

## Trade-offs – at the nub of most policy advice

*“There are no solutions; there are only trade-offs.”* Thomas Sowell, US economist

*“Most choices involve trade-offs and there are seldom easy solutions. To really understand those trade-offs, you need high quality advice. Governing is about making choices because we can’t do everything that we want to do. Great advice helps us cut through to what is most important.”* John Key, New Zealand Prime Minister

The Sowell quote may be a little extreme, but Prime Minister Key captures the issue. In this masterclass, we look at the implications of such trade-offs for advisors and offer suggestions.

### **Fundamentally, policy advice is about a challenging problem requiring a tailor-made solution...**

The usual reason issues appear on the policy analysis ‘to-do list’ is that they are hard to solve. Indeed, if they were easy, they would not keep appearing on such agendas.

Sometimes, the ‘difficulty’ involves a lack of workable technology. For example, the world is seeking an easily applicable way of identifying the work of those students who use AI to answer their assignments. Or what might be done to address the economic impacts of climate change on the parts of the country exposed to rising sea levels.

In other cases, it is because some data or vital information is lacking to inform a decision.<sup>1</sup> So, we have a variety of available interventions but don’t know the best policy to change citizens’ behaviour to moderate alcohol consumption.

But often, it is because the available interventions are contentious. Different people support different policy actions – the citizenry forms a heterogeneous population.

Underlying this disagreement frequently is confusion about the values of the objectives being pursued.

So, in the case of a government considering measures to support a local movie industry, the aim may be any one or more of the following:

- Telling our stories in our way
- Creating local economic benefits by supporting a thriving industry; or
- Allowing New Zealanders to follow their interests while working at home.

Whichever (one or combination) of these is favoured may support different policy actions.

### **Different people have different views**

Again, there are diverse causes in this situation. On the one hand, the position may reflect the natural variety in peoples’ individual preferences (‘I like red more than blue’). On the other, it may involve something more fundamental and thus deeply held, like an ideology, moral views or firm religious convictions.

But, whatever the underlying reasons, it means different members of society assess the same potential intervention differently.

This situation of diverse views within the population means it is unlikely there will be universal acceptance of any specific course of

<sup>1</sup> See Masterclass No. 50 Dealing with uncertainty <https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/Brief%2050%20Dealing%20with%20uncertainty.pdf>

action – including that of doing nothing to preserve the status quo.

From the point of view of those preparing advice, this creates a string of problems. This note deals with one of them, the trade-offs.

### Trade-offs – the core of policy advising

As noted, public policy problems are complex. That's why they often wind up on the government's plate.

And it's unclear how to judge the results – typically, the upshot is reviewed in terms of multiple outcomes as totally restricted interventions are rare. The results can only be seen via a set of scores against different values. Rarely do these sum up neatly, so there are varied results to be reviewed – perhaps in a dashboard.<sup>2</sup> So often, the result of an intervention may have some indicators up or some down.

Of course, sometimes, this can be a simple multivariate analysis. Possibly, the scores can be summed up in a straightforward indicator system like traffic lights.

### The COVID trade-off was basic but challenging

Take a simplified case. We recently were grappling with a serious pandemic. COVID-19 was highly contagious, and once a safe and effective vaccine was available, being inoculated safeguarded those who got the shot and built up community immunity (including those for whom being inoculated was not possible for medical reasons). Once vaccinated, people could potentially (once restrictions were relaxed) take up a more normal lifestyle and thus help return the economy to its regular functioning.

So, from a public health (wellbeing) standpoint, it was sensible to try to have as many people vaccinated as possible – including using regulations to enforce the need for vaccinations.

<sup>2</sup> For an assessment of what is best the goal is to find a single measure to summarise aspects that lie on different dimensions.

However, from a human rights angle (including the Bill of Rights), individual freedoms were infringed upon. Thus, there is a trade-off between public health and human rights. The more the government pushed for inoculation, the more likely there will be infringements on individuals' freedoms.

And it doesn't stop there. These two approaches have different economic effects, too. These are potentially significant and should be included in any careful evaluation.

This situation is a classic '*trade-off*' between the two aspects. Doing something that positively changes one score (more pressure to get vaccinated) negatively affects the other (individual rights). (And this is without looking closely at the economics, which includes the costs of getting sick, like treatment, loss of income and reduced output.) There is, thus, no simple solution to picking the best outcome.

This situation is not rare. It ties back to the best practice of using criteria to assess options. We've covered this in an earlier masterclass.<sup>3</sup>

It is frequent for measures within a set of criteria to move in opposite directions for proposed policy interventions.

