



A Practical Guide for Policy Analysis

The Eightfold Path to More Effective
Problem Solving

Third Edition

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THINGS GOVERNMENTS DO

The following list of things governments do is meant to stimulate creativity and give you ideas. The way to use it is to think about your policy problem and then go down the list, asking yourself: "Might there be any way to use this approach on this problem?"

The "Why You Might Do It" discussion that accompanies each list of "What You Might Do" is necessarily brief. It is intended principally to be suggestive.

I. TAXES

A. What You Might Do

1. Add a new tax
2. Abolish an old tax
3. Change the tax rate
4. Change the tax base
5. Improve collection machinery
6. Tax an externality

B. Why You Might Do It

The most common conditions to which taxes are a solution are those in which there is inadequate government revenue for some purpose and—probably more important—those in which the structure of market prices fails to capture the true economic opportunity costs. If market prices are wrong, there are usually deeper structural reasons, such as oligopolistic

power or government overregulation of some input, which might bear correcting by other means as well.

Naturally, too many taxes can also be a problem, if they are inhibiting useful economic or social activity.

II. REGULATION

A. What You Might Do

1. Add a new regulatory regime or abolish an old one
2. Write new standards or remove old ones
3. Tighten or loosen existing standards
4. Ban or prohibit something entirely
5. Improve the scientific and technical basis for writing standards
6. Close or open loopholes
7. Add, train, or better supervise enforcement personnel
8. Improve targeting of enforcement to catch bad apples, or to increase deterrence, or to increase resource efficiency
9. Raise or lower the level of effective sanctions
10. Tighten or loosen appeals procedures
11. Change reporting and auditing procedures
12. Add, subtract, or improve complaint mechanisms for workers or the public

B. Why You Might Do It

Distinguish three quite different types of regulation. One aims at prices and outputs in natural monopolies, for instance the historical regulation of local telephone service by a public utilities commission. As this example suggests, technological change (e.g., cell phones, broadband) can undermine natural-monopoly production and render this form of oversight irrelevant.

A second type—sometimes called “social regulation”—is common in regard to health and safety issues. It aims to correct imperfections arising from poor market information or from excessive frictions resulting from the use of civil law (usually tort or contract) remedies. Drug safety regulation by the FDA is an example. Bank solvency regulation also fits this category. Two sorts of problems are common in this type of regulation: too little regulation and too much. Scientific uncertainties, technical

difficulties of measurement, and political pressures typically lead to both of these problems under varying conditions.

A third type of regulation concerns entry, exit, output, price, and service levels in supposedly oligopolistic industries (e.g., transportation). Administering this type of regulation presents large problems of collecting information and of coordinating the outputs of many firms. Politically, there are often problems of anticompetitive “capture.” The deregulation movement that has gathered political momentum since around 1978 has led to a new appreciation of how much beneficial competition there might be in these industries if government were simply to let go.

Most air and water pollution regulation is thought of as social regulation. However, administratively (and sometimes politically), it is more like the third type of regulation, inasmuch as the principal laws now on the books involve government agencies in coordinating the outputs of a variety of firms.

III. SUBSIDIES AND GRANTS

A. What You Might Do

1. Add a new one
2. Abolish an old one
3. Change the level
4. Change the marginal rate
5. Introduce, abolish, or change a formula by which subsidies are allocated
6. Modify the conditions of receipt or eligibility
7. Loosen enforcement
8. Tighten enforcement

B. Why You Might Do It

Incentive effects. Subsidies and grants are often used to stimulate activities that neither markets nor nonprofit or voluntary action appears to produce in adequate quantity or quality. They also play important roles in the system of intergovernmental relationships—when one level of government wishes to encourage another level of government to do certain things—and in the system of relationships between governments and nonprofit organizations.

Wealth effects. Grants and subsidies also transfer resources to people or organizations or levels of government in order to make the recipients wealthier.

Some design problems. It often happens that you want to create incentive effects but not wealth effects, or vice versa. For instance, you may wish to make poor people wealthier via grants and subsidies but without diminishing work incentives. Or you may wish to encourage businesses or universities to undertake more research and development of a certain kind but without unduly enriching them or allowing them to use the subsidies inefficiently.

Note that subsidies and grants are typically administered with various guidelines or conditions attached. The threat to remove a long-time grant or subsidy for violation of the guidelines or conditions can act as a type of regulatory sanction, thus making certain grants and subsidies into a peculiar regulatory hybrid.

IV. SERVICE PROVISION

A. What You Might Do

1. Add a new service
2. Expand an existing service
3. Organize outreach to potential beneficiaries not now using the service
4. Better customize an existing service to a particular subpopulation
5. Provide vouchers for a particular service so that people may choose from an array of competitive service providers
6. Link two or more existing service delivery systems to take advantage of potential synergies or to make life easier for service recipients
7. Reduce service users' difficulties in accessing the service by
 - a. going online
 - b. computerizing intake and eligibility processes
 - c. simplifying forms
 - d. colocating services
 - e. permitting appointments by phone
 - f. facilitating personal inquiries and complaints
 - g. improving payment options

B. Why You Might Do It

Services come in two basic flavors. *Desired services* are those that people want, such as parks and good schools. *Paternalistic services* are those that people may or may not want but that outsiders want them to have because there is some potential payoff to the outsiders (e.g., rehabilitative services for the mentally ill, organized shelters for the homeless, job search services for individuals on welfare). It is a lot easier to design a service provision system for desired services than to do so for paternalistic services.

