



**POLITEIA**

**22 Charing Cross Road, WC2H 0QP**

**Email: [info@politeia.co.uk](mailto:info@politeia.co.uk) Telephone: 0207 240 5070**

**[www.politeia.co.uk](http://www.politeia.co.uk)**

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**Put New Economic Rules to the Test Before They Become Law, says Politeia Pamphlet. Bad regulation could make things worse warns former IMF economist.**

As the IMF warns that the UK is likely to be the worst-affected of countries for meeting recession, Gordon Brown prepares to shift the focus to a new style of economics. His rhetoric—of ‘progressive’ government—and the Chancellor's warning of more ‘prescriptive’ measures for the banks have set the scene for a new direction in regulation.

But, says Vito Tanzi,\* in Politeia's new pamphlet, *Regulating for the New Economic Order: The Good, the Bad and the Damaging*, the wrong kind of regulation can do more harm than good. Professor Tanzi, the distinguished former Fiscal Affairs Director at the IMF, shows that the consequences of regulation can be good or bad and the Government must analyse potential impact before introducing fresh measures. Economists, explains Professor Tanzi, are divided about the impact of regulation on economic growth and prosperity. Some regulations are needed—for example to create full transparency, to regulate cartels, to tackle the complexity of modern institutions (and ‘fat cats’), and to prevent harmful developments. But others can cause serious difficulties, especially when those in charge make the ‘nirvana error’—confusing what happens in reality with the non-existent, ideal system ‘regulated and supervised by individuals with the wisdom of Solomon, the knowledge stored by Google and the honesty of saints’, in Tanzi's words. Problems often arise when the regulators take charge; or have cosy relations with the regulated (often leading to a culture of ‘cover up and complacency’); or have too much discretion in enforcement; or do not do their job fairly and efficiently, as well as when the regulations are simply wrong.

Tanzi explains that, in market-oriented economies, regulations can be used for the same goals of economic policy as tax and spending: the allocation of resources, redistribution of income and stabilisation of the economy: ‘Making them less rigid should have a positive impact on economic activity. Making them more rigid [could] have the opposite effect’.

Governments, he says, should be guided by clear principles:

- Any fresh regulation should be undertaken in moderation with carefully chosen objectives.
- Regulations rushed in after a crisis can be too rigid and burdensome.
- Regulations should always be based on clear and valid principles that justify the rules.

Governments should ensure that new regulations must:

- Be few and not so rigid as to stifle innovation.
- Promote as much transparency as possible.
- Be written in the clearest way possible so that the average citizen can understand them. And there should be no room for the regulated, or for government officials who administer regulations, to exploit ambiguities.
- Be tested for clarity before being adopted.

**In particular, Tanzi proposes that the Government should:**

- **Introduce a specific regulatory budget for regulations affecting economic behaviour (and a full compilation of all the rules in existence).**
- **Review all aspects of the regulatory budget regularly—at least every ten years—amending it as necessary.**
- **See that all regulations are discussed and approved by national parliaments, and not just by the executive.**
- **Subject new regulations to rigorous cost benefit analyses.**
- **Make the existing regulations as clear as possible to the general public and not just to experts, reducing misinterpretations and eliminating ambiguities.**

\*Vito Tanzi was Director of Fiscal Affairs at the IMF from 1981 until 2000. His books include *Public Spending in the 20<sup>th</sup> Century: A Global Perspective* (Cambridge, 2000) with Ludger Schuknecht and for Politeia he has written *A Lower Tax Future? The Economic Role of the State in the 21<sup>st</sup> Century* (2004), *Death of an Illusion? Decline and Fall of High Tax Economies* (2006) and *Reforming Public Spending: Great Gain, Little Pain* (2005) with Ludger Schuknecht.

**Enquiries to Vito Tanzi** by email to [vitotanzi@msn.com](mailto:vitotanzi@msn.com)

**and Politeia:** by email to [secretary@politeia.co.uk](mailto:secretary@politeia.co.uk) and by telephone to 020 7240 5070

*Regulating for the New Economic Order: The Good, the Bad and the Damaging* by Vito Tanzi is available online from Politeia ([www.politeia.co.uk](http://www.politeia.co.uk)). For an E-version please click <http://www.politeia.co.uk/Portals/0/RegulatingfortheNewEconomicOrder.pdf> Hard copies are available to journalists on request from [secretary@politeia.co.uk](mailto:secretary@politeia.co.uk)