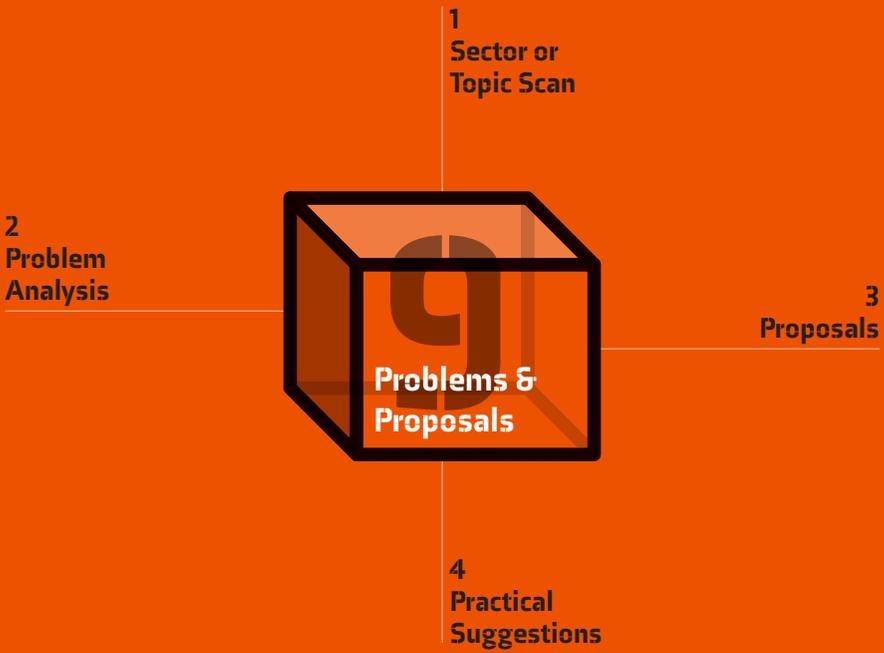




Building Block 9

Problems & Proposals

Practical skills to critically and constructively analyse real-world problems, with a focus on the economic aspects, and work on proposals to address them.



What

This building block is about investigating specific economic issues and proposing or evaluating ideas that aim to solve them. Students should gain experience with the full process: from acquiring an overview of the problem and the field it is located in, to various ways of evaluating possible solutions and presenting those solutions to decision-makers. Students should learn both practical and analytical skills to give good advice on how to address issues, based on a variety of values and analysis techniques.

Why

Practical economic analyses, like cost benefit analyses of proposed public investments, are a core aspect of most economics students' future work. While more sector- and role-specific techniques and skills can be learned on the job after graduation, academic education should teach skills beyond the purely academic. It is vital that students are trained to think through real-world economic questions in a systematic, analytical and thorough way.

Contrast with current programmes

Most current programmes mainly focus on theory and statistical testing of universal economic laws. This is a very useful skill set to develop scientific knowledge. Professional economists, however, need a number of different skills, which are associated with the work before and after the typical 'academic' research. Before working through a specific theoretical model and applying statistical tests, one needs to analyse the context: the sector or topic, and subsequently define the problem at hand. This involves exploring different perspectives, using systems thinking to map the structure of the relevant economic sector(s) and topic(s), locating and understanding stakeholders, values and interests, and getting an overview of available data and information. Then, after performing data analysis, one needs to outline possible future directions, formulate concrete proposals – to make the conducted analysis policy- or decision-relevant, and communicate the analysis to internal and external stakeholders.

“Blackboard economics is undoubtedly an exercise requiring great intellectual ability, and it may have a role in developing the skills of an economist, but it misdirects our attention when thinking about economic policy.”

Ronald Coase (2012, p. 19)

Economists are often employed in the role of advisers and policy designers: whether working as a consultant, as a policy-maker, in the non-profit domain or in the commercial or financial sector, our job is frequently to provide a framework for strategic decisions and policy-making. In this building block, we discuss how students can get basic training in this key aspect of working as an economist: evaluating practical problems and coming up with potential solutions. We have divided the process in three parts: first the sector or topic scan to build context, then the problem analysis and finally the concrete proposal.

A good way to learn to work on practical challenges is through case studies. Throughout this building block, we use an example case study to make our proposals more concrete and tangible: the problem of increasing numbers of people with debt problems.

