Module 1:
Introducing Analytical Policy Evaluation

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Module Overview

- Introduces Analytical Decision-Making (ADM)

- Contrasts ADM with the more conventional decision-making (CDM)

- Demonstrates ADM applications

- Summarizes and Concludes

Characteristics of Conventional Public Decision-Making

- **Decisions psychologically or politically-motivated**; influenced by ego, bias, and informal heuristics.

  Daniel Kahneman. *Thinking, fast and slow*. Macmillan, 2011

  Conventional Decision-Making (CDM) uses the "thinking fast" approach.

- **Decisions seen through the lens of the self-interest of particular groups, or privileged stakeholders, rather than the "public interest."**

Example of CDM in the United States: "Build the Wall"

Ad Hoc Bias, Ego, Informal Heuristics, Anecdotes

"Policy"

Analytical Decision-Making

ADM offers a "big-picture" evaluation perspective that reasons carefully from a broad evidence base to advance the "public interest."

Uses the "thinking slow" approach.

Some Characteristics:

- encourages the thoughtful consideration of alternative solutions to a well-defined policy problem;

- represents the interests of stakeholders;

- Stresses decision-making transparency and accountability.

An Example of ADM in the United States; Health Care Reform

Public Campaigns; Informal Information gathering
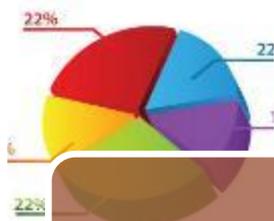
Objective Empirical Study
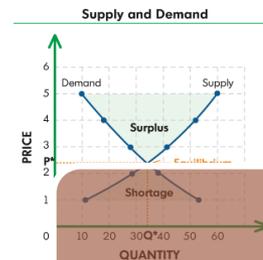
Analytical Assessment

Policy

Information Requirements, Data, and Modeling

Diverse types and scales of ADM applications lead to a range of analysis types
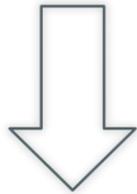
More Qualitative/Less Information Intensive

More Quantitative/ Significant Modeling Requirements/ More Information Intensive
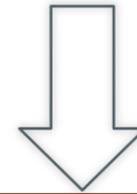
ADM Application Areas
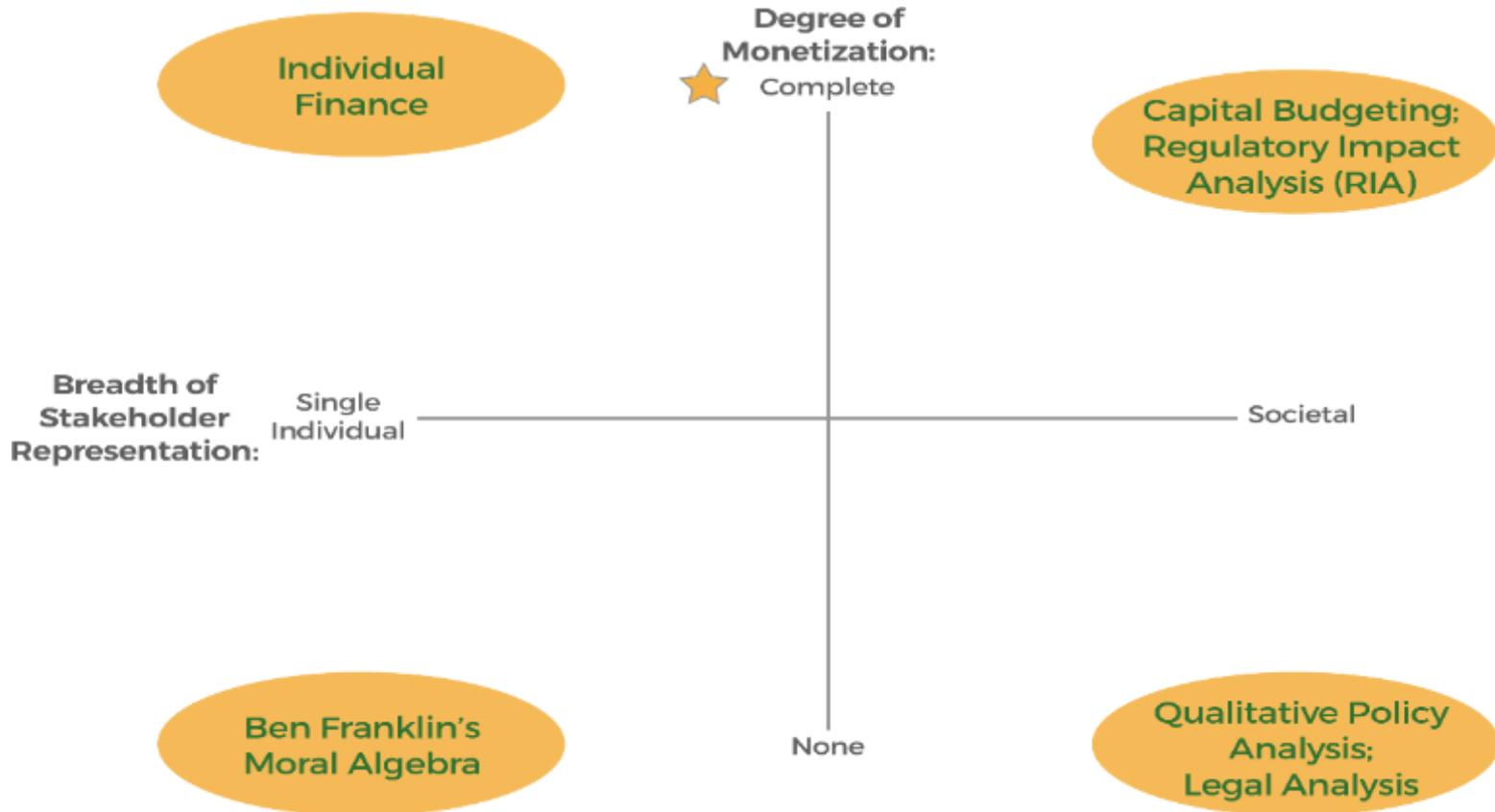
Ben Franklin's "Prudential Algebra"

