

## **Policy Advice During a Crisis**

Mwangi S. Kimenyi  
Germano Mwabu

*Social Sector Division*  
Kenya Institute for Public Policy  
Research and Analysis

*KIPPRA Discussion Paper No. 44*  
*September 2004*

---

## KIPPRA IN BRIEF

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research, leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision-making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public sector. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the government and the private sector may obtain information and advice on public policy issues.

Published 2004

© Kenya Institute for Public Policy Research and Analysis

Bishops Garden Towers, Bishops Road

PO Box 56445, Nairobi, Kenya

tel: +254 20 2719933/4; fax: +254 20 2719951

email: [admin@kippra.or.ke](mailto:admin@kippra.or.ke)

website: <http://www.kippra.org>

ISBN 9966 949 70 4

The Discussion Paper Series disseminates results and reflections from ongoing research activities of the institute's programmes. The papers are internally refereed and are disseminated to inform and invoke debate on policy issues. Opinions expressed in the papers are entirely those of the authors and do not necessarily reflect the views of the Institute.

KIPPRA acknowledges generous support from the European Union (EU), the African Capacity Building Foundation (ACBF), the United States Agency for International Development (USAID), the Department for International Development of the United Kingdom (DfID) and the Government of Kenya (GoK).

---

---

## **ABSTRACT**

*Good policy making is an art. It involves a substantial element of personal judgement about risks and consequences of alternative courses of actions and decisions. It is also a science because it requires systematic gathering and analysis of evidence about a policy issue, and rational assessment of costs and benefits of various ways of addressing the issue. However, in a crisis, there is little time to gather evidence or to search for imaginative solutions to a problem. There is a tendency, in such a situation, to act under pressure rather than on the basis of evidence, analysis or informed judgement. Furthermore, a crisis often creates a situation in which policy makers receive all sorts of advice. This paper discusses a set of concepts, originating mainly from economics, that can be used to assess soundness of policy and advice, particularly during a crisis. These are concepts of rationality, sustainability, inclusiveness, feasibility, practicality and tipping, which can be used in decision making in normal and crisis times to reduce risks of disastrous advice or policy.*

---

---

---

## Contents

	Abstract .....	iii
1.	Introduction .....	1
2.	Policy Making During a Crisis .....	4
3.	Standard Policy Actions During a Crisis .....	8
4.	Prudence in a Crisis Situation .....	11
5.	Real World Examples of Crisis Policies .....	16
6.	Conclusion: Judging Soundness of Advice and Policy .....	17
	References .....	19
	Appendix .....	20

---

---

---

## 1. Introduction

A crisis is characterized by an unfavorable state of instability or disequilibrium, that is by a large negative deviation from the normal state of affairs. The instability can occur gradually, as when a country slips into deep poverty due to decades of economic mismanagement, or it can occur suddenly, as when for example a country is hit by a negative external trade shock (e.g., a fall in the price of a major export good) or by a natural disaster such as bad weather or earthquake. In such situations, there is urgency in taking decisions or actions, first to restore equilibrium, and second, to advance pre-crisis level of welfare. Measures directed at restoration of equilibrium or stability are typically known as adjustment or stabilization policies, and those aimed at improving pre-crisis welfare can be viewed as development policies. Development or routine policies are framed and implemented in normal times, while adjustment policies are undertaken in crisis situations. A crisis is not only an emergency – something requiring an immediate response – but it also has a further feature; that the appropriate response is usually unknown. It is this uncertainty feature that makes the design of adjustment policies extremely difficult. Therefore, care should be exercised in making and implementing such policies. In itself, a crisis is undesirable because it lowers welfare. However, in a crisis situation, a policy response to it presents not only the risk of worsening the prevailing welfare but also the opportunity to improve welfare far beyond its pre-crisis level. Therefore, a crisis has two conflicting aspects. Its negative impact or the threat of such impact is a bad thing, while the opportunity for improvement that it presents is a desirable thing. More generally, policy can harm or benefit the population in normal or crisis periods depending on how it is designed and implemented. However, the risks for harm and opportunities for gain are greater in crisis periods

Ideally, public policy should never harm the nation and its people.<sup>1</sup> Its intended purpose is to advance the common good, unless it is in the hands of decision makers who are not responsive to public needs and concerns.<sup>2</sup> However, policy can have disastrous outcomes if it is ill-conceived or badly implemented. Since this risk is greatest during a period of crisis, how can one decide the right thing to do in such a situation? This question applies to everyone – an individual, the family unit, the government, etc. In many ways, this is the ultimate survival question, because the outcome of an action or an inaction in a crisis can be disastrous. There is no easy alternative in an emergency situation. It is the hard choices inherent in a crisis, and their far-reaching consequences, that are often the source of panic and poor judgement on the part of decision makers and advisors in such a period.

The aim of this paper is to use basic economic analysis to unravel the steps and principles that can be followed to make rational decisions in crisis situations. In view of the wide scope of the issue involved, we restrict ourselves to crisis decisions and actions by policy makers in government. We make the simplifying assumption that an action follows automatically from a decision, so that policy decisions and actions are used synonymously. We view *advice* as a set of ideas that guide policy makers in choosing from among policy options. Advice is given by

---

<sup>1</sup> Every public policy is associated with losers and gainers. However, the net effects should be positive benefits. From a society's point of view, benefits from a policy should be large enough to compensate the losses.

