policy Analysis

Common Policy Instruments/Tools

- ### Freeing, facilitating, and simulating markets
  - ***Freeing markets by***
    - *Deregulation*: price or entry regulations may restrict competition (e.g., airline deregulation)
    - *Legalize*: remove criminal sanctions (decriminalization) (e.g., legalize drugs or prostitution)
    - *Privatize*: privatization often gets characterized in different ways. It usually refers to selling state-owned enterprises to private industry and removing restrictions that prevent industry from competing with government (schools)
  - ***Facilitating markets***
    - *Allocate property rights to existing goods*: It doesn't matter in an economic sense who gets the property right as long as it's secure and enforceable. The distributional consequences are often important from a political and societal standpoint.
    - *Create new marketable goods*: most common application is creating tradable permits for pollution
  - ***Simulating markets***
    - *Auctions*: good can be sold at auction (e.g., auctioning off rights to provide cable television), however, the auction has to be properly designed to work well

- ### Using taxes and subsidies to alter incentives
  - ***Supply-side taxes***
    - *Output taxes*: Using taxes to correct negative externalities (e.g., tax on pollution) can also lead to lower cost, stimulate innovation, encourages firms to acquire information, government intrusiveness is minimized, reduces administrative complexity, and can lower transaction costs
    - *Tariffs*: is a tax on imported or exported goods and is usually done to protect a fledgling industry or to correct from unfair trade practices
  - ***Supply-side subsidies***
    - *Matching grants or subsidies*: Is when federal or state governments match local expenditures and thus encourage the provision of some good or service. Business can also be paid directly to reduce some externality (e.g., pay them to reduce pollution).
    - *Tax expenditures (business deductions and tax credits*: it is considered an expenditure because it is viewed as being given back money that has already been taken away.
  - ***Demand side taxes***
    - *Commodity or excise taxes*: used to internalize the negative impacts associated with some goods. Most common applications are application to demerit goods or so-called sin taxes (e.g., alcohol, cigarettes)
    - *User fees*: these include license fees, rental charges, fares, tolls, and other synonyms for price. They are best used when you want to internalize externalities or to price public goods appropriately in the context of nonrivalrous, excludable, and congested goods (e.g., bridges, access to fishing grounds)
  - ***Demand-side subsidies***
    - *In-kind grants and subsidies*: subsidize the consumption of specific goods (e.g., public housing provides housing at reduced cost) or direct provision of a commodity (e.g., cheese) to consumers.
    - *Vouchers*: In-kind grants that allow consumers to purchase marketed goods at reduced prices (e.g., food stamp program, school vouchers).
    - *Tax expenditures (personal deductions and credits)*: are used to stimulate individual demand for things such as housing (e.g., mortgage interest deduction), education (e.g., student interest deduction), medical care, and child care

- **Establishing rules**
  - ***Framework rules***
    - *Civil laws (especially liability rules)*
    - *Criminal laws*
  - ***Regulations***
    - *Price regulation*: includes price ceilings, price floors (supports), and price caps. Often used to prevent monopolies from maximizing prices (cable TV rates)
    - *Quantity regulation*: regulating the quantity of pollutants produced would be an example. Also included in this category would be technology-based standards.
  - ***Information Provision***
    - *Direct information provision (disclosure & labeling)*: information can be provided directly by government or it can require businesses to provide information (e.g., nutrition and labeling information)
    - *Indirect information provision (registration, certification, and licensing)*: direct information on a products quality is not always available so you often create registration, certification, and licensing programs that allow industry to self-regulate

- **Supplying goods through nonmarket mechanisms**
  - ***Direct Supply***
    - *Bureaus*: typical government departments
  - ***Independent agencies***
    - *Government corporations*: typically exist where there is a natural monopoly or the market failure suggests the need for government intervention. Examples include the Postal Service, Tennessee Valley Authority, airport corporations. Sometimes referred to as quasi-public agencies
    - *Special districts*: include fire districts, education districts
  - ***Contracting out***
    - *Direct contracting to for profits*: trash collection
    - *Indirect contracting (nonprofits)*: human service organizations
    - Keep in mind that there are many forms of privatization including
      - Contracts
      - Franchises
      - Voucher systems
      - Producer subsidies
      - Marketplace
      - Self-service

- **Providing insurance and cushions (economic protection)**
  - ***Insurance***
    - *Mandatory insurance*: mandate universal participation in insurance plans (e.g., automobile insurance, social security)
    - *Subsidized insurance*: fairness is often used as the rationale to subsidizing premiums. Example would include FEMA's flood insurance program
  - ***Cushions***
    - *Stockpiling*: designed to protect against problems due to supply disruptions (e.g., Strategic Petroleum Reserve, rainy day funds)
    - *Transitional assistance (buy outs and grandfathering)*: designed to offset distributional problems when some are disproportionately affected by proposals
    - *Cash grants*: the most direct way to cushion people against adverse economic circumstances (e.g., AFDC). Their principal advantage is that they do not interfere with consumption decisions of the target population.