PLS 505 Applied Policy Analysis and Cost-Benefit Analysis
Lecture Notes: Identifying Alternatives
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- **Chapter 9 of Weimer and Vining (1999)**
  - Two levels of policy responses to problems
    - *Strategies*: planned, calculated behavior consisting of a group of policy instruments. Groups of policy instruments come together (by design or in some cases by accident) into more or less clearly defined strategies. Some strategies present a well conceived and rational policy others emerge piecemeal, as problems evolve or experience accumulates.
    - *Policy instruments*: are a means to achieving an end. The way that these instruments come together is the strategy.
  - Wide array of what are referred to as policy tools, policy instruments, or generic policies in the environmental policy maker's box
    - Tendency is to rely on policy tools you are familiar with or use regularly – it is important to understand that there are often many options
    - Policy analysis rarely compares and evaluates across general policies. Instead it tends to be incremental and compares different versions of the same generic policy
    - Lots has been learned about the general policies
      - If you spend a lot of time working with particular general policies, then you need to learn what the literature says about its strengths and weaknesses
  - Weimer and Vining (1999) categorize these general policies into several categories
    - Freeing, facilitating, and simulating markets
      - If we determine that there is no market failure, then establishing or reestablishing a market should be a candidate solution
      - Three general approaches – Table 9.1
        - Freeing markets by
          - *Deregulation*: price and entry regulations may be restricting competition (e.g., airline deregulation)
          - *Legalize*: remove criminal sanctions (decriminalization) (e.g., legalize drugs or prostitution)
          - *Privatize*: privatization often gets characterized in different ways (See Salmon 1989 below). 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*: Works better when problem is institutional rather than structural (resource is moving). 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, since bidders can behave opportunistically, the auction has to be properly designed to work well.
- Using taxes and subsidies to alter incentives
  - This category is more interventionist than freeing, facilitating, and simulating markets and may be necessary when market failure is endemic or values other than efficiency are important
  - *Subsidies and taxes*: their aim is to induce behavior rather than command it so are market-compatible forms of direct government intervention
    - While economists like incentives, bureaucrats and politicians often are less enthusiastic because behavioral change isn't required
    - Big difference between incentives and rules, which require change
  - Four basic categories (Table 9.2)
    - 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. Often used to promote research and development.
    - 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
  - Rules pervade our social and political lives. Government uses rules to coerce rather than induce certain behaviors. Compliance can be enforced by criminal or civil sanctions.
  - It is not always possible to clearly distinguish between rules and incentives in the practical effect (e.g., a small fine that really serves as an incentive or disincentive to follow the rules)
  - Two basic categories (Table 9.3)
    - Framework rules
      - *Civil laws (especially liability rules)*
      - *Criminal laws*
    - Regulations
      - *Price regulation*: includes price ceilings, price floors (supports), and price caps. It is often used to prevent monopolies from charging rent-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.
      - *Direct information provision (disclosure & labeling)*: information can be provided directly by government or it can require businesses to provide the 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
  - Literature has much less to say about when government should provide goods directly. It is appropriate when there is endemic market failure and there is the possibility that if it were provided by a third party, incentives may cause the third part to act strategically.
    - If you contracted out to provide an army, how could you be sure of its loyalty?
  - Government can supply goods through (Table 9.4)
    - 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
- Providing insurance and cushions (economic protection)
    - Some government actions are simply designed to shield against misfortune
    - In designing insurance programs care must be taken to limit moral hazard, adverse selection, and limited actuarial experience
    - Generic policies include (Table 9.5)
        - 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.
- Other ways to categorize these general policies include Salmon's (1989) tools of government action
    - Handout Table 2.1 – wide range of tools and no generally agreed upon classification system
        - Outright monetary payments (payments to individuals, grants-in-aid to state and local governments, procurement)
        - Provision of goods or services, including information
        - Legal protections (loan guarantees, price supports, tax exemptions)
        - Restrictions/penalties (regulations, criminal laws, tax exemptions)
    - Salmon (1989) offers several tools
        - Direct government
        - Grants
            - Projects, formula grants, categorical grants
        - Loans
            - Loan guarantees, low interest loans
        - Tax expenditures
        - Regulation
        - Quasi-public

  - Privatization is another tool and there are many forms of privatization
    - Handouts
    - Contract work
    - Franchises
    - Voucher systems
    - Producer subsidies
    - Marketplace
    - Self-service

