# Political economy map –
# A useful tool for public policy decision makers

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**Abstract.** *This paper shows the usefulness of political economy mapping for public policies decision makers and for those designing public policies. A political economy map is not a perfect instrument, but easy to use and not expensive. It could be considered a major ingredient in designing and implementing any public policy. Its power comes from the knowledge provided. Its usefulness can be increased when more resources (time and money) are devoted to realize it. In the same time, ignoring it could lead to failure or unintended and undesired reactions of those affected, even if decision makers would have been well intended and some changes would have been necessary to implement.*
*Public policy makers would always welcome more information on the potential effects of their decisions. Public policy decisions alter costs and benefits for individuals, households, companies, various institutions and structures of the administration or other organized groups - trade unions, consumer or business associations, etc. (Croitoru et al., 2000).*
*The experience of the last 30 years provides many examples of success and failure in public policies. In many cases, what made the difference between success and failure were the support or opposition societies where various public policies decisions were implemented provided (Ruehl and Daianu, 1999; Doltu and Duhaneanu, 2010).*
*This paper is based on a previous study on the position and role of different stakeholders, who would win and who would lose from reforming the public administration in Romania.*

**Keywords:** political economy map, public policies, public administration, incentives, winners, losers, interest, influence.

**JEL Classification:** B4, D7, P16.

## Background

From Vietnam (TPP membership in 2016[1]) to Romania (second generation of reforms), from Paraguay (taxing the soy beans producers and improving supervision in the banking system) to the Netherlands (blocking the EU Free Trade Agreement with Ukraine) or from Georgia (increasing transparency and anti-corruption programs) to France ("taxing more the rich"), the experience of the last 30 years provides many examples of success and failure in public policies. In many cases, what made the difference between success and failure were the support or opposition from societies where various public policies decisions were implemented.

While on the one hand it is obvious that public policy decisions change the structure of incentives for the economy as a whole, on the other hand it is not so easy to know ex-ante how different groups of economic actors or individuals would react to certain changes of the existing incentives. Ignoring this basic principle ("People respond to incentives") may end up in failure when implementing well designed, good intentioned, desired or necessary various public policies.

A political economy map is an essential tool for the decision makers and for those designing public policies. Even if such tool is not perfect, is easy to use and not costly to realize. It could be considered at least a first step in designing and implementing any public policy. Its power in terms of knowledge provided and hence usefulness can be increased when more resources (time and money) are devoted to realize it.

## Objectives

This paper has two objectives. The first objective is to enhance the usefulness of stakeholder mapping in specific sectors. Such mapping shows at a glance the potential losers or winners from implementing various public policies. The second objective is to show how based on a political economy mapping bottlenecks in implementing public policies could be identified and possible allies could be identified for supporting successful implementing of various public policies.

The study use major findings of a preliminary political economy study aimed at helping the Government of Romania to prioritize its effort to reform the public administration. The study was based on a World Bank's methodology and provided an image on the position and role of different stakeholders – who would win and who would lose from reforming the public administration (World Bank, 2011).

## Method: Realizing a political economy map

Even in the last phase of the last major economic and financial crises (2007-2009) the Government of Romania engaged in modernizing the public administration to effectively and efficiently deliver services to the citizens, and in line with four principles of coherence, responsibility, performance and partnership.

1. Defining the areas of interest[2]
First, major areas of interest, considered critical and comprehensive for the public administration of Romania were identified. These areas were: (1) Public finance, Public Administration reform and Governance; (2) Education and Research and Development; (3) Agriculture and Rural development; (4) Transport; (5) Energy and Environment; (6) Business Environment and Competition; (7) Social inclusion, Social Assistance and Health.

2. Identifying the major stakeholders
Stakeholders map is an instrument of political economy meant to give the perceived picture of the stakeholders positioning at a certain moment. Major stakeholders were identified for each mapping in specific sectors. The research was aimed at showing at a glance, which stands to lose or benefit from the reforms so as to be able to predict bottlenecks and identify possible allies.

3. Realizing the stakeholders map
The designed and used map for this study had three coordinates: (i) stakeholder is a winner/loser of the reform in the sector, (ii) stakeholder's interest in the sector, and (iii) stakeholder's influence. Each dimension was marked from 1 to 10 where 10 were the strongest in the opinion of the respondents.