<sup>2</sup> One of the basic premises of Public Choice School is that individuals act on their self-interest whether in public or private settings. As such, decision makers select those choices that maximize their own utility, subject to institutional constraints. Unless institutions of governance that constrain their behavior are in place, policy choices may largely benefit a few people at the expense of the general population. The case of the rare benevolent dictator notwithstanding, we assume democratic institutions of governance exist, and the primary intent of public policy under these institutions is to maximize social welfare.

experts, who typically have no power to effect the advice. We view *policy* as a purposeful action or a credible statement by persons in authority.<sup>3</sup> Advice precedes policy. That is, if knowledge is to be used to inform policy, it must be available to policy makers beforehand. Advice is useless if it is given to policy makers after a policy decision has already been made.

---

<sup>3</sup> Policy is also variously defined as (a) "a definite course of action or method of action selected from among alternatives in light of given conditions to guide and determine present and future decisions"; (b) "what is articulated, whether in writing or by word of mouth"; (c) "what is done, whether it has been stated before or not"; (d) "only such actions that are sustained"; (e) "purposeful statements, written or spoken, aimed at solving a particular problem" (Gitu, 2001). While policy is made by rulers, its implementation is the responsibility of its agents. Good policy promotes good governance and advances the general well-being of the population while bad policy has the opposite effect. Unfortunately, both the science and art of good policy making are rare among researchers and decision makers, and this situation might account for much of the poverty observed in the world.

## 2. Policy Making During a Crisis

During normal times, such as characterized by peace, social and policy stability or when the economy of a nation is experiencing steady economic growth, adherence to existing policy is often the norm. Policy focus then is on routine management of the economy to ensure that existing conditions prevail or improve slowly. Under such conditions, policy is conducted without much urgency; the public is content and demands for action are often limited to marginal changes in the policy direction. In fact, policy makers are often encouraged to stay on course. During such good times, policy advisors have the luxury of time to consider and evaluate alternative policies that would make the situation better or at least ensure that things remain as they are. As a matter of fact, such times afford policy makers the opportunity to experiment with marginal changes in policy with little fear for adverse consequences. The textbook prescription of policy making fits well during such good times. It is fair to say that most policy advisors are trained to offer advice to governments assuming normal state of affairs.

However, during a crisis, as for example when there is widespread social unrest, or when an economy is in a deep recession, this textbook approach fails. Crisis brings forth a need for urgent action and results.<sup>4</sup> It is also a time when error in policy choice can be extremely costly. More specifically, during crisis, both Type I error (accepting bad advice) and Type II error (rejecting good advice) have much more serious implications

---

<sup>4</sup> As of the time of writing the first draft of this paper, the new Kenyan Government was faced with various sorts of crisis situations. Most important was an economy in terrible condition as evidenced by high unemployment and poverty and stagnant growth. Likewise, the country was experiencing various incidences of social unrest, most important being the *Mungiki* menace, uncertainties about the new constitution and labour unrest. All these issues required urgent actions and the public expected immediate results.

than is the case during normal times.<sup>5</sup> For reasons discussed below, times of crisis also associate with a high probability of committing both types of errors in policy choice. Policy makers must therefore not only rely on credible advisors but must also have a systematic way of evaluating the soundness of advice that they receive from experts.

Policy choice during crisis demands special attention because mistakes can make the crisis worse, with serious consequences on the well-being of the population. We use the concept of “tipping” to characterize the irreversible negative impact of wrong polices during a period of crisis. *Tipping* is used here to imply a situation whereby a condition accelerates in the wrong direction as a result of policy action or inaction. One could think of the case of an economy in a severe recession or depression as being in a crisis state. During such times of economic crisis, policy concern must be to halt the decline and reverse the downward trend. Policy mistakes during such times result in an acceleration of the decline in economic performance, making it even more difficult for the economy to recover and plunging the population into widespread suffering. Likewise, in times of social crisis, policy choices could tip the social condition, resulting in a social tragedy. For example, organized social unrest by small groups could easily degenerate into civil war if inappropriate measures are taken. It is because of this “tipping” effect of wrong policy in undesirable direction, and with disastrous consequences, that we consider policy making during a crisis to be unique, and deserving of systematic thinking. We can therefore define

---

<sup>5</sup> A good example of the seriousness of making errors during crisis can be illustrated by the familiar case of convicting an innocent person for murder which carries a death penalty. In a case where a person is charged with murder, finding him guilty while he is in fact innocent results in serious consequences – hanging an innocent person – an irreversible action. Therefore, those types of cases call for very careful scrutiny of the evidence. We equate the gravity of an error in policy advice during crisis to that of convicting an innocent person for murder.

*good policy* during times of crisis as that policy with a “zero” or low probability of tipping over the existing condition into a worse state.