[M]y way is to divide half a sheet of paper by a line into two columns; writing over the one Pro, and over the other Con.

Then, during three or four days consideration, I put down under the different heads short hints of the different motives, that at different times occur to me, for or against the measure.

When I have thus got them all together in one view, I endeavor to estimate their respective weights. . . .

And, though the weight of reasons cannot be taken with the precision of algebraic quantities, yet when each is thus considered, separately and comparatively, and the whole lies before me, I think I can judge better, and am less liable to make a rash step, and in fact I have found great advantage from this kind of equation, in what may be called moral or prudential algebra.

Analytical Decision-Making Applications

Executive Decision-Making and Policy Formation:

Under what conditions should Brazil join trade agreements?

Organizational Decision-Making and Public Administration:

Should an employee be relocated from department A to department B?

ADM for Public Employee Resource Management In US
(Decision with Some Monetization)
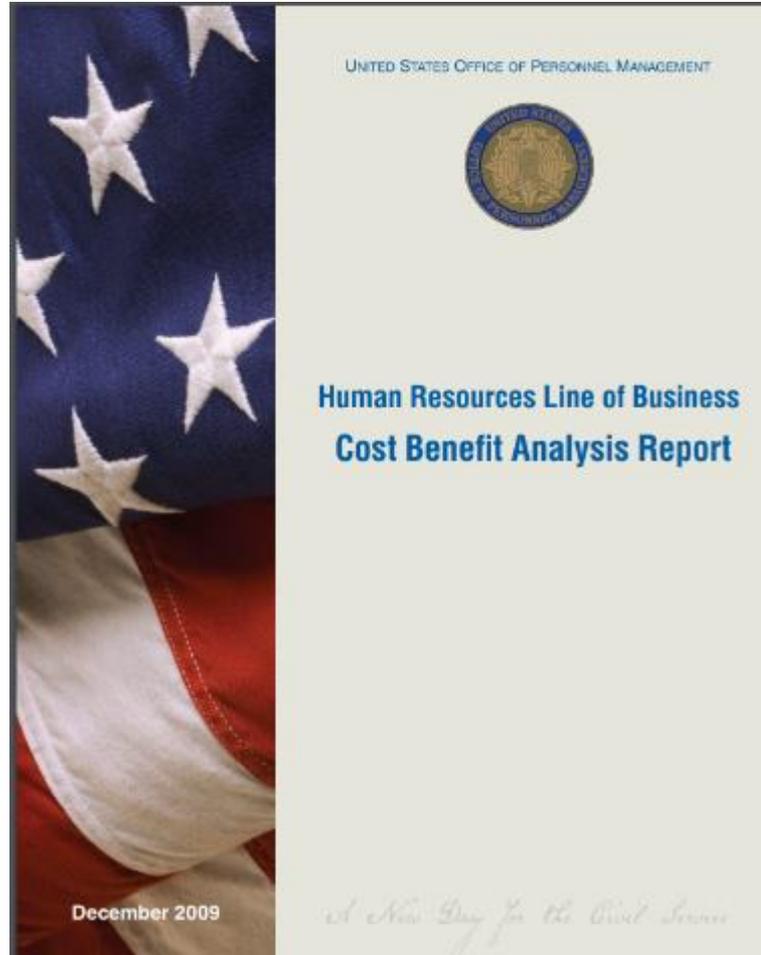
Public Management Decision with Some Monetization