The resulting maps show average marks based on respondents grading of the different stakeholder. Stakeholders were identified for each of the seven areas considering specific characteristics of the activities. Some of the stakeholders were common for all areas, while others were specific for the particular areas.

As data are not based on a sample, the conclusions should be carefully analyzed and any temptation to generalize should consider the specific features of each area. Data were collected using a questionnaire and direct interviews. 70 respondents with different social background and professional experience covered eight categories: (1) Public Administration (Central and Local), (2) Business community, (3) Civil society (NGOs), (4) Trade unions, (5) Media, (6) Academia, (7) Political parties and (8) International Financial Institutions (IFI) with experience in the Romanian transformation process after 1990.

## Findings and their interpreting: Winners and losers

*Public Finance and Public Administration*
Foreign investors, small businesses, natural persons, the National Bank of Romania self employed, the Ministry of Public Finance, the Center of Government, NGOs, large companies, the banking system and the associations of entrepreneurs would be the main winners from the reform in these areas[3] They could be considered "potential champions".

**Figure 1.** *Public Finance, Public Administration and Governance Reform*

(23 winners, 5 losers)
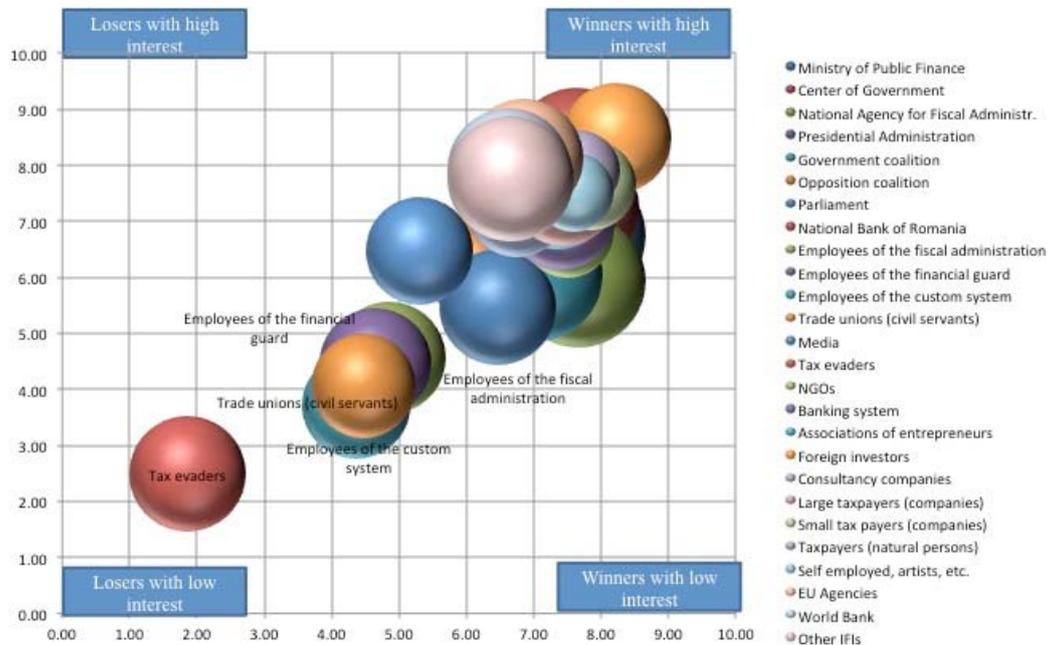


All Figures in this paper use the data base realized by the author for the World Bank in 2011.

A second group of winners with lower gains compared with the stakeholders in the previous group ("potential champions") includes: the government, the Presidential Administration, EU Agencies, consultancy companies, the National Agency for Fiscal Administration.

The stakeholders that would be worst off/losers from the reforms are: the tax evaders, the employees of the custom system, the employees of the financial guard and, the employees of the fiscal administration system.

The initial distribution of the potential winners and losers can be easily disaggregated in smaller groups based on different ranges of accumulated marks. This generates a more clear understanding of the potential effect on various stakeholders. Later on this data can be correlated with the findings on each stakeholder's interest in the reform process and with its influence during the design phase and implementing of certain reforms.