1 Sector or Topic Scan

A good analysis starts with context. This generally requires forming an overview of the sector or topic at hand. *Building Block 2: Know Your Own Economy* suggests various angles to gain an understanding of national economies. Those methods may again be useful here, when applied to a specific topic or sector rather than an economy-wide scan. Sector analyses are often used in investment banking to analyse profitability. We propose here to go beyond this specific focus in order to prepare students to also be able to conduct sector analyses for a public or civil society organisation which can have different and broader priorities.

A sector or topic scan could include analysing relevant documentation, such as policy reports, media coverage and annual reports, as well as gathering basic statistics and talking to experts and stakeholders. Such practical literature research requires somewhat different skills from

writing an academic literature review, so it is important that students gain experience with this. Some historical background knowledge of the sector is also very helpful when trying to set a new direction, and can be gained through expert interviews and reading. Using these and other sources, students can start to outline their own overview of the relevant organisations, groups, relationships and pressures around the topic in question.

One useful analytical tool for sketching such an overview is *systems thinking*, as it helps students connect different aspects and help them better understand how they interact with each other. Systems thinking enables us to think in terms of networks and relations between various groups and organisations, in terms of stocks and flows, and in terms of processes, rather than static situations. Systems may spiral out of control as certain dynamics can enter self-strengthening (positive) feedback loops. At other times its forces and pressures, whether for good or for ill, may fizzle out through balancing negative feedback loops. Systems can be any size and have numerous integrations and connections to other systems. They can be as small as the economic dynamics in a single shopping street, as shops enter and exit and retail culture changes over time, or as large as international financial systems. Two useful books to learn about systems thinking are: *Thinking in Systems: A Primer* and *Systems Thinking For Social Change*.

Taking the example of increasing prevalence of chronic personal debt, the sector and topic scan might include any of the following components:

- Gathering statistics on chronic debt prevalence and duration;
- Exploring the legal frameworks on personal indebtedness and bankruptcy;
- Taking stock of governmental practice on the issue;
- Interviewing debtors to explore their experiences and to create an overview of typical trajectories into and out of chronic debt problems;
- Creating an overview of the types of commercial parties involved and their business models;
- Writing up an overview of any other governmental and non-profit organisations that work in the area;
- Mapping all these actors and factors together using systems thinking.

It is unrealistic to expect students to have the perfect overview of a sector or topic. However, teaching them a technique to analyse the context will help them to approach concrete problems with confidence. This is particularly useful and important because in their later career they will often have to do similar exercises, although often in a more quick and dirty way.

2 Problem Analysis

After exploring the context in a broad-ranging, structured and systematic way, it is time to start defining the problem itself more precisely. Colander (2001) provides six common sense methodological rules for what he calls 'the art of economics', that is, applied and practical economics:

- Take in all dimensions of the problem;
- Use whatever empirical work sheds light on the issue at hand;
- Do not be falsely scientific and present only empirical tests that are convincing to you;
- Do not violate the law of significant digits;
- Use the reasonable person criterion to judge policy;
- Use the best economic theory available.

Applying the most suitable theory requires gathering an overview of potential theoretical approaches to the problem, and from those, 'choosing the right model' (Rodrik, 2015). Any model, whether mathematical or based on another language, is a simplification of the world. The main criterion for choice is this: does the model capture the most relevant mechanisms and elements for this specific problem and set of values? For details on choosing between theoretical approaches, we refer to *Building Block 8: Economic Theories* and the accompanying online resources.

In terms of practical tools, a useful technique for defining the problem is *stakeholder mapping*. Stakeholders can range from well-defined interest groups such as employers' organisations and labour unions, to often less organised stakeholders such as citizens and consumers.

This is not merely a technical exercise. When deciding what the problem is, normative questions inevitably come into play. A problem, after all, can be defined as a negative deviation from the desired situation. And in defining the desired state of affairs, we are acting normatively. The tricky part is this: it is not the role of the economist to make normative decisions. But it is the job of the economist to clearly lay out the normative concerns involved.

This is only possible if economists are *aware* of the normative issues surrounding the topic. It is not enough to assume the various stakeholders have certain interests or preferences. Actual empirical research is needed to find out what they find important and worrisome. In this process, students should learn to be aware of power differentials between various stakeholders and to repeatedly ask themselves: *whose* problem are we talking about? Which groups might be adversely affected by potential solutions?

Systematically mapping concerns and normative ideas of people requires skills, so this course could well be combined with methods courses focusing on teaching students how to conduct interviews and survey research. Furthermore, they need to be able to conceptualise normative concerns in a coherent and clear manner. Here, questions of values and economic goals will inevitably play up, which are respectively discussed in *Foundation 4: Values* and *Building Block 1: Introducing the Economy*.

