Teaching the Economics of Policy Analysis: Lessons from the Field

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Introduction

- Public policy analysis, economics of policy analysis

- The policy analysis process

- Microeconomics, role of markets, market failures

- University Contexts:

University of Wisconsin-Madison, La Follette School of Public Affairs

University of North Carolina – Chapel Hill, Department of Public Policy

Introduction: What is policy analysis?

- Interdisciplinary / applied social science
- At the interface of economics, political science, philosophy, and other fields, incorporating important components of research design, statistics, causal methods, law, sociology, communication, and more.

- *Public policy* is the process by which we make collective decisions to solve societal problems or improve social welfare.

- *Policy analysis* involves identifying a public problem, bringing data and evidence to provide possible solutions to meet a set of defined goals.
- *Policy analysis* provides accurate information useful for decision makers, designed to solve public problems.

Introduction: Primary Course Goals

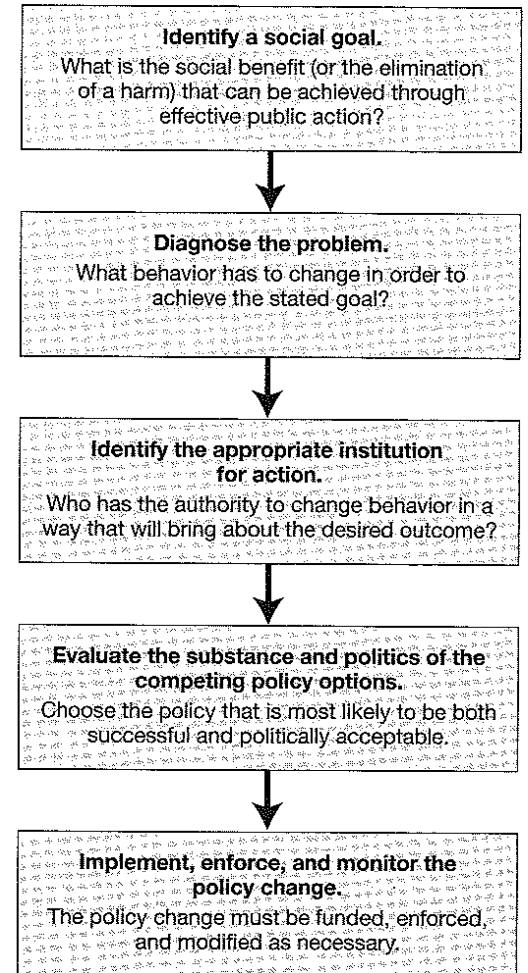The goals for students of policy analysis are two-fold:

To become:

(1) competent consumers and constructive critics of policy analysis

(2) beginning producers of policy analysis

Introductory course (200/300 level course); heterogeneous prior economics training

Organizing the Material

Overview of Policy Analysis Process

- Define and frame a policy problem

- Identify the key stakeholders

- Articulate a role for government

- Identify the relevant evaluation criteria to choose the best policy

- Identify or create alternative policy solutions

- Assess each alternative relative to criterion

- Assess tradeoffs between alternatives

- Identify barriers to implementation

- Recommend and communicate the best alternative

Identify a social goal.
What is the social benefit (or the elimination of a harm) that can be achieved through effective public action?

Diagnose the problem.
What behavior has to change in order to achieve the stated goal?

Identify the appropriate institution for action.
Who has the authority to change behavior in a way that will bring about the desired outcome?

Evaluate the substance and politics of the competing policy options.
Choose the policy that is most likely to be both successful and politically acceptable.

Implement, enforce, and monitor the policy change.
The policy change must be funded, enforced, and modified as necessary.

The Public Policy Process

Organizing the Material: Problem Definition

What is the public problem?

- Define/frame the problem (iterate!)
- Quantify and assemble evidence
- Research to collect data, statistics, evidence
- Move from "too much / too little" to quantifying the magnitudes.
- Review the literature (academic, think tanks, government)
- Review best practices – past solutions, other areas solutions

Example: Teaching Problem Definition

Health Insurance in the US (pre/post ACA)

Proposed problem statement: There are too many insured individuals in the US.