Objectives	Goals
Operational Efficiencies Achieve or increase operational efficiencies in the acquisition, development, implementation and operation of human resources management systems	▪ Improved servicing ratio/response times ▪ Reduced cycle times ▪ Improved automated reporting
Cost Savings and Cost Avoidance Achieve or increase cost savings and cost avoidance from HR solution activities	▪ Reduced duplicative software/ hardware/operations/labor resources ▪ Increased competitive environment
Improved Customer Service Improve customer services	▪ Increased accessibility to client and value ▪ Improved communication and responsiveness ▪ Enhanced quality ▪ Enhanced timeliness ▪ Enhanced accuracy ▪ Enhanced consistency

Public Management Decision with Some Monetization

Revised CBA		
Overall Planning Costs	$	(59,038,853)
Other Costs	$	(377,429,568)
Overall Cost Savings	$	1,183,409,104
Overall Cost Avoided	$	626,290,891
Total Savings & Avoidance	**$**	**1,373,231,574**

Source: Human Resources Line of Business Cost Benefit Analysis Report. United States Office of Personnel Management, December 31, 2009.

Analytical Decision-Making: Policy Analysis/BCA Institutionalized in Law/Administrative Practice

- **Regulatory Impact Analysis (RIA)** in the United States. Regulations from most agencies are subject to a benefit cost test.

  -- Air pollution regulations from the US Environmental Protection Agency

  -- Transportation safety regulations from The Department of Transportation

- **Public Investment Laws in Some Countries: Chile and Vietnam (being implemented).** The goal is to increase transparency in the allocation of capital, and to raise the economic return on public investment

Analytical Decision-Making: Policy Studies of Particular Issues

A computable general equilibrium model to analyze distributive aspects in Brazil with a trade policy illustration

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**Master in Economics (FEA-USP)
**Institute of Applied Economic Research (IPEA), Brazil, and University College of London, UKgoal is to inform discussions about policy to improve policymaking.

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Some Policy Analytic Organizations

- **International Lending Institutions**

    --Inter-American Development Bank

    -- Asian Development Bank

    -- World Bank

- **Think Tanks (Washington D.C)**

    -- Brookings Institution

    -- Peterson Institute for International Economics

    -- Resources for the Future.

- **[Society for Benefit-Cost Analysis](#)**

ADM Applications for Different Classes of Government Policies

- **Managing the Macroeconomy**
  ADM Application. Maintain price stability (a "public good")

- **Raising Revenue**
  ADM application: efficient (least economic cost or "cost-effective") revenue generation. Public finance literature on "optimal taxation."

- **Redistributing Income**.
  ADM application: efficient, cost-effective ways to improve society's income distribution

ADM Applications for Different Classes of Government Policies (continued)

- **Improving Market Performance**
    - -- provide public goods like national defense, the legal system, public health, and education
    - -- regulate externalities, e.g., traffic congestion/pollution
    - -- invest in public infrastructure
    - -- enhance market competition, etc

  ADM applications
    - -- Cost Effectiveness Analysis (CEA): assure policy targets are achieved at lowest cost;
    - -- Cost-Benefit Analysis (CBA): assures that the value of public goods, services, regulations, and policies are larger than their costs.

ADM Applications Ex Ante and Ex Post

- **Ex Ante Decision-Making (See above)**.

- **Ex Post Evaluation**

  Type 1: Ex post review of decisions to check forecast reliability and performance. For "Predict then Act" decision-making approaches.

  Type 2: Ex post review as part of a "value of information assessment" to update decision-making. For "adaptive decision-making approaches like "real options".

  Type 3: Evaluation of implementation options for decisions already-made, e.g., choose most flexible and cost-effective way of implementing policy decisions.

Conclusions

- Decision-making and policy implementation contexts are extremely diverse.

- CDM is the easiest (and sometimes most emotionally satisfying) decision-making approach, but does not give results that lead to the greatest public good.

- ADM reflects a philosophic view to promote the public good, and logic principles that can be applied and adapted for numerous kinds of decision-making contexts.

- The remainder of this course explores the principles, extensions, and applications of the ADM paradigm in the context specifically of Benefit-Cost Analysis (BCA).