**Figure 2.** *(Public Finance) The First Group of Winners*
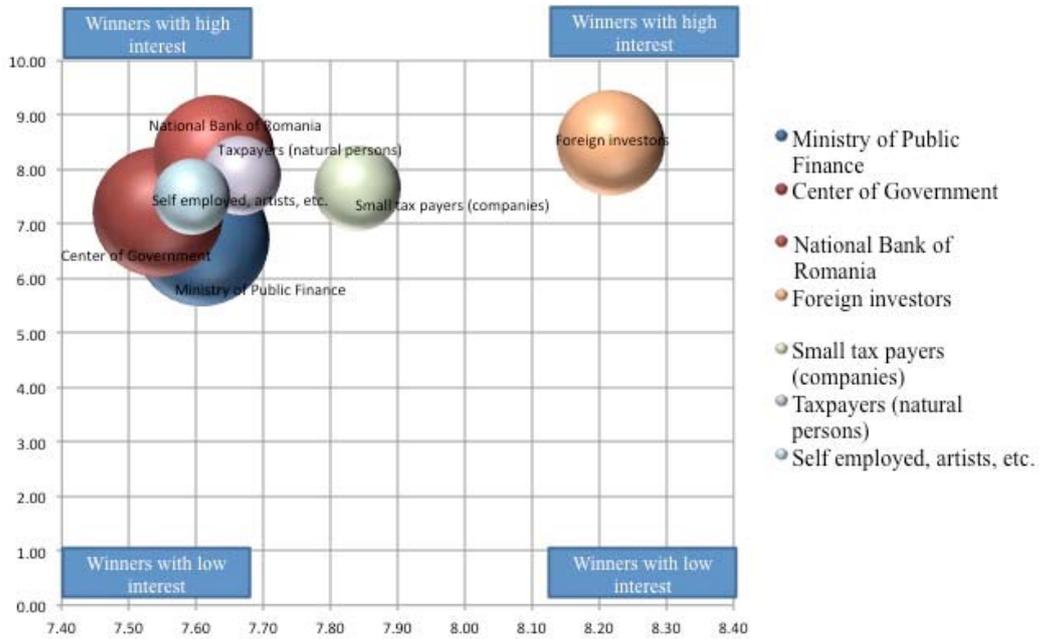


**Figure 3.** *(Public Finance) The Second Group of Winners*
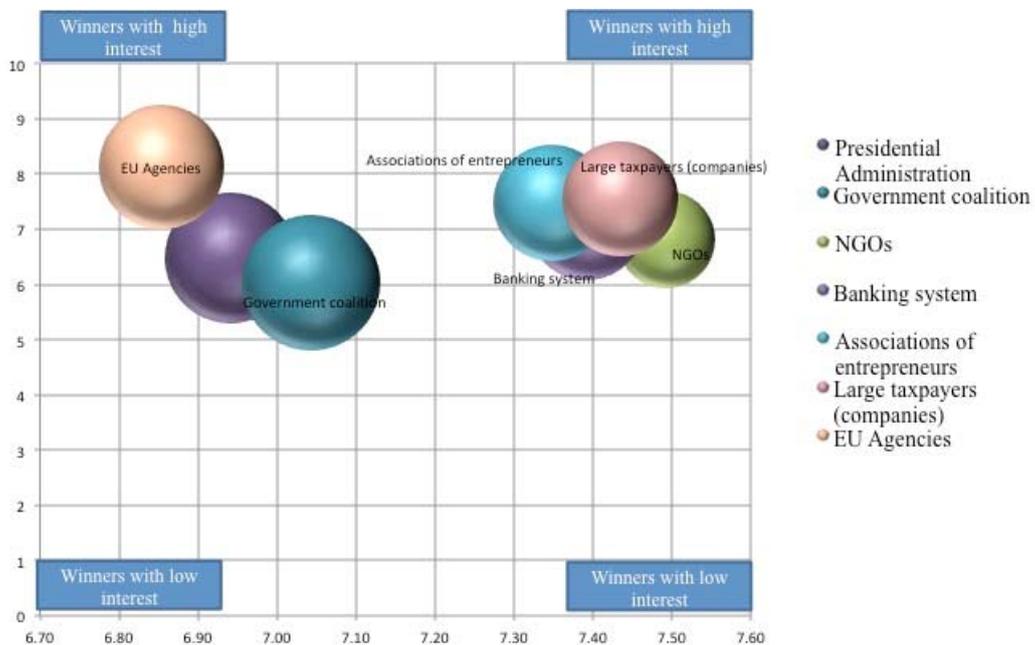
**Figure 4.** *(Public Finance) The Third Group of Winners*
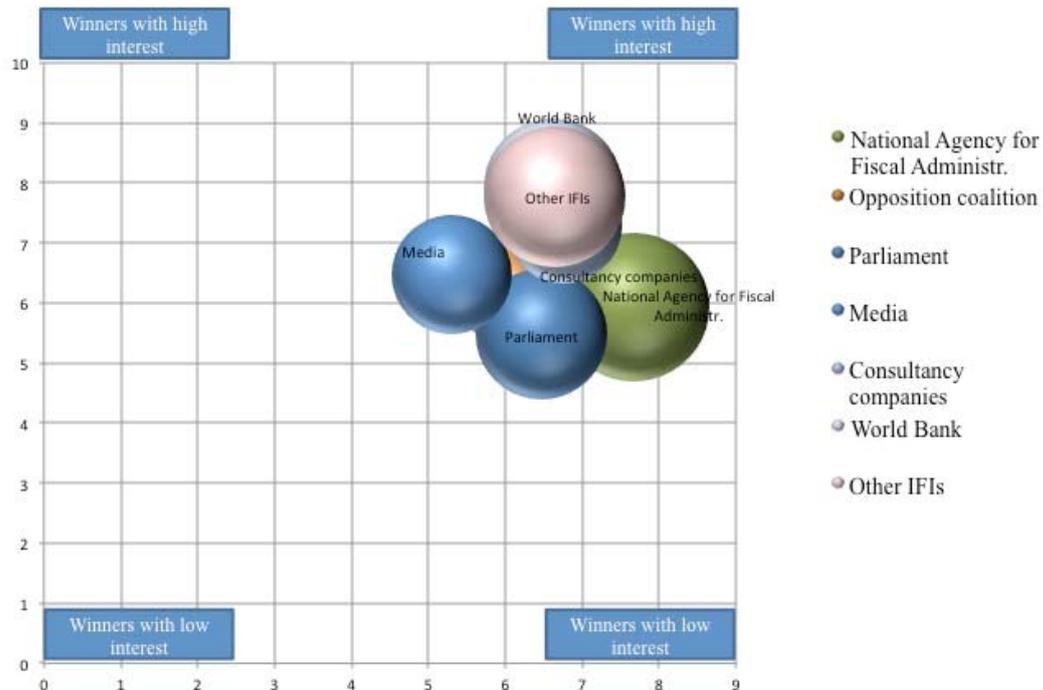


*Agriculture and rural development*

There is a general positive perspective on the reforms in these areas. The only expected losers are the tax evaders operating in economic activities related to agriculture. All the other stakeholders are expected to benefit in different degrees from the reform. The "potential champions" are: the consumers, large Romanian investors in agriculture, population in rural areas, foreign companies in agriculture, food industry and the local authorities. Also, significant gains are expected for other stakeholders including various institutions of the central government, professional associations, wholesalers, retailers, investors in tourism and small landowners.

*Reforming the transport sector*

The reforms in the transport area are not expected generate winners and losers, but just winners. Although an uneven distribution of gains among stakeholders is expected, there is a strong positive perspective on the reforms in this area. The "potential champions" are: population (in terms of safety), the investors in other industries, investors in rural areas, transport companies, local communities, construction companies, project companies and various institutions of the central government.

