

## **Module 9. The Public Policy Process**

### **Module 9. Outline**

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### **Module 9. Text**

Public policy refers to the decisions, actions, and inactions of government and other public and quasi-public institutions, usually formalized in laws, programs, standards, and guidelines which “operationalize” the goals and principles of a society. Through the public policy process, individuals, intermediate organizations (interest groups, NGOs and other organizations), political parties, corporations, etc.) and governmental bodies and officials interact to (1) express these goals and principles, (2) develop an agenda of public concern, (3) define the content and form of public policy, and (4) specify the means by which public policy will be attained.

The central, but not exclusive, arena within which the public policy process is played out is the formal structure of our political and governmental institutions. However, public policy also arises directly or indirectly in the actions of other public and quasi-public institutions, such as schools, universities, and corporations, and loosely-knit social groups, such as social classes and minority and religious groups. But politics and government remain the center stage of public policy and it is here where the main business of public policy making is transacted.

#### The Objectives of Public Policy

The primary purpose of public policy is to “operationalize” the goals and principles of a society. These goals and principles evolve out of the history and tradition of a society and thus have close ties to the society's underlying cultural system.

In most societies, there is nothing particularly surprising or profound in their national goals. Societies consistently seek social stability, national security, a high and rising standard of living, equality of opportunity, political among their most important

societal objectives. Many societies also seek freedom, justice, and equality of outcomes and other goals. However, within any society, we often see sharp divisions over the relative ranking and operational meaning of these goals. For example, we can probably find near-universal agreement on the importance of achieving "equality" in our society, but individual segments of the society do not agree on whether the term means "equality of opportunity" or "equality of results."

One of the purposes of public policy becomes resolving differences in perspective so as to enable the formation of coherent and politically acceptable public policy in a variety of social welfare areas, including those that have considerable impact on business. Similarly, societies want both national security and a healthy economy. But we understand that large defense expenditures can draw away from economic development programs and lead to budget deficits with potentially damaging consequences for the economy. This awareness often engenders a national security vs. economic growth debate - "guns vs. butter" - with national budget.

Were the ranking and interpretation of national goals not enough to confound the public policy makers, both can shift over time, frustrating efforts to establish consistent, long-term public policy goals in a particular area. One area that has seen major shifts in the recent past has been the interpretation of what constitutes a healthy economy - growth vs. debt reduction, inflation vs. unemployment, protectionism vs. open global markets, etc. In sum, the goals of any society at best give a general outline, but not precise direction to public policy.

While national goals are important in setting general goals for public policy, public policy's deepest roots are found in the cultural system which underlies the structure of the society. The norms, values, and beliefs therein give rise to a set of principles which form the basis for public policy.

Previous modules described some of the underlying principles that characterize the corporate social-cultural, economic, and political-legal environments respectively. Public policy in many respects represents the translation of these abstract principles into explicit legal constructions, such as laws to protect the belief in the sanctity of private property, programs to promote employment for as many people as possible, and standards and guidelines to ensure access to clean air and water. However, some principles, such as individualism, the work ethic, and private production are expressed more implicitly than explicitly in public policy. Whether implicit or explicit, few if any of these principles give absolutely clear guides for action.

As in the case with societal goals, substantial room remains for preference ranking and interpretation of societal principles. For example, the relative ranking of individualism vs. paternalism pervades the debate over establishment of social welfare programs, employment policy, and consumer protection legislation. Similarly, the meaning of "freedom" in the context of implementing a variety of labor laws is subject to a wide spectrum of interpretation.

Because of this latitude, considerable energy of public policy makers and those who seek to influence public policy is spent in the business of interpreting and ranking these same goals and principles. For example, as a legislature is deciding how to allocate resources between national defense and social welfare, an individual defense contractor or legislator will be urging that a part of the budget intended for national defense be spent on extending an existing weapons production program. Simultaneously, a milk producers

association and a number of legislators may be stressing a child's right to good nutrition, thereby hoping to maintain a milk subsidy in the school lunch program. In the effort to understand and express societal goals and principles and their prevailing ranking and interpretation resides the main substance of public policy.

### The Forms of Public Policy

As noted above, all that is public policy is not limited to be specific actions of governmental bodies. There are certain implicit norms and principles of conduct which have not taken legal form because:

- they are so generally accepted as to make formalization unnecessary
- their substance and application is so broad or general as to make legal specification, interpretation, and adjudication extremely difficult
- the cost of enforcement is too great enforcement would require the violation of higher values in the society, e.g., those embodied in the first amendment to the Constitution.

