The Role of Economic Analysis in the Decision-Making Process of Independent Regulatory Agencies

Submitted by Lorna Sarah Schrefler to the University of Exeter as a thesis for the degree of Doctor of Philosophy in Politics, in October 2011

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Lorna Sarah Schrefler: .................................................................
Abstract

It is conventional to argue that the autonomy and reputation of regulatory agencies depend on their expertise. Yet the studies on how independent regulatory agencies (IRAs) create and deploy their knowledge capacity are few and far apart. Normatively, the justification for delegating decision-making powers to IRAs is that they operate by using technical analysis and expertise rather than political considerations. But yet again, although delegation has been discussed as a design principle, systematic evidence on the conditions under which IRAs make use of knowledge and how is still scarce.

The literature on knowledge utilization portrays a rather complex link between expertise and policy, where relevant knowledge is not always reflected in policy outcomes and plays several functions besides facilitating the solution of policy problems. Unfortunately, scholars of IRAs have not exploited the insights of this literature yet.

This dissertation addresses the under-explored question of the usage of economic knowledge by IRAs. We identify four possible uses of expertise: instrumental (i.e., to solve problems); strategic (e.g. to advocate a position); symbolic (e.g., to gain legitimacy), and non-use. Our aim is to explain under which conditions a certain usage is more likely to occur. To do so, we draw on the methodological device of explanatory typologies (Elman 2005). Specifically, we select two explanatory dimensions that reflect both the context and the content of policy: the level of conflict in the policy arena, and the degree problem tractability. We use different combinations of these two dimensions to derive four hypotheses on the possible uses of expertise mentioned above. The elusive nature of knowledge utilization makes the identification and measurement of these different usages highly dependent on an in-depth understanding of the institutional, organisational, and political context in which a regulatory decision is taken. We have thus opted for a qualitative approach based on case studies and process tracing (Bennett 2010; Brady 2010; Freedman 2010) to appraise the four hypotheses. Empirically, we performed three case studies on regulatory policy decisions taken by the UK Office of Communications (Ofcom) between 2005 and 2010.

We find that, given certain scope conditions, the prevalent use of economic analysis is instrumental - a finding that contradicts previous research that labelled instrumental learning as extremely rare, if not a sort of technocratic utopia. Other uses still exist however, and given other scope conditions regulators can be strategic and symbolic in
their approach to knowledge and expertise. This is not surprising if we accept the notion that regulators operate in a policy environment that is eminently but not exclusively technical: to survive in a (at least partially) political environment, regulators have to deploy usages of knowledge that deviate from the instrumental type.
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