So, in a general wellbeing framework, relieving poverty by cash payments advances equity measures but will demand funding, say by taxes, in a way that then reduces disposable income for those levied.

Or, just increasing the stringency and complexity of a firearm licence application, say, is a valued precaution and can be positive for safety but is scored negatively as costly red tape in terms of process efficiency.

### Something must be done

Yet overall, these are matters of public concern, and for the advisor, there is a situation that demands a policy decision.

<sup>3</sup> See Masterclass No. 27 Options analysis [https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief\\_27\\_options\\_analysis.pdf](https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief_27_options_analysis.pdf)

However, any outcome will be assessed differently by different measures based on national wellbeing criteria.

In other words, the decision will simultaneously create ‘positives’ and ‘negatives’. These effects are unavoidably joined together.

Evaluating and responding to such situations is part of the advisor’s job. But it is a challenging task.

### Problems for advisors – it means sometimes accepting the decision is inevitably political

Advisors must grapple with these complicated questions in their decision-support role. The task is to provide relevant material that will support high-quality choices.

So, what does an advisor do to tender sound, helpful advice about these trade-offs?

One way of thinking about the political process is that it exists to solve the policy conundrums that other approaches cannot.<sup>4</sup> The structure of its accountability reflects this. The regular electoral process allows citizens as a mass to reflect back to the government on the extent to which they have been solving such hard questions well.

### Trade-offs are often indeterminate

However, trade-offs can mean there are no simple assessments available. The possible distribution of solution options and their negative links means it can be hard to be definitive about which outcome is the ‘best’. Which one should be put forward is not necessarily obvious.

### General rules – provide the decision maker with good support material

Making a sound decision is about having a logical framework to apply to a particular situation so that it can be assessed against criteria.

Generic approaches to good quality decision support stress the need to provide factual, unbiased material.<sup>5</sup> This goes beyond the content to the presentation.

### So, how can we best present these concepts in quality advice?

We don’t know any practical all-purpose solutions. Occasionally, the logic of the specific situation might allow one suitable presentation action to cut through the problems and work well. But in general, this is not the case.

As signalled above, one potentially helpful framework to assist advisors grappling with this issue is the multi-criteria analysis approach outlined in the Treasury’s Better Business Case material.<sup>6</sup>

There it says:

*“Multi-criteria decision analysis is a general framework for supporting complex decision-making situations with multiple and often conflicting objectives that stakeholder groups and/or decision-makers value differently.”*

Of course, it can be simplified down further – depending on the nature and scale of the issue you are dealing with.<sup>7</sup>

<sup>4</sup> This is discussed briefly in Masterclass No. 1 Communication with aliens [https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief\\_no\\_1\\_communication\\_with\\_aliens.pdf](https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief_no_1_communication_with_aliens.pdf)

<sup>5</sup> See Masterclass No. 51 Advocacy or advice <https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/Brief%2051%20Advocacy%20or%20advice.pdf>

<sup>6</sup> See <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/better-business-cases-bbc/bbc-methods-and-tools#strategic>

<sup>7</sup> The process is explored with an example in Masterclass No 27 Options analysis [https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief\\_27\\_options\\_analysis.pdf](https://www.nzier.org.nz/hubfs/Masterclasses/Central%20Government/brief_27_options_analysis.pdf)

Beyond these ideas, the advisor is on their own to develop a method that works for the specific issue. Below is a list of hints to help make your advice as useful as possible.

### Checklist of helpful hints

**Don't presume to know** – own up to the difficulties you face. Be clear about the complexity and how it means no unambiguous and neutral conclusion.

**Discuss the trade-offs clearly** – this presents the issue to the decision maker and invites them to develop their own view of the situation.

**Present the options with their attributes in a comparative table** – this allows the decision maker to decide based on all the relevant matters as they see fit.

**Ensure your language is carefully chosen** – avoid using words with an evaluative side except in the assessments of explicit comparisons.

**Present as much useful data as possible** – this can range widely from opinion surveys on what the population thinks to showing the number of people affected and the impacts of the individual policy options.

**Think of cunning ways of presenting the questions** – this might include pushing the linkages discussed in the COVID-19 situation above to say something like, “if you think public health is generally more important than human rights – at least as these aspects present here – you should favour option B.”

While carefully presenting all sides of the trade-offs is necessary, **we still think a well-argued recommendation can be helpful**. But, it deserves a particularly full justification – and, of course, the logic must be impartial and impeccable. The reasons cited must be appropriate to a public debate.

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