Law is the explicit, formal statement of a society's principles and norms in the form of binding rules of conduct, enforceable by governmental authority. A recent example on the translation of an implicit principles into an explicit prohibition is found in our treatment of the ethical conduct of American corporations in overseas business dealings. For many years, bribery was outlawed in the United States, but there were no legal prohibitions against payment of overseas bribes, except that they could not be deducted as a legitimate business expense for tax purposes. The fact that the general public still opposed all bribery in principle was dramatized by the outrage at the revelation in the 1970s of the extent of overseas bribery by American companies, and the subsequent US public policy decision to formalize this principle in the Foreign Corrupt Practices of 1978.

In certain instances specific guidelines and standards, often of a quantifiable nature, are established by legislative bodies or governmental agencies to make even more explicit the intentions of public policy. For example, in order to leave no uncertainty as to the government's commitment to clean air, legislatures throughout Europe have established a precise schedule of auto emission standards that had to be met by various sized cars. Occasionally, However, public policy is ambiguous as to whether guidelines and standards are intended to be general objectives, as the term guidelines implies, or hard and fast standards.

### The Public Policy Process: Theory and Structure

The formal process by which public policy is created in our society is defined by a country's constitution and system of government. In the electoral process, eligible voters of the society elect political officials to make laws in the legislative branch. In turn, these laws are enforced and implemented in the executive branch where an elected executive--mayor, governor, or president in the US system (or the Prime Minister in a parliamentary system)--oversees a bureaucracy of hired government officials headed by Ministers who are considered as members of the "Cabinet." The judicial branch is available to interpret statutes, resolve disputes, and mete out appropriate punishment to

law violators. The special nature of certain categories of governmental responsibility has led to the creation of a fourth branch of government -- what are called administrative or regulatory agencies -- in which these three functions are combined. Two types of regulatory commissions have evolved in most countries--the first regulating a single industry, the second regulating a particular function in all industries.

One important feature of public policy making in a democratic society is the committee system. Because of the complex nature of law-making, the formulation of public policy in the legislative branch at the state and federal level typically involves the extensive use of specialized committees. These committees are usually chaired by a senior legislator with their membership roughly representative of the political party distribution in the body as a whole. In these committees, proposed legislation - a "bill" - is initially reviewed, analyzed, and debated in considerable detail prior to being sent to the full legislative body for final debate and a vote.

If a bill passes in the legislature and is signed into law, it becomes the responsibility of the executive branch and administrative agencies to interpret the intent of the law and formulate specific plans and actions for its implementation if they are not already clearly spelled out in the bill. Historically, bills left considerable latitude for executive interpretation of legislative intent. With the growing power of legislative bodies, the considerable expertise in legislative staffs, and legislative unhappiness with executive and administrative implementation of legislation in recent years, many legislatures are beginning to write laws and specify programs, guidelines, and standards which leave far less room for unrestrained interpretations it did not intend and cannot control.

The evaluation of public policy is an ongoing process, both in the legislative and executive branches, although the level of intensity varies considerably, depending on the prevailing public policy agenda. Policies such as railroad regulation can, sit relatively unstudied and unchanged for decades, while others, such as financial regulation, seem to be under constant scrutiny and attack in many countries in recent years. Still others seem to go in cycles.

Thus there is a formalized process of policy proposal, enactment, implementation, and evaluation which define the broad outlines of the public policy process in this country. But this is only a very general approximation of the real world of politics and public policy. First, political parties, intermediate institutions, and a variety of special interest groups interject themselves into the electoral process and the business of legislative, executive, and administrative agencies. Second, the theoretical separation of the executive and legislative branches has become blurred, especially in European countries with parliamentary systems where the lead party in the parliament, often with coalition partners, assumes executive authority.

Legislation often originates in the executive branch as all administration's proposed budgets, laws, and programs, at the same time that the legislative branch and individual legislators involve themselves in the implementation of responsibilities of executive and administrative agencies, often well beyond the "oversight" responsibilities such as exist for many legislative bodies. Sometimes, the entire process seems either non-rational or biased.

In sum, as we approach the public policy process, we find that our assumptions that the system works the way it was designed to work--that the process is rational and fair, that politicians and governmental officials are conscious of societal goals and principles and in constant pursuit of "the public interest" may not be valid. As we view the various deviations from our formal idealized model of the public policy process, we often find recurring patterns emerging. Political scientists and other observers of public policy have sought to generalize as to these deviations and patterns and in so doing have postulated a number models of how the public policy process does in fact work.