- **Chapter 6 in Patton and Sawicki (1993)**
  - Be expansive when generating alternatives. Create as many as possible and eliminate the unpromising ones in a systematic way so you know what conditions might support reconsidering those previously dismissed
  - A common pitfall is creating solutions that do not address the problem – pointing again to the importance of problem definition
  - Characteristics to be considered when designing alternatives include
    - *Cost*: affordability/cost-effectiveness
    - *Stability*: will the objectives be obtained during disturbances in normal operations
    - *Reliability*: what is the probability it will be operating at any given time
    - *Invulnerability*: will it continue to work if one of its parts fails
    - *Flexibility*: can it serve more than one purpose
    - *Riskiness*: does it have a high probability of failure
    - *Communicability*: is the option easy to understand
    - *Merit*: does it have face validity – appears to address the problem
    - *Simplicity*: is it easy to implement – all else being equal, simpler is better
    - *Compatibility*: does the option fit existing norms and procedures
    - *Reversibility*: how difficult will it be to return to prior conditions if the option fails
    - *Robustness*: can it function in widely different future environments
  - Searching for alternatives
    - *Researched analysis and experimentation*: this can include survey research methods, comparative analyses, and other research projects that may be under way
    - *No action (status quo) analysis*: you need a useful baseline to compare other alternatives against. It is also possible that budgetary realities may force a careful examination of the do nothing alternative. However, it rarely involves doing nothing since there may be maintenance costs. Options include
      - The original state before action was taken (current or existing conditions)
      - State that would evolve in the absence of the program (no action) – often recommended as the benchmark
      - Some goal or target state
      - The ideal state
    - *Quick surveys*: ask others who are working on similar problems
    - *Literature review*: lots of research that describes alternatives
    - *Comparison of real world experiences*: look for alternatives being used in settings similar to yours (see best practices and lesson drawing sections below)

  - *Passive collection and classification*: sometimes solutions look for problems to solve
  - *Develop typologies*: sometimes thinking about different types of individuals, organizations, and groups affected by a problem can help you identify alternatives
  - *Analogy*: look at how analogous problems were solved in the past. The trick is picking the right analogy or being creative enough to find an analogy
  - *Brainstorming*: a useful technique for generating information and possible solutions to problems. The key is to
    - Criticism is ruled out
    - The wilder the ideas the better – easier to tame down than think up
    - Quantity of ideas is what you want
    - Combination and improvement is sought – one idea leads to a better idea
  - *Comparison with an ideal*: sometimes it helps to conceptualize what the ideal alternative would be
- Ways to create alternatives
  - *Feasible manipulations*: find the key variables, look for opportunities to influence the variables, and then create alternatives by combining two or more of these opportunities. Feasible actions can then be packaged as strategies.
  - *Modifying existing solutions*: examine existing solutions and then consider how they can be modified to work better in your contextual situation by
    - *Magnify*: make larger, higher, longer, more resources, more often, etc.
    - *Minify*: make smaller, shorter, narrower, etc.
    - *Substitut*e: switch components, switch order, change location
    - *Combine*: blend tow approaches, combine purposes or sponsors, etc.
    - *Rearrange*: reverse, invert, change sequence
    - *Location*: single versus multiple, permanent versus temporary
    - *Timing*: accelerate, lag, stagger, etc.
    - *Financing*: provide or purchase, taxes or user fees, subsidize
    - *Organization*: centralize, decentralize, mandate, regulation, leave to individual decisions, etc.
    - *Decision sites*: existing organization or individual or new, elected or appointed, technical or political
    - *Influence points*: pressure from users or providers, those harmed
    - *Risk management*: encourage adoption through guarantees, insurance, or remedial correction after-the-fact
- Pitfalls to avoid
  - Relying too heavily on past experiences
  - Failing to record ideas and insights as they occur
  - Locking in on a problem definition too soon
  - Forming a preference too early
  - Criticizing ideas as they are offered
  - Ruling out alternatives through pre-evaluation
  - Failing to reconsider dismissed alternatives as conditions change

- **Majone (1989) – Chapter 6 – Choosing among policy instruments**
  - Different institutional arrangements affect the position, power, and resources of various policy actors
    - Actors have incentives to use their influence and persuasive skills to change institutional arrangements in ways that benefit them
  - Because the same policy target may be reached by different means, policy analysis often focuses on determining the comparative advantage of various policy instruments
    - Many assume the that the choice depends exclusively on the technical properties of a particular policy instrument
    - Policy instruments are seldom ideologically neutral, nor are they distributionally equal.
    - Policy instrument cannot be neatly separated from goals
    - Performance of policy instruments depends less on their formal properties than on the political and administrative context in which they operate
    - Institutional structures rather than abstract theory tends to shape results
  - Can be quite misleading to employ ideal standards when evaluating and comparing alternative policy instruments – the standards should relate to the particular context in which the policy instruments are used
  - Choice of policy instruments is not a technical problem that can be safely delegated to experts. It raises institutional, social, and moral issues that must be clarified through a process of public deliberation and resolved by political means.