Policy making during times of crisis is even more complicated because the demand for action is very high. Policy makers are expected to act fast to deal with the crisis. The public demand for results imparts political pressure for urgent response. Given such pressure, policy makers are inclined to take measures that are expected to have a high positive impact and therefore resolving the crisis. We suggest that, just like investment options with high returns also have high risks, policies that can have a major impact in reversing a crisis also associate with a high risk of failure – that is high probability of tipping. We do not equate “successful” policies with “good” policies (see e.g., Jaffe, 1975; Jones and Cullis, 1991; Peacock, 1977, 1992, 1993). In other words, although an investor can place all his assets in high risk-high return investments and actually be successful, therefore increasing his net worth, one should consider that the probability of bankruptcy at the time of investment is very high. In as far as public policy is concerned, success of such high risk actions does not represent good policy because of the associated high probability of tipping the welfare of society. The interaction between pressure to act and the promise of rapid problem resolution increases the probability that policy makers will opt for high risk policies during times of crisis. Crisis tempts otherwise prudent policy makers to behave like gamblers. There is need to design an institutional mechanism (such as crisis resolution committees) for insuring policy making against decision behaviors associated with tipping.

Another dimension of policy-making that complicates the choice process during crisis has to do with the supply of policy proposals. A crisis creates experts of all sorts. The deeper the crisis, the larger the supply of “expert” opinion. On the one hand, policy makers face demands to act, and on the other, they are offered numerous suggestions and are therefore expected to act and do so fast. Unfortunately, most of the policy proposals

that are made to policy makers may be poorly informed. In a crisis, most proposals fall under what might be called “folk” policies. Folk policies are not based on any scientific evidence of "cause-and-effect" or clearly demonstrated relationships. Instead, folk policies are based on beliefs, practices, casual evidence and value judgements (Ng, 1972). The basis for folk economics or science, for example, are mere beliefs as to how the economy or the world works. Folk policies offer little guidance in complicated matters, as they contain elements of common knowledge and experiences with no innovation. They are likely to be a large menu of mostly high risk policies.

### **3. Standard Policy Actions During a Crisis**

In a crisis situation, well-intentioned policy advisors are inclined to recommend one of the following courses of actions or policies:

- Shock therapies;
- Radical actions;
- Incremental or gradual steps.

We provide a brief description of each of the above policy categories below.

#### *Shock therapy*

The idea of “shock therapy” is derived from the medical field. It is the type of treatment provided to patients in extreme emergency cases such as a heart attack or when there are few treatment options for an illness. It is also the type of treatment given to a substance addict by suddenly withdrawing the whole of the substance from the subject. A shock therapy can either cure or kill. It has no intermediate outcome. It is therefore a very risky course of action to take. A particular characteristic of shock therapy is that once a situation gets worse, there is little else that can be done. The action is irreversible. It is a once and for all action.

#### *Radical action*

A radical action or policy can be seen as one that changes the way of doing things in an almost the opposite direction. In a country characterized by large inequities in the distribution of a key productive resource such as land, a radical policy would be one that implements land redistribution by a decree. While achieving the intended outcome, a radical policy often creates many other problems—it could, for example, lead to a drastic fall in output or create social tensions. Likewise, during times when interest rates and prices are escalating, a radical policy would be to institute controls in form of price ceilings. Here again the policy

may create numerous other unintended outcomes though the initial objective (lower prices and interests rates) may appear to be achieved. Again, the policy achieves that narrow objective but creates numerous other unintended outcomes. Radical policies can be reversed though the costs of policy reversal can be very high. By and large, the short-run gains that accrue as a result of radical policies dissipate rapidly as they are not sustainable.

### *Incrementalism*

Incrementalism or gradualism is to an extent the opposite of radicalism. It is the type of policy making characterized by marginal changes in existing policy. During a crisis, such an approach to policy may only have limited impact, as it does not lead the economy or the country away from its previous trajectory. The problem with such measures is that they may not bring about the required changes.

The pressure to show results tends to make shock therapy and radical policies attractive to policy advisors and makers. Such policies are easy to sell to policy makers who are keen to maximize popularity by showing some quick wins. We suggest that these policies are not generally suitable during times of crisis and a higher level of scrutiny is called for before making or implementing them.

The above policy measures appear mutually exclusive only under a casual examination. For example, it may not be necessary to apply only radical or only gradual measures in reforming economies. Radical and gradual policies can be applied simultaneously or can be sequenced to achieve well thought out objectives. With regard to the first point (complementary application of dissimilar policies), a radical measure can be directed at one problem in the economy, while a gradual one is being aimed at another problem. For example, in a financial reform, interest rates can be decontrolled overnight (a radical measure), even as bank deregulation is introduced gradually (an incremental reform). An

example in which radical and gradual reforms are used in sequence is also easy to find. Immediate removal of destitute families and children from the streets, followed by their gradual rehabilitation into worlds of work and schooling, is a perfect example of sequencing of radical and incremental policies in a way that is consistent with short-and long-term public interests. An appropriate response in a crisis situation is one that addresses the urgency of the moment, while at the same time searching for a better and long-term solution.

---

## 4. Prudence in a Crisis Situation

Given the high cost associated with the adoption of wrong policies during crisis, we suggest that policies adopted in such a period should at least meet the conditions of prudence. We define *prudent policies* as those policies that are least likely to be disruptive of a nation and its people. Such policies are robust in principles of feasibility and practicality.

