

PLS 540 – Environmental Policy & Management
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Topics: Choosing Policy Instruments

- **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 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

- **Basic categories of policy instruments**
 - 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
 - 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
 - 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
 - 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
 - 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)
 - 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
 - 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.
- **Generating Policy Alternatives (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.
 - *Substitute*: switch components, switch order, change location
 - *Combine*: blend two 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
- **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 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
 - 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 there 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