- **Smart (Best) Practices Research – Bardach (2000) pp. 71 - 85**
  - Why look at best practices?
    - It is only sensible to see what kinds of solutions have been tried in other agencies, jurisdictions, or locales
      - Rose (1993) calls this *lesson drawing*
      - It is an important element of the *diffusion of innovations* process
      - Don't be fooled by the term "best" – usually you are looking for good or better practices
      - Bardach (2000) likes the term smart practice because any practice worth special attention ought to have something clever about it – it is this something clever that the research is looking for an wants to determine its applicability in the local context
    - One looks for solutions that appear to have worked pretty well, understand exactly how and why they worked, and evaluate their applicability in your setting
    - Always good to get something for nothing – looking for synergistic effects by combining policies/programs – looking for a free lunch. You can often do this by looking for
      - *By products of personal aspirations* – sometimes the public can benefit through actions taken to benefit employees
      - *Complementarity* – two or more activities can be joined in ways that make each more productive
      - *Development* – a sequence of activities or operations has the potential to be arranged to take advantage of developmental processes

    - *Exchange* – Policies that tap into unrealized possibilities for market-based exchange
    - *Multiple functions* – one feature designed so that it serves two or more functions
    - *Nontraditional participants* – sometimes line employees have skills abilities that can be incorporated into agency policies and programs
    - *Rationalization* – Shortening queues, formalizing informal agreements, making better use of limited resources
    - *Rummaging* – you might discover a novel use for readily available materials
    - *Underutilized capacity* – facilities may only be used for part of the day/year but could have value elsewhere
- Research often turns up interesting ideas, including
    - Ideas that do not work
    - Ideas that can be modified and improved in your setting
- Characterizing elements of a practice
    - Distinguish between elements that are essential and those that are only supportive
        - Essential forces you to think about cause and effect relationships – what is actually reducing the problem
        - Supportive are worth talking about in any account of how a practice can be made to work relatively better or can be prevented from failing
    - Distinguish between essential and optimal elements
        - Optional add some dimension of value to the outcome that not every user of a practice will want
        - Essential are those dimensions that every user will want
    - Distinguish between the functions each element performs and the methods used to perform them
        - Separate means from ends and don't confuse the two
    - Characterization should be generic and flexible, not prescriptive and overly precise
        - Often need to let implementers figure out the details of the generic practice that make sense in their own context
    - Characterization of the essential elements of a practice is not necessarily simple, it can be complex
    - Smart practices in the real world look different from one another and require careful interpretation
- General vulnerabilities
    - Failures due to general management capacity
    - Weaknesses intrinsic to the practice itself
- Analyzing your local context
    - Target context
        - Look at the generic vulnerabilities of the smart practice
        - Are their ways to enhance the smart practice (supportive elements noted above)

  - Source contexts
    - If the source contexts are largely pilot or demonstration programs you should be cautious because they often attract more enthusiasm, support, talent, and resources and probably occurred where political and financial conditions were more favorable. Bureaucratic resistance is also likely to be less than a permanent change

- **Rose (1993) – Lesson Drawing in Public Policy**
  - *Lesson Drawing*: A program for action based on a program or programs undertaken in another city, state, or nation or by the same organization in its own past
    - It takes the form of a program specifying cause and effect mechanisms by which government actions are expected to produce specific policy outcomes
    - *Transferability* is a distinguishing feature – critical question is whether a program in one setting is capable of being put into effect in another
      - Fungibility presupposes political agreement about goals
      - In the real world we would never expect a program to transfer without some adaptation – but many federal program are based on the proposition that a program will work equally well in all settings
    - It is not a theory of how policymakers learn – it is about what is learned
  - Four steps in lesson drawing:
    - Searching elsewhere
      - Object of the search is to find a program that works
      - In searching for lessons, policymakers use both formal and informal networks disseminating information, advice, and money
      - An organization's own past is a fruitful source of experience but you can also draw lessons across space.
    - Developing a model of how a program operates
      - Should be generic and specify the basic elements in clear concepts
      - Describe the actions that take place inside the "black box"
    - Creating a lesson
      - An element of creativity is required for differences in time and space often make it impossible to make a carbon copy of a program in effect elsewhere
      - Several ways to draw a lesson (Table 2.1):
        - *Copy* a program
        - *Adaptation*: A program in effect elsewhere becomes the starting point for designing a new program allowing for differences in institutions, culture, and historical specifics
        - *Hybrid*: combines recognizable elements from programs in different places
        - *Synthesis*: combines elements familiar in different programs into a distinctive and fresh whole
        - *Inspiration*: examining programs elsewhere can be a source of inspiration
      - Implication for practitioners is to be aware of what their counterparts in other areas are doing.