V. AGENCY BUDGETS

A. What You Might Do

1. Add a lot to the budget
2. Add just a little to the budget
3. Hold the budget at last year's level
4. Cut the budget a little
5. Cut the budget a lot—to the point of beginning to terminate the agency
6. Shift allocations from one budget item to another

B. Why You Might Do It

You may want to adjust an agency's budget according to whether you like what it does. In addition, how you manipulate an agency's budget sends political signals about the degree of satisfaction or dissatisfaction with the agency's performance and so may be thought to have incentive effects as well as wealth effects. It is not easy to use the budget as a means of creating incentive effects, however.

VI. INFORMATION

A. What You Might Do

1. Require disclosure
2. Direct government rating or certification
3. Standardize display or format
4. Simplify information
5. Subsidize production of information
6. Subsidize dissemination of information

B. Why You Might Do It

Information production, dissemination, and validation may be suboptimal due to the declining average (and sometimes marginal) cost nature of the activity. Information consumption may be suboptimal due to the hidden costs of consumption (such as time spent reading or hearing or interpreting or sifting or verifying).

VII. THE STRUCTURE OF PRIVATE RIGHTS

A. What You Might Modify or Create

1. Contract rights and duties
2. Property rights
3. Liability duties
4. Family law
5. Constitutional rights
6. Labor law
7. Corporate law
8. Criminal law
9. Dispute-resolving institutions other than litigation and courts

B. Why You Might Do It

In recent years, two of the biggest issues drawing the attention of policy analysts and economists interested in legal institutions are the economically efficient incidence of risk—it should fall on the party that can manage it at the lowest social cost—and the costs involved in administering any adjudicative system. Since private-law duties and rights do a lot to allocate risk (e.g., if your product exposes the user to risk and ultimately injury, you may be liable for damages, unless perhaps the user abused or misused it or agreed to assume the risks of use), adjusting laws is sometimes a powerful policy intervention mechanism. Also, much creative thinking has gone into finding ways to bring down the administrative and adjudicative costs.

In addition to these economic matters, there is also concern about compensation for harm. Laws can be changed so as to shift wealth—in some prospective, actuarial sense or in a real, present-time sense—among different interests or classes of people.

The wealth-shifting and risk-shifting effects of legal changes may both work in the desired direction, or they may work at cross-purposes. In addition, both may work together with, or at cross-purposes with, the desire to reduce administrative and adjudicative costs.

VIII. THE FRAMEWORK OF ECONOMIC ACTIVITY

A. What You Might Do

1. Encourage competition
2. Encourage concentration
3. Control prices and wages (and profits)
4. Decontrol prices and wages (and profits)
5. Control output levels
6. Decontrol output levels
7. Change tax incentives up or down
8. Provide public jobs
9. Abolish public jobs

B. Why You Might Do It

Supporting more government intervention. On the supply side, there may be monopoly or oligopoly problems. On the demand side, consumers may be relatively nonmobile or otherwise vulnerable to exploitation—and the same may be true of workers.

Supporting less government intervention. You may decide that political forces have captured the government administrative apparatus and perverted the intent, or that the information costs to government entailed in doing the job well are simply too high, or that technology has changed and made an older form of government intervention less appropriate or effective or efficient.

IX. EDUCATION AND CONSULTATION

A. What You Might Do

1. Warn of hazards or dangers
2. Raise consciousness through exhortation or inspiration
3. Provide technical assistance

4. Upgrade skills and competencies
5. Change values
6. Professionalize the providers of a service through training or certification or licensing

B. Why You Might Do It

People may be unaware of a problem or an opportunity. They may be careless or unfeeling. There may be too many untrained or unskilled people in jobs demanding too much responsibility.

X. FINANCING AND CONTRACTING

A. What You Might Do

1. Create a new (governmental) market
2. Abolish an existing (governmental) market
3. Alter reimbursement rates
4. Change the basis for reimbursement (e.g., cost-plus, price per unit, sliding scale dependent on quantity, performance bonuses or penalties)
5. Lease governmentally held resources
6. Alter user fee structure
7. Redesign bidding systems
8. Change contract enforcement methods
9. Furnish loans
10. Guarantee loans
11. Subsidize loans
12. Set up a public enterprise
13. Dismantle a public enterprise
14. "Privatize" a hitherto public enterprise
15. Modify insurance arrangements
16. Change procurement practices

B. Why You Might Do It

Capital and/or insurance markets may be working inefficiently. The governmental contracting and procurement machinery may not be operating well—it may be too rigid, or too corrupt, or too expensive, or too slow.

XI. BUREAUCRATIC AND POLITICAL REFORMS

A. What You Might Do

The number of possibilities is too great to list. It ranges across such activities as reorganizations, replacing top supervisory personnel, improving information systems, and raising wages and salaries.

B. Why You Might Do It

The substantive reasons are too numerous to list. We should note, though, that in many policy contexts there are important political and symbolic considerations for undertaking bureaucratic and political reforms. The political considerations often involve enhancing the power of one social interest or point of view at the expense of another. The symbolic considerations often involve ducking the really hard or impossible problems at the social level in favor of doing something readily seen in a domain over which government appears to have control (that is, its own operations).