To return to the example of increasing prevalence of chronic personal debt, the problem analysis might include any or all of the following aspects:

- The moral obligation to stick to contracts and agreements, to pay one's due;
- The societal cost of an expensive judiciary system dealing with debt default;
- The various psychological burdens of living with chronic debt, such as guilt, fear and loss of self-esteem;
- The notion of fairness: the current system is penalising poverty and widening existing inequalities;
- The financial problems of companies whose goods and services go unpaid;
- The societal loss of the active and unburdened social contributions of chronic debt sufferers.

Ideally, a problem analysis would also include some overview of the upsides of the current situation, so that in solving a problem, we realise what positive elements might be worth considering, and what parties might be opposed to certain solutions. In our case study, these might be some of the following: the economic benefit of additional jobs at debt collector agencies, the extra income for public coffers brought in by interests and penalties on late-paid fines, the decrease in negotiating costs resulting from having strongly enforceable contracts backed up by a credible threat.

Some of these are easily expressed in monetary terms, others not as they primarily exist in other dimensions. While a policy solution may require comparing pears and apples and translating everything to monetary values, we suggest expressing each of these problem factors first in their own terms. This is especially important because translating everything to monetary values requires making normative trade-offs. It is not the job of the economist to make these normative decisions, so it is important that students learn how to communicate the normative trade-offs to non-economists (DeMartino & McCloskey, 2016).

3 Proposals

Writing proposals

Having mapped the context and analysed the problem, it is time to think about solutions. Choosing which solution is most desirable is often not up to economists. However, we do need to be knowledgeable about the different normative principles that can guide decisions. This is an important element of *Building Block 10: Economics for a Better World*. This section is rather about how to analyse the different options to choose from. What are relevant and good suggestions to address the issue at hand?

Coming up with innovative solutions has a creative element to it which is difficult to plan and teach. Nevertheless, students can be stimulated to engage in open brainstorm sessions triggering them to look at the matter in different ways. While creativity is useful, it is also important that students learn not to reinvent the wheel. Rather than coming up with entirely new ideas, most often good potential solutions come about from further developing and building on earlier ideas and applying them to the specific situation. History does not repeat itself exactly, but it does follow certain patterns. A crucial skill to teach students is therefore to find such ideas and examine similar cases.

Economic theory is also key here. How one theoretically understands the problems also for a large part determines what one comes up with as a solution. If over-indebtedness is theorised to come about because of individual cognitive mistakes and miscalculations, one might come up with the idea to give people more and better information, and nudge them to be more aware of the risks of borrowing money. If one, on the other hand, theorises that over indebtedness is caused by certain characteristics of the larger economic system, one might come up with ideas to reform elements of that system. For instance, one might look at regulation of lending practices and addressing underlying trends such as stagnating wages and rising housing prices.

This example demonstrates not only the link between theory and solutions, it also shows how difficult it can be to separate theoretical and normative assessments of issues. Pluralism is thus not only a matter of better understanding a topic, but also of bringing out underlying normative assumptions.

Once several potential solutions have been identified and developed, a useful technique to analyse and compare them is *scenario thinking*. Scenario thinking is a structured process of thinking ahead and anticipating. The

objective is to examine possible future developments that could impact individuals, organisations or societies, in order to find directions for decisions that stand a good chance to pass the test of time. Scenario thinking always includes a number of possible future scenarios, thus preparing for many possible future events. This tool can be fruitfully combined with systems thinking. Students could ask: of which system is the problem or proposed solution part? What feedback loops could this policy initiate? With what other processes might it interact with? Are there relevant tipping points? Are there strong countervailing forces preventing change?

It is also important to think about what unintended consequences a potential solution might have. Besides solving the problem, it might create or worsen other problems. Therefore it is important that students learn to think through what the effects of a policy or action might be. And finally, a key element that should not be forgotten is the implementation. An idea is not of much use if it only works well in theory, but is highly unlikely to ever be implemented because of practical issues or power pressures.

To systematically take these various factors into consideration, various practical policy tools have been developed that professional economists frequently use in their work. The most well-known of these is cost-benefit analysis (Boardman et al., 2017), based on neoclassical economics. Newer policy tools include risk-opportunity analysis, based on complexity economics (Mercure et al., 2020), and participatory evaluation (Cousins & Chouinard, 2012), inspired by the cultural approach. To prepare students for their future work, we advise devoting teaching time to these policy tools and expose them to recent developments in the field.