- **Rogers (1995) Diffusion of Innovations – Generation of Innovations**
  - Innovations
    - Literature is typically a technology or technologic process. But it can also be:
      - Policies
      - Programs (D.A.R.E.)
      - Laws
      - Regulations
      - Educational programs
      - Conservation practices
      - Less is known about diffusion in situations where there is a cost to adopt and benefit is intangible like environmental protection
  - Innovations can have positive or negative consequences
    - Avoid a pro-innovation bias – often good reasons not to adopt an innovation
    - Can have negative social consequences
  - Attributes of Innovations and their rate of adoption
    - Rate of adoption is the relative speed with which an innovation is adopted by members of a social system
      - Cell phone example – why am I a late adopter? See p. 245
      - DVD & computer – why was I an early adopter?
    - Variables determining rate of adoption
      - Perceived attributes of innovations
        - *Relative advantage*: the degree to which an innovation is perceived as being better than the idea it supersedes (profitability, social prestige, other benefits).
          - Incentives may be used to improve relative advantage.
        - *Compatibility*: is the degree to which an innovation is perceived as consistent with existing values, past experiences, and the needs of potential adopters
        - *Complexity*: is the degree to which an innovation is perceived as relatively difficult to understand and use. Any new idea may be classified on the complexity-simplicity continuum
        - *Trialability*: Is the degree to which an innovation may be experimented with on a limited basis.
        - *Observability*: is the degree to which the results of an innovation are visible to others. Some are easily observed and communicated while others are not.
      - Types of innovation-decision
        - Optional
        - Collective
        - Authority
      - Communication Channels
        - Mass media
        - Interpersonal
      - Nature of the social system
        - Norms
        - Degree of network interconnectedness
      - Extent of change agents' promotion efforts

- *Innovativeness*: the degree to which an individual or other unit of adoption is relatively earlier in adopting new ideas than other members of a system
  - Variables related to Organizational innovativeness
    - Individual leader characteristics
      - *Attitude towards change* (+)
    - Internal organizational characteristics
      - *Centralization* (-): degree to which power and control in a system are concentrated in the hands of relatively few individuals.
      - *Complexity* (+): degree to which the members posses a relatively high degree of knowledge and expertise
      - *Formalization* (-): degree to which an organization emphasizes following rules and procedures in the role performance of its members
      - *Interconnectedness* (+): degree to which the units in a social system are linked by interpersonal networks
      - *Organizational slack* (+): degree to which uncommitted resources are available to an organization
      - *Size* (+): size is most likely a surrogate measure for other things such as resources, employees, structure, etc.
    - External characteristics
      - *System openness* (+)
- Diffusion follows an S-shaped curve when plotted over time and is normally distributed
  - *Innovators*: venturesome and interested in new ideas. Lots of cosmopolite relationships
  - *Early adopters*: a more integrated part of the local social system than are innovators. Often the opinion leaders. Early adopters are respected by their peers as the embodiment of successful, discrete new ideas
  - *Early majority*: Adopt just before the average member of the system but seldom are the opinion leaders
  - *Late majority*: Skeptical and adopt just after the average member.
  - *Laggards*: last to adopt an innovation
- Features of networks and how folks are connected
  - Centralized vs. decentralized diffusion systems/networks
    - Avoid tendency to assume that centralized is better than polycentric or decentralized
    - Be sure to examine full range of transaction costs
  - Strong ties and weak ties
    - Most found job openings from heterophilous individuals who were not close friends
    - Communication proximity – the degree (strong/weak) to which two individuals have overlapping personal networks.
  - Opinion leadership and heterophily/homophily have big implications for how you construct advisory committees and interagency work groups.

- Opinion leadership
  - The degree to which an individual is able informally to influence other individuals' attitudes or overt behavior in a desired way with relative frequency.
  - Have a lead role in influencing other individuals opinion's about innovations
  - Characteristics of opinion leaders
    - Greater exposure to mass media
    - More cosmopolite
    - Greater change agent contact
    - Greater social participation
    - Higher socioeconomic status
    - More innovative
    - When a social system's norms favor change, opinion leaders are more innovative; when norms do not favor change, opinion leaders are not particularly innovative
- *Homophily*
  - The degree to which a pair of individuals who communicate are similar. The similarity may be in certain attributes such as beliefs, education, social status, and the like.
  - Communication is more effective when source and receiver are homophilous
  - Paradox of diversity
- *Heterophily*
  - The degree to which pairs of individuals who interact are different in certain attributes
  - More effective at diffusing information because it connects different social networks
- Change Agents
  - A *change agent* is an individual who influences clients' innovation-decisions in a direction deemed desirable by a change agency
    - A change agent usually seeks to secure the adoption of new ideas but could be focused on slowing down or preventing the adoption of an innovation with undesirable effects
  - Many different kinds
    - Teachers
    - Consultants
    - Agricultural extension
    - Public health workers
    - Development workers
    - Salesman