What data do you need to collect to frame this problem?

How big is the problem?

What is the scope of the problem? Demographic / geographic?

What are the causes of the problem?

What are the consequences of the problem?

The Power of Case Studies

Example: Soda Taxes

Soda taxes have been proposed as a policy lever designed to reduce obesity in the US.

This case offers useful discussion:
- Law of demand (own price elasticities)
- Substitution (cross price elasticities)
- Taxes, size of tax
- Tax revenue

- Why soda taxes? Market failures? Equity considerations?

Externalities, Asymmetric information

Regressive tax, regressive nature of disease burden

So many other possibilities for case studies: I have effectively used case studies on vaccination policy; paid family leave; mass incarceration; traffic safety; and more.

Organizing the Material: Markets

- Consumer Theory, Producer Theory

- Market Equilibrium

- Social Welfare (consumer, producer surplus)

- Assumptions of Perfect Competition

- Deviations from competitive solution (price ceilings, price floors, taxes), introduction of deadweight loss

Organizing the Material: Market Failures

Market Failures, Government Solutions, Market Corrections

- Asymmetric information (moral hazard, adverse selection)
    Government, Market Corrections
- Market power (monopoly, monopsony)
    Antitrust Laws, Natural Monopolies
- Externalities (positive, negative; consumption, production)
    Pigouvian taxes/subsidies
    Coase Theorem
- Public goods
    Collective Action Problem
    Government Provision of Public Good
    Private Provision of Public Good

Challenge: Make the Case for Government Involvement

- Market Failure

- Government Failure

- Equity / Redistributive

- Challenge: scarce resources; make a compelling about why, not how

Organizing the Material: Criteria for Evaluation, Policy Alternatives

- Researched Policy Alternatives

- Criteria for Evaluation
  - Costs
  - Benefits
  - Equity

  - Efficiency
  - Equity Efficiency Tradeoff

- Role of CBA/CEA

Organizing the Material: Behavioral Economics

- Limits of the neoclassical model

- Bounded rationality, bounded willpower, bounded self-interest

- How else can policy attempt to solve social problems with nudges instead of mandates?

Organizing the Material: CBA/CEA

Cost Benefit Analysis / Cost Effectiveness Analysis

- Introduction to Discounting, Present Value Calculations

- Net Present Value Calculations

- Discount rates, value of a life

- Introduction to Cost Benefit Analysis, Cost-Effectiveness Analysis

- Goal: Beginning consumers and constructive critics of CBA/CEA

Writing for Public Policy

Communication, Effective Writing

- Many ways to write for public policy
    - Policy brief / memo
    - Op-Eds
    - Researched policy paper

- Policy Paper (in phases)
    1-Problem definition, stakeholder analysis, rationale for government involvement
    2-policy alternatives, criteria
    3-analysis, barriers to implementation, recommendation
    4-executive summary, 1 page overview with graphics

- Write, rewrite (submit, revise, resubmit)
- Evidence-based policy paper
- Challenge to pick a topic outside of knowledge base

Other Tools for Class Learning

- Discussion Leadership

- Problem Sets on Markets and Market Failures

- Peer-review / Pair-and-share

- Group Presentations

- Current Events Papers, Presentations, or Journaling

Diversity of Thought

- Diversity of Thought and Perspectives

- Politics, polarization
    Election, COVID-19

- Tailor the class to current events; topics of student interest

- Set ground rules for respectful and productive discussion

Challenges of the Pandemic

- Uncertainty in teaching (Face-to-Face, Zoom)

- Difficulties of instruction, student participation, student absences

- Lack of student interactions / group experiences

- Small Grant UW-M to improve student to student interactions in our current COVID-19 environment

  Slack

  Paired zooms

  Group work with greater instructor involvement

Thank you – comments and questions?
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