

To: Governor Newsom

From: JieQi Yan

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RE: The Power and Limitation of Economics for Public Policy Analysis Memo

Economic Analysis

Economic analyses organize, measure, and assess the impacts of various policies to better understand public and environmental issues such as vaccine distribution, air pollution, and inadequate transportation. It critically analyzes public policy decisions that require “a far greater depth of knowledge than can be received from news reports and political speeches” (Bellinger 2015).

Some tools used in the economic analysis of policy include benefit-cost analysis, risk analysis, and present value (Centers for Disease Control and Prevention 2021). Additionally, economic analyses can be both descriptive and prescriptive, where the descriptive analysis illustrates the past, the present, and the future. We can determine the optimal outcome and maximize the net benefit by comprehending descriptive analysis. However, economic analysis has clear benefits and limits (Keohane and Olmstead 2007).

Key Benefit

By using economic analysis, policymakers can better understand how a particular policy intervention might affect different economic stakeholders, such as consumers, producers, and the government.

With this knowledge, policymakers can make informed decisions in choosing and designing the right regulation to implement. Economic analysis offers policymakers a **systematic framework** for examining the economic impacts of policies that maximize efficiency (Hackett 2006).

Economic analysis can also help policymakers identify the most effective and efficient ways to achieve policy objectives where the **net benefits are maximized**. According to the International Monetary Fund, economic analysis “assist policymakers in achieving the fiscal benefits of price-subsidy reform with minimal social disruption” (Gupta et al. 2000).

Additionally, economic analysis can provide policymakers with a clear understanding of the costs and benefits of different policy options. For example, using **benefit-cost analysis** has been embedded in U.S. policy decision-making since 1981 by President Ronald Reagan's executive order. Successful benefit-cost analysis cases can be found in several environmental regulations, such as EPA's Section 812 Study for

1990 Clean Air Act Amendments, and discovering the negative effects of lead have on children's learning ability where the cost significantly outweighs benefits in 1987 (McCarthy 2019).

Key Limitations

However, economic analysis also faces a few limitations in public policy. Economic models are **simplifications of complex systems**, and they may be unable to account for all relevant factors that may affect the outcomes of policy. For example, a model cannot account for all changes in social norms or political institutions and capture all the relevant factors that influence the success of a policy. This holds true for models in general, where a famous quote by George E. P. Box states that "all models are wrong, but some are useful" (Box and Draper 1987).

Furthermore, economic analysis may be influenced by political or ideological factors, such as a desire to promote a particular agenda or satisfy certain interest groups. Economic analysis may be **biased by political considerations** and may not always be objective or impartial (McCarthy 2019). Even with good intentions, humans are **bounded by our cognitive limitations** where "the way we enter data into such formal decision-making processes is often biased" (Bazerman 2013).

Prominent or Secondary Analysis in Public Policy

Economic analysis can play a critical role in informing public policy decisions, but whether it should be primary or secondary depends on the context and specific goals of the policy being considered. In cases involving tax policy and regulation affecting particular industries, economic analysis is extremely useful in quantifying important information about the potential costs and benefits of different policy options in monetary terms (Edge 2021).

On the other hand, economic analysis may be only one of several factors that policymakers consider when deciding where deontological ethics is more relevant. For example, when policymakers consider public health or national security policies, other factors such as ethical, social, or political considerations may be equally or more important. Nevertheless, primary or secondary, economic analyses should be done when making public policy decisions.

Word count: 651

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