**Figure 5.** *Reforming Agriculture and Rural Development*

(29 winners, just 1 loser)
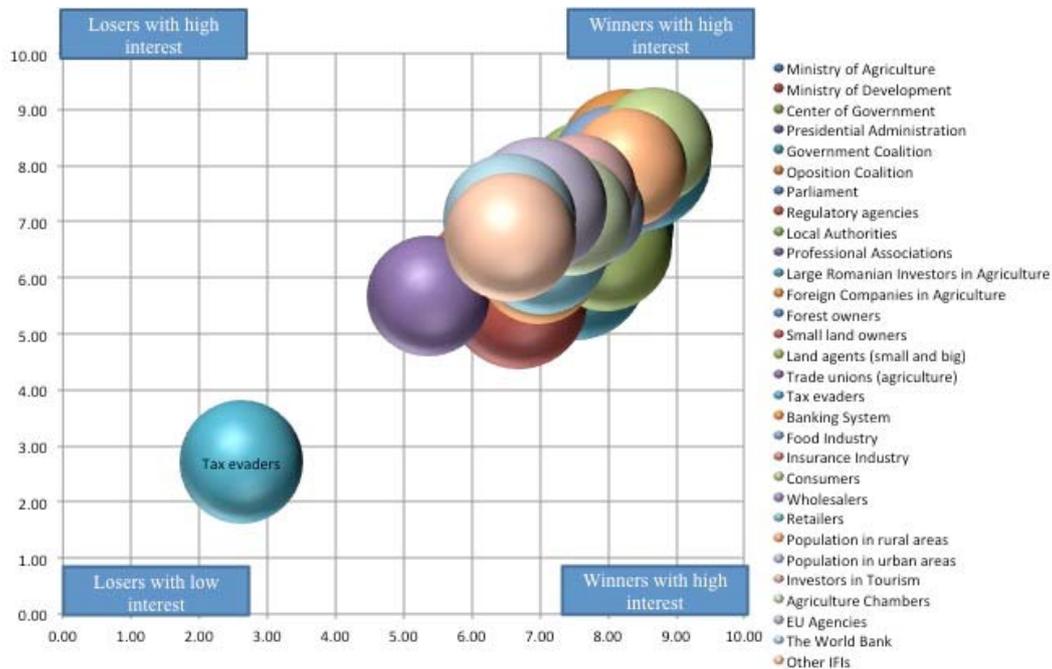


Analyzing the marks attributed by various stakeholders, significantly increase the chances for success in implementing various policy decisions due to deeper and high quality of knowledge on the reality and individuals' and various groups' expectations. For instance, in Romania's particular situation a strongly supportive attitude towards the reform of education and R&D systems was identified. No losers were expected. The high position of the Ministry of Education among the winners reflected the broad view/acceptance on/of the Government's role in education, while the high mark for foreign schools and universities reflects the awareness that the reform also means to open the system. In the same time, the high marks for students, parents and employers reflected the expectations that reforming these systems would generate better study conditions, and would enhance the link between the education system and the labor market.

**Figure 6**. *Reforming Transport Sector*

(25 winners, no losers)
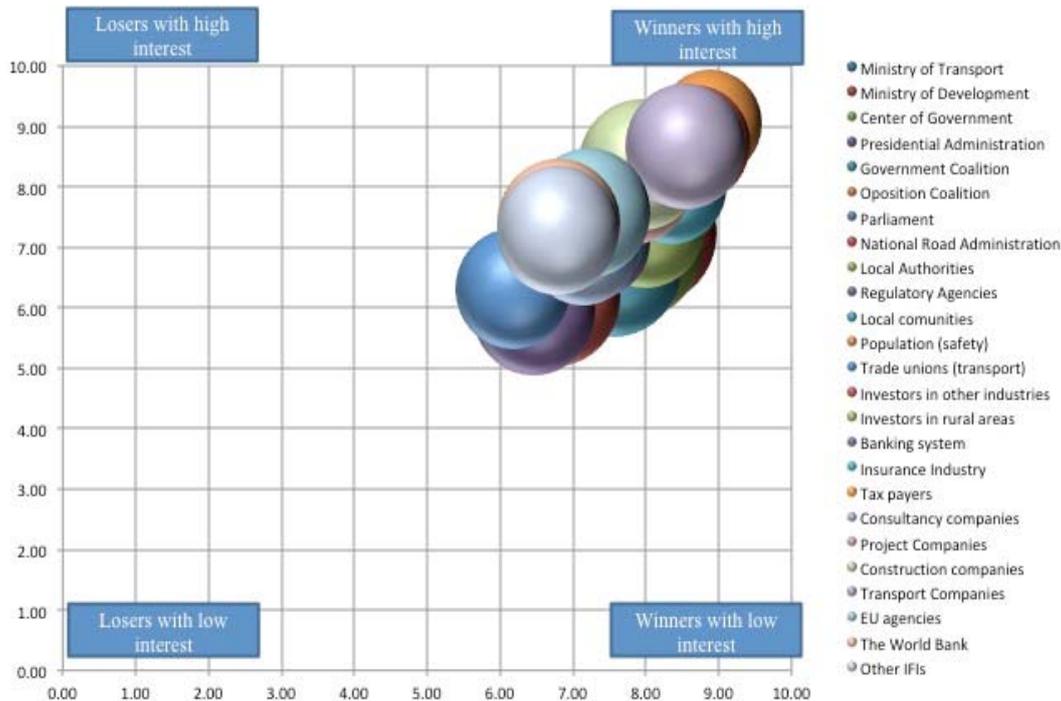


## Interest and influence

Difference may exist between the interest and influence of the stakeholders. Some stakeholders with high interest (ex. consumers, small land owners) may have a minor influence. However, ignoring them in the process of designing and implementing the reforms – especially the small land owners – could increase the resistance to change and could reduce the chances to reach the objectives.