### Models of the Public Policy Process

A model is an abstraction of some part of the real world we wish to study, in our case, the public policy process. A public policy model simplifies the features of the public policy process in order that we may better (1) understand and explain past and present events, (2) anticipate and predict future changes and outcomes in this part of the real world, and (3) formulate and implement strategies to influence the outcome. A model should be specific enough to give a clear picture of the world it seeks to describe, yet general enough to have applicability to a significant number of activities.

In studying the models of the public policy process described here, we find that some will have a broader application to public policy that affects business than others. We also find that some offer a better approximation of specific features of public policy making, e.g. some better describe the workings of the legislative branch, or a particular administrative or regulatory agency; others better describe policy making in a particular issue area, such as consumer protection or financial policy .

Newton, Darwin, Einstein were scientists who developed new models of the world they studied because the existing models failed to explain crucial events and observations or reliably predict outcomes in that world. These same concerns led Adam Smith and Karl Marx to develop their models of the economic and social world. As with these scientists, political scientists examining the world of politics and public policy seek to develop public policy models which can help us understand, explain and predict the public policy process or that part of the process we wish to study. Like models in physical science and economics, these models are continually being studied and reviewed for the ability to predict and explain outcomes in the public policy process.

From a managerial perspective, a model of the public policy process is the beginning point in (1) understanding how the various public policy measures which have an impact on the firm originated and are sustained, (2) expectations on the firm as to its appropriate role in the policy making process, (3) anticipating policy interventions by other actors in the process, and (4) planning and executing a strategy of intervention in the process to maximize the firm's effective contribution to changes in policy.

### The Classical Democratic Model

One model which potentially ought to be able to predict and explain public policy outcomes is that derived from the fundamental principles and structure of a democratic system. These principles assert that the citizens are in complete control of government. They elect government officials who are then held directly accountable for their actions. Failure to meet citizen expectations is a signal that an elected official could be voted out

of office in the next election. Using this model, political actors who wished to influence the outcome of public policy would direct their energies and resources to the "grassroots"--to the mass of people that make up the electorate in our society. **But few political scientists believe our system works according to this theory.** As a result, they have offered in its place various theories.

**NOTE: There are no cases in this course where this classical democratic model is appropriate in your analysis!**

#### Group Equilibrium Model: Pluralism

A number of models stress the distribution and utilization of power among actors in the political process to explain public policy formation. One power model which stresses the interaction among multiple political actors seeking to define an equilibrium closest to their views we call the group equilibrium model. According to group equilibrium theorists, public policy shifts as the relative power of various groups and their willingness to use that power shifts in society. The process is a dynamic one in which coalitions are formed and dissolved as victories are won and lost and the agendas of actors change. The role of government in this process is to define the rules by which the game will be played, to promote, effect, and enforce bargaining and compromise, and to ratify and record the outcomes of the process in the form of law, programs, standards, and guidelines.

**The group equilibrium model has frequently been applied to the legislative process wherein a business or industry actor would find itself lobbying on a piece of proposed legislation in which one or more other actors -- unions, consumer or environmental interest groups, other government agencies, other businesses, etc. -- would also have an interest and be active in trying to influence the decision maker. If you don't see multiple actors present, working for or against our company, then this model may not be appropriate for your analysis.**

The group equilibrium model is sometimes referred to the pluralistic model of democracy. A "pluralist" democracy is one in which the individual citizens in the society do not interact directly with their legislators in the public policy making process, but rather through intermediary organizations such as political parties, employers, unions, NGOs and other special interest groups, and other forms which express their will.

#### Official Elite model

Many observers have rejected the group equilibrium or pluralistic model of democracy, arguing instead that one particular group dominates the policy making process to the exclusion of the others. When one's focus on the process is narrowed to a single policy making body and issue, strong arguments can be made that the group equilibrium model no longer is applicable. Since policy making is formally lodged with

a small group of publicly elected and appointed officials, this group is often seen as a ruling official elite. This idea is reflected in the view of many citizens that they cannot affect what goes on in their nation's capital because **government officials make decisions independent of outside influences.** The use of the terms, "government bureaucrat" and "bureaucracy" often connote this sentiment, when they are used in reference to the national government. **Just because a government entity has power, this does not mean its decision-making fits an all-powerful and independent "official elite" model.**

#### Business as a Dominant Interest Group Model

An analogous theory sees power concentrated in one of the special interest groups external to government who have narrow fields of concern. Prominent among the elite models is the idea that business elites, specifically large corporations and their management, control the policy process. The classical model here is that of Marx, who argued that the class who controlled the means of production was able to control the state. The idea of business control of the policy making process has also been applied to policy making in specific agencies and on specific issues. In these instances, it is usually the firms in single industries or group of allied industries which are cited, e.g., the auto industry on auto safety issues, large banks and other large financial institutions on financial regulation issues, etc.