These practical policy tools are also connected to larger perspectives on how one should think and approach policy making. Examples of these perspectives are the positivist approach aiming for evidence-based policy making (Davies & Nutley, 2000), the constructivist approach aiming to include different conceptions of social reality in policy making (Guba & Lincoln, 1989), and the (critical) realist approach, which aims to synthesise the other two approaches making use of theory-based evaluation (Pawson, 2002; Pawson & Tilley, 2001; Stame, 2004).

Evaluating proposals

At this stage, we also suggest providing students with the tools to evaluate and compare proposals. In their careers, students will often have to assess proposals and arguments put forward by others, so it is important to prepare them for this.

Evaluating proposals takes many of the same skills as writing proposals, but there are also a couple of important differences. Evaluating proposals written by others takes less time. Rather than experiencing the entire process of writing a proposal, one reads only the final outcome. As such, it is important to learn how to quickly develop an understanding for an issue at hand. This requires knowing what to focus on and what not, which in turn rests on the ability to spot and identify the crucial steps and elements in proposals. Students need to learn to see the line of reasoning and identify the core theoretical and normative ideas underlying the arguments. They should learn to weigh empirical evidence that is presented to support claims and know how to rather quickly assess the methodologies of studies.

4 Practical Suggestions

These are skills that are best learned by doing. The best way to teach this type of practical skills is not using textbooks, but through concrete case studies. These might be historical as well as current. For students, it is often more interesting to work for a real-world organisation, so it is great if companies, government agencies or NGOs can bring in the case studies. If a practitioner from one of these organisations can be found to help teach the course, even better. Alternatively, cases can be drawn up by the professor.

More generally, students need to go out into the world and talk to stakeholders. Problem analysis assignments might be bigger projects, up to several months long, but could also very well be structured as smaller tasks. Training students to evaluate existing proposals can be done by giving them reports from academics, NGOs, political parties, government agencies, lobby groups and firms. They could analyse these in smaller groups, discuss them, write summaries, criticisms or evaluations of them, or compare them to other proposals on the same topic. In general, we would recommend doing this on topics that students already know a lot about: it saves time on reading up. However, it can also be a valuable exercise to do this on topics they know less of, as this frequently happens in real world jobs as well.

Finally, this building block is also particularly well suited for teaching students communication skills. They could be given assignments to argue for proposals as well as problem analyses, both in written and spoken forms. This could be done through essays, debates, or letting students give pitches. The goal here is not only being as convincing as possible, but also being understandable and transparent about limitations and underlying assumptions.

Teaching Materials

- To introduce the policy tools, reading materials can be of use, but they will probably have the most lasting impact when combined with practical exercises in which students have to apply the tools themselves.
 - For cost-benefit analysis, a useful book is: *Cost-Benefit Analysis: Concepts and Practice* by Anthony E. Boardman, David H. Greenberg, Aidan R. Vining, David L. Weimer, most recent edition from 2018.
 - For participatory evaluation, the following book can be of help: *Participatory Evaluation Up Close: An Integration of Research Based Knowledge* by J. Bradley Cousins and Jill A. Chouinard, from 2012.
 - Risk-opportunity analysis is newer and has yet to be explained in a textbook, but a useful working paper explaining the tool and providing examples of applications is: *Risk-opportunity analysis for transformative policy design and appraisal* by Jean-Francois Mercure, Simon Sharpe, Jorge Vinuales, Matthew Ives, Michael Grubb, Hector Pollitt, Florian Knobloch and Femke Nijse, from 2020.
- A useful and accessible book about systems thinking is: *Thinking in Systems: A Primer* by Donella H. Meadows and Diana Wright, most recent edition from 2015. Another helpful book is *Systems Thinking For Social Change* by David P. Stroh, from 2015. A website providing an overview and links to explanation texts and courses is: <http://learningforsustainability.net/systems-thinking/>
- *The Oxford Handbook of Public Policy* by Robert E. Goodin, Michael Moran, and Martin Rein, from 2008. An extensive book, which provides a useful overview of different aspects of public policy, such as the role of economic policy tools, engagement of stakeholders, and producing and evaluating policy.
- *Handbook of Policy Formulation* by Michael Howlett and Ishani Mukherjee, from 2017. Another extensive book, which focuses on how policy is made with its different aspects, such as choosing policy goals and instruments, policy appraisal techniques, and the politics of defining and resolving policy problems.

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