We outline below decision rules that can increase chances of making and implementing prudent policies in a crisis situation.

Adherence to a small set of ideas when making policy decisions can reduce extreme risks associated with policies in periods of crisis. These are concepts of risk-averting attitude (not behavior), diversification behavior, sustainability, inclusiveness, fall-back strategies, broad feasibility and calmness in the midst of a crisis.

A policy is prudent if it can be said to be:

(a) *Averse* to excessive risks, that is it should not plunge the country into chaos or extreme dangers if it fails. A risk-averting attitude on the part of policy makers and advisors is more likely to avoid disastrous policies compared with a risk-taking attitude. There is need, therefore, for policy makers and advisors to cultivate or develop risk-averting temperaments. We take it as axiomatic that such attitudes or temperaments can be learned or acquired. The difficulty of course is that attitudes are not observable and so one cannot differentiate individuals by their attitudes towards risk. However, a record of the nature of a policy maker's decisions can reveal her/his attitudes towards risk. This information can be useful in selecting members of decision committees.

The idea here is to weigh the beneficial consequence of each policy option with the associated dangers. For example, a policy option with a large potential benefit might also be highly dangerous,

while a policy yielding smaller benefits might carry modest risks of harm. In this case, the risk-averting nature of prudence dictates a preference for the policy with smaller benefits. From this standpoint, doing nothing and maintaining the existing status quo might be a prudent policy. However, a policy of a status quo would be most imprudent if it sacrifices opportunities for a large gain to avoid small risks. Since decisions are always made in the context of uncertainty, the concept of prudence dictates that policies under contemplation be assessed based on probabilities of risks and benefit opportunities associated with them. The probabilities can be objective, or they can simply be degrees of belief as to magnitudes of risks and opportunities associated with particular policies.

- (b) *Diversified*, that is it comprises different elements or strategies, all aimed at achieving a given objective. In this case, some strategies would be high-risk and others would be low-risk. The manner in which such a policy is designed and implemented ensures that extreme risk is avoided. For example, if a high-risk strategy fails, as a low-risk one succeeds, the attendant loss would be mitigated by benefits of the successful strategy. A concrete and well-known example of a diversified policy is a trade policy based on many export commodities rather than one dominant crop such as coffee or tea. A policy consisting of military and diplomatic initiatives in resolution of a border dispute is another example.
- (c) Politically *sustainable*, that is maintained over political regimes or over several development periods. A policy option that is likely to find support in different political regimes is likely to be based on long-term national considerations rather than on expediency or short-term objectives of a particular regime. A policy based on long-term goals has an inherent tendency of avoiding disastrous

outcomes of measures intended to achieve short-term ends of a given regime.

- (d) *Inclusive*, that is based on inputs from different cross-sections of society. The idea here is that crisis decisions, albeit their urgency, should not be left to one person or to a few individuals, but should be made by a committee comprising a representative group of individuals. To the extent possible, there should be wide participation by citizens in such decisions, through debates by civil society, non-government organizations and elected representatives of the people. Moreover, incidence of benefits or costs of the decisions made should be widely shared in society. This implies that mechanisms for sharing such benefits and costs should be available.
- (e) Supported by a *fall-back strategy*, that is it specifies the course of action that would be taken if the preferred or the first best strategy were to fail. A fall-back strategy can be a second-best option, an exit strategy or a plan to terminate the policy whenever it becomes evident that it will not work. Therefore, there are three alternative elements of a fall-back strategy. One might involve a plan to exit from a failed program of action or from unworkable manifesto. The second could be a plan to terminate a policy once its failure is imminent. And a third element might comprise a different program of action, which differs in risks and opportunities from the preferred action. A prudent policy should contain all the three elements. Ordinarily, policy makers and policy advisors do not consider a comprehensive set of fall-back strategies because of the pressure to act fast. The impatience involved in crisis decisions is often the source of disastrous consequences often associated with such decisions. The necessity to have an exit strategy suggests

that choice of policies should also take into account the magnitude of sunk costs.<sup>6</sup>

(f) *Feasible*, that is it can be implemented with available resources.

However, a financially feasible policy can fail to be implemented if it is not practical. For example, a policy for elimination of child labor may remain on paper despite the availability of resources to carry it out, if a mechanism for recruiting working children to schools and to rehabilitation centers does not exist. Similarly, a program for rehabilitating street families within a month may fail for practical reasons, such as non-availability of shelter, which cannot be constructed in one month. Therefore, practical or technological aspects of policy decisions are as important as the conceptual, social, economic and inter-temporal dimensions discussed earlier. Institutional arrangements are key in determining practicality of policies. Since institutions are created by the polity or evolve out of social norms and conventions (North, 1990), feasibility of policies under a particular institutional structure (comprising, for example, a constitution, a legal system, manifestos of political parties, prevailing social norms) is determined taking into account the political realities of the day.