#### Special Interest Group Models

Historically, business has charged labor unions were a dominant force in the policy-making process on issues in which, labor and management were on opposite sides. More recently, a major adversary of concern in the policy making process is "special interest groups"(which is often a "code name" for NGOs). Special interest groups are seen as dominant in policy areas and agencies of particular concern--environmentalists on wilderness, wildlife and pollution issues, particularly in environmental protection agencies; consumer groups in consumer protection agencies. **If you identify this model as a fit for a government decision maker, you must identify who the "special interest group" is.**

#### New Class Elite Model: Technical Experts

In the 1970s, the idea arose the concept of a New Class elite that dominated public policy by virtue of their *control of information and their technical expertise*. The group would include a staff economist in the central bank, a physicist working as a national security analyst, or an attorney on the staff of a parliamentary committee writing tax legislation. These people work at critical points in the decision making process, sometimes in formal positions of authority but more often in staff positions to important decision makers.

**Note: If you want to propose one of the foregoing elite models as appropriate for the government decision-maker in your case analysis, you must specify (and of course explain) which "elite" you are talking about!**

## Rational Models

One assumption often underlying public policy analysis is that the process is rational--that it proceeds from a full understanding of the benefits it delivers weighed against the social, economic, and political costs it incurs. Rational policy in this sense can be equated to efficient policy or to policy that has been subjected to extensive benefit/cost analysis. Although these terms often are used to imply purely economic or numerical considerations, here they are intended to cover all the value preferences of a society.

To reach a "rational" solution to a public policy problem, knowledge must be available to policy makers regarding: (1) the relative weighting of the society's value preferences, (2) the policy alternatives available, (3) the consequences of each policy alternative. The policy maker should then be able to (4) rigorously (and preferably quantitatively) calculate the benefit/cost ratio for each alternative, and (5) rationally select the most efficient policy alternative.

**Unfortunately, there are problems associated with each step in this process:**

1. There is a general consensus on certain values in our society, but many others are held by only a portion of the population or are interpreted in widely different ways. As an example, we noted earlier that while we might agree on the value of equality or egalitarianism, we are split on whether it should be interpreted as "equality of opportunity" or equality of outcome." Further, many values in our society cannot be measured, making comparison difficult; for example, how do we compare the value of clean air or water in a small community against the value of employment when closing a polluting steel or paper mill is at issue. In sum, the relative weighting of society's value preferences becomes difficult.
2. It is difficult to sweep the entire universe into public policy making without overloading policy makers with information. Thus, only a limited number of policy alternatives and data to support them can be considered. For example, choosing a new tax policy to encourage capital formation in the private sector must of necessity focus on a limited number of options presented to a parliament in an abbreviated and substantially simplified form.
3. The future is not highly predictable. Policy which appears inefficient and irrational in retrospect may have seemed efficient and rational, given the information at hand and prevailing assumptions about the future, at the time it was formulated. For example, China's committing its people transportation system to the automobile and internal combustion engine may seem irrational and inefficient given with the high cost of building infrastructure and serious air pollution in many major metropolitan areas. But public policy supporting an automobile-based transportation system evolved at a time when China was not concerned about pollution and the environment and imported oil was relatively inexpensive. In sum, we cannot always foresee the consequences of each policy alternative.



**Note: If you want to propose a “rational” model as appropriate for the government decision-maker in your case analysis, you must specify (and of course explain) how that rational process proceeds without external power and ideology influencing the decision-making process.**

### Strategy Formulation in the Public Policy Arena

For the business firm, the challenge is to formulate and implement a political strategy to achieve its goals. To do so, it must first determine how the particular arena of public policy it wishes to influence is formulated, i.e., what model best describes public policy making in that arena. This is the focus of the next module.

### **Entry-level Employee Perspective**

As an entry-level employee, you could be asked by your supervisor or a senior manager in your company to explain the goals, perspective and behavior of a legislative committee, ministry, or regulatory agency whose decisions directly impact your company or have the potential to impact your company's operations in the future, especially if it is moving into a new arena of operations, e.g., a new technology, a new country, or a new market.

Further, you could be asked how your company might influence the decision making of that governmental body. If asked, could you frame a “white paper” in such a way that you would be clearly understood, beginning from the critical point of departure—what model will best describe how decisions are made in that governmental body? Many of these governmental bodies are staffed by young people, college graduates only a few years out of college, like yourself. Could you make the necessary connections with these cohorts to help understand how the governmental body operates? In the political environment, it is often not only what you know but also who you know that is the key to success.