A top-down approach in designing and implementing the reforms (i.e. ignoring stakeholders with lower influence, but with high interest) could increase the resistance to change and could reduce the chances to succeed. To prevent this, a special attention may be addressed to the consultation process in designing and implementing reforms. The reforms in the Transport area are not expected generate winners and losers, but just winners. Although an uneven distribution of gains among stakeholders is expected, there is a strong positive perspective on the reforms in this area.

## Several findings and their interpretation

### *Transport*

The stakeholders with the highest interest in reforming the Transport area are more or less the same stakeholders expected to win the most from the reforms. On the one hand, this is a significant advantage in the programming process for major investments – setting priorities in critical investment areas and linking them with the limited available resources. On the other hand, the stakeholders with the highest influence are various institutions of the central government related with the ruling political party/ruling coalition and also construction companies. Thus, a transparent allocation of resources is a critical condition in order to reduce/avoid corruption and to increase responsibility and accountability.

### *Education and R&D*

A significant difference exists between the interest and the influence of the stakeholders. While the most interested stakeholders are parents, students (university level), vocational schools, private research institutes, foreign schools and universities in Romania, research institutes, employers, NGOs and professors, the stakeholders with the highest influence are the bureaucrats associated with the ruling party/coalition. Broadening the consultation process on designing and implementing reforms in these areas is strongly recommended in order to avoid the rejection from the system and to increase the likelihood to reach the objectives.

### *Business environment and competition*

Trade unions and state owned companies are the only expected losers from the reform in this area. The "potential champions" (stakeholders expected to win the most) from the reforms are consumers, small and medium enterprises (SME), and the law companies (involved in merger and acquisition). All the other stakeholders are expected winners in different degree.

### *Social inclusion, social assistance and health*

The reforms in these areas are not expected generate losers, but just winners with an uneven distribution of gains among stakeholders. There is a strong supportive perspective for reforms in these areas.

On the one side, the stakeholders with the strongest influence are various state institutions at central and local level. They concentrate the most of the available resources. On the other side, the stakeholders with the highest interest are less influent. These stakeholders are the primary beneficiaries of the system, but they completely depend by the centralized decisions. This shows that there is a lot of room for reforms, but also a high potential for corruption.

## Conclusions

1. A political economy map could be a powerful tool for the decision makers and those involved in designing public policies. The knowledge provided by such an instrument is relatively easy accessible for policy decision makers. Although a political economy map is not a perfect instrument, it is not costly in terms of money and time necessary to realize it.

2. A political economy map makes possible to identify potential winners and loser from various public policy decisions before reforms or changes are implemented.

For instance, the study on which this paper is based reveals that continuing the "second generation of reforms" would generate more gains than loses for Romania. Most identified stakeholders would be winners (better off compared with their current position). Just few categories would be losers (worst off compared with their current position). Although gains and losses are not precisely defined (i.e. financial, prestige, social position, jobs, privileges, power, etc.), gains could be considered as "better off" compared with the current position and loses as "worst off".

3. A political economy map makes possible to identify the interest of different stakeholders in various changes.

4. A political economy map makes possible to identify the voice or influence of different stakeholders.

In a significant number of areas may exist significant differences between stakeholders' interest on reforms and their influence (high interest, but no significant influence or low interest but potential high influence). It is useful to know these aspects to avoid unnecessary or costly opposition from various stakeholders.

## Notes

[1] Trans-Pacific Partnership (TPP) is a trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The agreement, signed on 4 February 2016, was renegotiated after the USA withdrew in January 2017.

[2] Not all the findings and conclusions of the initial study are presented in the paper. The scope of this paper is limited to show the usefulness of political economy mapping.

[3] The NBR is not associated with the Government policies. Its failures are motivated by the government inefficiency that pushes the central bank to promote inconsistent policies. Thus, a reform in these areas would allow the NBR to follow appropriate policies and would increase the likelihood to achieve better results.

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