(g) An outcome of a *calm* decision making process. A crisis tends to cause panic and anxiety among policy makers because of the urgency of the response it requires. Under such circumstances, there is danger that action or policy will be based on mere feelings (e.g., anger, emotion, sympathy, impatience, fear etc.) or wishful thinking, rather than on reasoning and analysis. It is important that policy makers and advisors be calm in a crisis situation to facilitate careful consideration of key policy options. Rationality

---

<sup>6</sup> Simply, as economic theory teaches us, high sunk costs are a significant barrier to exit. We therefore take it that policy choices that have low sunk costs are easier to exit from should the policy produce undesirable results.

is the most important calming device in a crisis situation. It introduces objectivity in a decision process, that is the need to base decisions on evidence and reason. Further, it facilitates selection of a policy that is in the best interest of society because by its very nature, rationality demands that policy makers compare costs and benefits of alternative courses of action.<sup>7</sup>

In order to use the the above concepts in making decisions, it is important to institutionalize the general process of making decisions of a polity nature. This institutionalization can be done by constituting committees with mandates for making routine and emergency decisions. Therefore, once a decision matter has been identified as being of a particular type, it can be delegated to an appropriate committee for consideration. The implication here is that even as urgent actions are taken, there should be institutional mechanisms for managing a crisis, with long-term and broad development goals in mind.

An important aspect of institutionalized decision committees is that they introduce calmness in decision making, especially in crisis situation. Calmness avoids haphazardness in arriving at policy conclusions. A committee is a good institutional mechanism for bringing calmness in decision making process because its members are forced to rationalize their contributions so that only the most compelling, or well-reasoned or practical policy proposals would tend to be accepted by all committee members or by the majority of the members. As a matter of routine, the committee should always strive to be informed by evidence, facts, and by current scientific knowledge and by moral arguments before arriving at policy conclusions. Emphasis on rationality in decision-making should introduce calmness in decision committees and generally lead to prudent policies.

---

<sup>7</sup> Since policy makers act on behalf of society, this is equivalent to stating that rationality in a decision process helps policy makers maximize the social objective function.

## **5. Real World Examples of Crisis Policies**

There are many examples in various parts of the world that can serve as excellent case studies of policies in crisis situations. Land redistribution policies after independence or revolutionary changes in political regimes are good examples. Land redistribution policies in the former Soviet Union in the early part of the 20th Century are examples of policies designed and implemented in crisis circumstances. Similar land redistribution policies characterized Kenya and Tanzania in the early 1960s, China in the late 1940s, and Costa Rica in 1970s, just to mention a few cases. Uganda's property confiscation policies of the 1970s are particularly worthy of note.

In some countries, policies made in periods of crisis resulted in extreme suffering of the population, while in others they led to prosperity. Radical policies or those of the shock therapy variety generally led to suffering while prudent policies improved living conditions (Appendix Table 1). Some radical policies that registered short-term successes, as in the former Soviet Union had long-term disastrous consequences. Appendix Table 1 depicts examples of crisis type policies, their classification and consequences.

Appendix Table 1 is only an illustrative example of the types of policies that fit the policy classifications in the text. It is by no means intended to be a detailed or an exhaustive list of policy typologies. It is generally difficult to find prudent crisis policies because in a period of crisis, policies tend to have a short-run orientation. The decision principles discussed in this note are intended to guard against the temptation to go for disastrous policies or those that yield short-run, unsustainable gains.

---

## 6. Conclusion: Judging Soundness of Advice and Policy

The components of prudence (e.g., risk-aversion, feasibility, practicality) can be fruitfully used to assess whether the expert advice being given or the policy being contemplated is sound or not. In particular, the concept of risk-aversion can be used to determine whether adverse consequences of expert advice (and the attendant policy) are tolerable. Further, the concept of feasibility can be employed to determine whether the policy being advocated is affordable. Judging policy in relation to its practicality can reveal problems in its implementation. The main contribution of this paper is to provide rigorous and intuitive standards for judging whether an advice is sound or not. The note can help determine whether the advice or policy is well-considered, and whether its short- and long-run consequences are acceptable. The concepts can be used to evaluate any advice or policy. The standards of decision-making discussed here constitute a mechanism for forcing advisors and policy makers to rationalize their positions individually or jointly even when the subject matter of advice or policy is extremely urgent. The process of rationalization, by its very nature, elevates the role of reason to that of the pillar of the decision making process, therefore reducing risks of ill-conceived policies. Indeed, casual policies are ruled out by the decision standards discussed here.

Expert advice, public policy and social welfare are closely linked. Bad advice can lead to policies that are disastrous to the well-being of the population. It is therefore of utmost importance that advice and policies be carefully evaluated, especially in periods of crisis when human judgment is most prone to error. The decision standards of prudence can be used to reduce adverse consequences of public policies.

As a final remark, we emphasize the fact that policies that result in what may be called good outcomes do not necessarily meet our standards of

prudence. By definition, these policies are not “good’ from the normative point of view as discussed in this paper. Currently in Kenya, the government is implementing two radical (by our definition) policies that by all accounts are considered a success. The first has been the demolition of buildings and other structures that are constructed in areas reserved for public utilities. The second one has been the mandating of the fitting of seatbelts on all public commuter vehicles. Both of these policies have been enacted in response to what may be called crisis situations. While they have been implemented and many consider them a success, these policies in our view are not prudent in that they do not meet the features of prudence. The policies may therefore not be sustained through different regimes. They do not appear to have undergone careful evaluation of benefits and costs, and there are clearly no fallback strategies.

---

## References

- Gitu, K. W. (2001). *Strengthening the link between policy research and implementation*. KIPPRA Occasional Paper No. 1. Nairobi: Kenya Institute for Public Policy Research and Analysis.
- Jaffe, William (1975). "Leon Walras: An Economic Adviser Manque." *The Economic Journal*, 80(340):810-823.
- Jones, P. R. and J. G. Cullis (1991). "The public choice and public policy: The vulnerability of economic advice to the interpretation of politicians." *Public Choice*.
- Ng, Yew-Kwang (1972). "Value judgements and economists' role in policy recommendations." *The Economic Journal*, Vol. 82, No. 327, pp. 1014-1018.
- North, Douglass C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
- Peacock, Alan T. (1977). "Giving economic advice in difficult times." *Three Banks Review*, Vol. 106, reprinted in A.T. Peacock (1979): *The economic analysis of government*, p221-234. Oxford: Martin Roberttson.
- Peacock, Alan T. (1992). "The credibility of economic advice to government." *The Economic Journal*, 102 (September):1213-1222.
- Peacock, Alan T. (1993). "The utility maximizing government economic adviser: A comment. *Public Choice*, Vol. 80, Nos. 1-2, 191-197.
- Rubin, Paul H. (2003). "Folk Economics." *Southern Economic Journal*, Vol. 70 No. 1, 157-171.

<b>Appendix: A typology of crisis policies in different parts of the world</b>				
<b>Policy and nature of crisis</b>	<b>Country or region and date</b>	<b>Classification (radical, gradual, prudent etc)</b>	<b>Short-run performance (failed, succeeded)</b>	<b>Long-run Consequences (good, bad, disastrous, etc)</b>
1. Land reform due to political agitation after independence	Kenya, 1963-66	Prudent	Succeeded	Good
2. Property confiscation	Uganda, 1971-74	Radical	Succeeded	Disastrous
3. Property nationalization after independence and declaration of a socialist state	Tanzania, 1967-70	Gradual	Succeeded	Disastrous
4. Reorganization of property rights by fiat and forced villagization under pressure from socialist ideals	Tanzania, 1961-73	Gradual	Failed	Disastrous
5. Kenyanization of private enterprises and civil service under pressure from interest groups in the face of rural-urban migration and mounting urban unemployment	Kenya, 1963-70	Gradual	Succeeded	Bad
6. Creation of state enterprises under pressure from socialist development ideals	Developing regions, 1960s-1980s	Gradual	Succeeded	Bad to disastrous
7. Structural adjustment programs in the poor governance and growth	Eastern European countries and USSR, 1990s	Radical and shock therapies	Succeeded	Mixed
8. Structural adjustment under heavy external debts and negative growth rates	Sub-Saharan Africa, 1980-90s	Gradual	Succeeded	Bad
9. Political liberalization under pressure from opposition political parties and international development agencies	Kenya, 1990-2002	Gradual	Failed to change leadership	Good

10. Political liberalization under pressure from armed opposition and international opinion	South Africa, 1960s-94	Gradual	Succeeded	Good
11. Political liberalization under pressure from armed under-class	Cuba, 1959	Radical	Succeeded	Good
12. Equal protection by government of all citizens against demands from radical political groups after independence	South Africa, 1994	Prudent	Succeeded	Good
13. Inaction against ethnic violence under pressure from special interest groups	Kenya, 1990s	Gradual	Succeeded	Disastrous
14. Foreign exchange and trade liberalization under pressure from Bretton Woods Institutions	Sub-Saharan Africa	Gradual	Succeeded	Good
15. Free and universal primary education under pressure from NARC campaign promises	Kenya, 2003	Prudent	In progress	Not observed
16. Mandating seatbelts and speed governors on commuter vehicles	Kenya 2004	Radical	In progress	Not observed
17. Demolitions of private structures and buildings on land reserved for public utilities	Kenya 2004	Radical	In progress	Not observed

## KIPPRA PUBLICATIONS

### Conference Proceedings

*Report of the proceedings of the AERC-KIPPRA World Trade Organization (WTO) Workshop, 2000*

*Report of the proceedings of the International Conference on Finance and Development: Evidence and Policy Issues, 2001*

### Discussion Papers

Njuguna S. Ndung'u (2000). *The exchange rate and the interest rate differential in Kenya: a monetary and fiscal policy dilemma*. KIPPRA DP No. 1

Karingi, S. N. and Njuguna S. Ndung'u (2000). *Macro models of the Kenyan economy: a review*. KIPPRA DP No. 2

Ronge, E. E. and H.O. Nyangito (2000). *A review of Kenya's current industrialization policy*. KIPPRA DP No. 3

Nyangito, H.O. (2001). *Delivery of services to smallholder coffee farmers and impacts on production under liberalization in Kenya*. KIPPRA DP No. 4

Njuguna S. Ndungu and R. W. Ngugi (2000). *Banking sector interest rate spread in Kenya*. KIPPRA DP No. 5

Karingi, S.N., M.S. Kimenyi and Njuguna S. Ndung'u (2001). *Beer taxation in Kenya: an assessment*. KIPPRA DP No. 6

Ikiara, M.M. (2001). *Vision and long term development strategy for Kenya's tourism industry*. KIPPRA DP No. 7

Geda, A. and Njuguna S. Ndung'u (2001). *Specifying and estimating partial equilibrium models for use in macro models: a road map for the KIPPRA-Treasury Macro Model*. KIPPRA DP No. 8

Geda, A., Niek de Jong, G. Mwabu and M.S. Kimenyi (2001). *Determinants of poverty in Kenya: household-level analysis*. KIPPRA DP No. 9

Were, M., A. Geda, S.N. Karingi and Njuguna S. Ndungu (2001). *Kenya's exchange rate movement in a liberalized environment: an empirical analysis*. KIPPRA DP No. 10

Huizinga, F., A. Geda, Njuguna S. Ndung'u and S.N. Karingi (2001). *Theoretical base for the Kenya macro model: the KIPPRA-Treasury macro model*. KIPPRA DP No. 11

Mwabu, G., M. S. Kimenyi, P. Kimalu, N. Nafula and D. K. Manda (2002). *Predicting household poverty: a methodological note with a Kenyan example*. KIPPRA DP No. 12

Manda, D.K., G. Mwabu, M. S. Kimenyi (2002). *Human capital externalities and returns to education in Kenya*. KIPPRA DP No. 13

Bedi, A., P.K. Kimalu, D.K. Manda, N.N. Nafula (2002). *The decline in primary school enrolment in Kenya*. KIPPRA DP No. 14

Odhiambo, W. and H. Nyangito (2002). *Land laws and land use in Kenya: implications for agricultural development*. DP No. 15

Were, M. and S. Karingi (2002). *Better understanding of the Kenyan economy: simulations from the KIPPRA-Treasury Macro Model*. KIPPRA DP No. 16

Nyangito, H., M. Ikiara and E. Ronge (2002). *Performance of Kenya's wheat industry and prospects for regional trade in wheat products*. DP No. 17

Nyangito, H. and L. Ndirangu (2002). *Impact of institutional and regulatory framework on the food crops subsector in Kenya: 1990-1999*. KIPPRA DP No. 18

Ikiara, M. (2002). *Impact of tourism on environment in Kenya: status and policy*. KIPPRA DP No. 19

- 
- Ronge, E., L. Ndirangu and H. Nyangito (2002). *Review of government policies for the promotion of micro and smallscale enterprises in Kenya*. KIPPRA DP. No. 20
- Kiringai, J., Njuguna S. Ndung'u, and S.N. Karingi (2002). *Tobacco excise tax in Kenya: an appraisal*. KIPPRA DP No. 21
- Were, M., Njuguna S. Ndung'u, A. Geda and S.N. Karingi (2002). *Analysis of Kenya's export performance: an empirical evaluation*. KIPPRA DP No. 22
- Mwangi S. Kimenyi (2002). *Ethnicity, institutions og governance and conflict avoidance*. KIPPRA DP No. 23
- Ikiara, M.M., L. Ndirangu (2003). *Prospects of Kenya's clothing exports under AGOA after 2004*. KIPPRA DP No. 24
- Nyangito, H. (2003). *Agricultural trade reforms in Kenya under the WTO framework*. KIPPRA DP No. 25
- Odhiambo, W. and H. Nyangito (2003). *Measuring agricultural productivity in Kenya: a review of approaches*. KIPPRA DP No. 26
- Ngugi, R.W. (2003). *Development of the Nairobi Stock Exchange: a historical perspective*. KIPPRA DP No. 27
- Njuguna, A. E., S.N. Karingi and M.S. Kimenyi (2003). *Alternative methodologies for measuring Kenya's potential output and output gap*. KIPPRA DP No. 28
- Ngugi, R. W. (2003). *What defines liquidity of the stock market? The case of the Nairobi Stock Exchange*. KIPPRA DP. No. 29
- Nafula, N.N. (2003). *Bank portfolios and bank earnings in Kenya: an econometric analysis*. KIPPRA DP No. 30
- Manda, D.K. (2004). *Globalisation and the labour market in Kenya*. KIPPRA DP. No. 31
- Bedi, A., P. Kimalu, M.S. Kimenyi, D.K. Manda, G. Mwabu and N. Nafula (2004). *User charges and utilisation of health services in Kenya*. KIPPRA DP. No. 32
- Oiro, M. W., G. Mwabu and D.K. Manda (2004). *Poverty and employment in Kenya*. KIPPRA DP No. 33
- Odhiambo, W., H. O. Nyangito and J. Nzuma (2004). *Sources and determinants of agricultural productivity in Kenya*. KIPPRA DP No. 34
- Muthaka, David I, Diana N. Kimani, Stephen Mwaura, Damiano K. Manda (2004). *A review of the regulatory framework for private healthcare services in Kenya*. KIPPRA DP No. 35
- Kamau, A., S. Karingi, Njuguna S. Ndung'u, S. Mwaura (2004). *Capital requirements and bank behaviour in Kenya: Empirical evidence*. KIPPRA DP No. 36
- Nafula, N. N., P. K. Kimalu, J. Kiringai, R. Owino, D. K. Manda, S. Karingi (2004) *Budget mechanisms and public expenditure tracking in Kenya*. KIPPRA DP No. 37
- Nyaga, R.K., D.N. Kimani, G. Mwabu, M.S. Kimenyi (2004). *HIV/AIDS in Kenya: A review of research and policy issues*. KIPPRA DP No. 38
- Nyangito, H.O., J. Nzuma, H. Ommeh. M. Mbithi (2004). *Impact of agricultural trade and related policy reforms on food security in Kenya*. KIPPRA DP No. 39
- Ngugi, R. W. and J. Wambua (2004). *Understanding interest rates structure in Kenya*. KIPPRA DP No. 40
- Ngugi, R. W. (2004). *Determinants of interest spread in Kenya*. KIPPRA DP No. 41

- Kimani, Diana N., David I. Muthaka, Damiano K. Manda (2004). *Healthcare financing through health insurance in Kenya: The shift to a national social health insurance fund*. KIPPRA DP NO. 42.
- Mwabu, Germano (2004). *Health status and economic growth in Africa, 1960-2000*. KIPPRA Discussion Paper No. 43.

### **Occasional Papers**

- Gitu, K. W. (2001). *Strengthening the link between policy research and implementation*. KIPPRA OP No. 1
- Kimenyi, M.S. (2001). *Effective private sector representation in policy formulation and implementation*. KIPPRA OP No. 2
- Kimenyi, M.S. (2002). *Agriculture, economic growth and poverty reduction*. KIPPRA OP No. 3
- Nyangito, H. (2002). *Post-Doha African challenges in the sanitary and phytosanitary and trade related intellectual property rights agreement*. KIPPRA OP No. 4
- Mwabu, G. (2004). *Principles of research*. KIPPRA OP No. 5

### **Policy Papers**

- Nyangito, H.O. (2001). *Policy and legal framework for the tea subsector and the impact of liberalization in Kenya*. KIPPRA PP No. 1
- Nyangito, H.O. (2001). *Policy and legal framework for the coffee subsector and the impact of liberalization in Kenya*. KIPPRA PP No. 2
- Ikiara, M.M. and H. Nyangito (2001). *Effects of visa waiver and increase in airport tax on Kenya's tourism industry*. KIPPRA PP No. 3

### **Special Reports**

- Legal and other constraints on access to financial services in Kenya: survey results*. KIPPRA Private Sector Development Division. SR No. 1, 2001
- Thinking about regulating? The better regulation guide*. KIPPRA Private Sector Development Division. SR No. 2, 2002
- Policy timeline and time series data for Kenya: an analytical data compendium*. KIPPRA Macroeconomics Division, SR No. 3, 2002
- Tax analysis and revenue forecasting in Kenya*. KIPPRA Macroeconomics Division, SR No. 4, 2003
- Data compendium for Kenya's agricultural sector*. KIPPRA Productive Sector Division, SR No. 5, 2003

### **Working Papers**

- Wasike, W.S.K. (2001). *Road infrastructure policies in Kenya: historical trends and current challenges*. KIPPRA WP No. 1
- Ikiara, M.M. (2001). *Policy framework of Kenya's tourism sector since independence and emerging policy concerns*. KIPPRA WP No. 2
- Manda, D.K., M.S. Kimenyi and G. Mwabu. *A review of poverty and antipoverty initiatives in Kenya*. KIPPRA WP No. 3
- Kimalu, P.K., N. Nafula, D.K. Manda, G. Mwabu and M.S. Kimenyi (2001). *Education indicators in Kenya*. KIPPRA WP No. 4
- Geda, A., S.N. Karingi, Njuguna S. Ndung'u, M. van Schaaijk, M. Were, W. Wassala and J. Obere (2001). *Estimation procedure and estimated results of the KIPPRA-Treasury macro model*. KIPPRA WP No. 5
- Kimalu, P., N. Nafula, D.K. Manda, G. Mwabu and M.S. Kimenyi (2002). *A situational analysis of poverty in Kenya*. KIPPRA WP No. 6

- 
- Kiringai, J. and G. West (2002). *Budget reforms and the Medium-Term Expenditure Framework in Kenya*. KIPPRA WP No. 7
- Ikiara, M. and L. Ndirangu (2003). *Developing a revival strategy for Kenya's cotton-textile industry: a value chain approach*. KIPPRA WP No. 8
- Ng'eno, N.K., H.O. Nyangito, M.M. Ikiara, E.E. Ronge, J. Nyamunga (2003). *Regional integration study of East Africa: the case of Kenya*. KIPPRA WP No. 9
- Manda, D. K., P.K. Kimalu, N. Nafula, Diana K. Kimani, R. K. Nyaga, J.M. Mutua, G. Mwabw, M.S. Kimenyi (2003). *Cost and benefits of eliminating child labour in Kenya*. KIPPRA Working Paper No. 10
- Kimalu, P.K., N.N. Nafula, D.K. Manda, A. Bedi, G. Mwabw, M.S. Kimenyi (2004). *A review of the health sector in Kenya*. KIPPRA Working Paper No. 11

---

---