Regulating for the New Economic Order:

The Good, the Bad and the Damaging

Vito Tanzi

POLITEIA

2008

First published in 2008
by
Politeia

22 Charing Cross Road
London WC2H 0QP
Tel: 020 7240 5070 Fax: 020 7240 5095
E-mail: info@politeia.co.uk
Website: www.politeia.co.uk

Policy Series No. 61

ISBN 978-1-900525-94-7

Cover design by John Marenbon

Politeia gratefully acknowledges support for this publication from

The Institute for Policy Research
The Foundation for Social and Economic Thinking

Printed in Great Britain by:
Hobbs the Printers Ltd
Brunel Road
Totton
Hampshire
SO40 3WX

THE AUTHOR

Vito Tanzi was Director of Fiscal Affairs at the IMF from 1981 until 2000. His books include *Public Spending in the 20th Century: A Global Perspective* (Cambridge, 2000) with Ludger Schuknecht. Professor Tanzi served as Under-Secretary at the Italian Ministry for Finance between 2001 and 2003. For Politeia he has written *A Lower Tax Future? The Economic Role of the State in the 21st 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.

CONTENTS

	Preface	1
I	Regulation: Friend or Foe?	2
II	Regulation: One Tool in the Armoury	4
III	Regulating to Some Purpose?	9
IV	Good and Bad Regulation	15
V	What Next? Where to Draw the Line	21
	Bibliography	24

Preface*

The dramatic developments in the financial systems of the UK, the U.S. and other countries have concentrated the minds of politicians in Western economies on how best to face the future. The various political leaders, the financial institutions and the central banks are now engaged in seeking to restore stability to the system and the confidence on which the economies depend. Without success, there is a real fear that the global repercussions may wreak inestimable damage on the real economy. The current phase follows unprecedented interventions in September 2008 when the U.S. Government felt forced to take over several major financial institutions and to propose a huge rescue plan which could cost American taxpayers hundreds of billions of U.S. dollars. At the same time central banks have been injecting large amounts of liquidity into the market to prevent bankruptcies and a recession; and governments have just agreed to inject public capital directly into private banks to make it easier for the banks to make loans to enterprises. This will make the governments co-owners of the banks.

These developments have prompted debate on both sides of the Atlantic about the adequacy of government's supervisory role over the financial system and led to an emerging belief that government has, by deregulating excessively, failed in that role, especially vis-à-vis the financial system. Pressures have intensified for more regulations and fresh doubts have been raised about the presumed superiority of the free market mechanism, which some assume to involve little or no regulation. The view that the market system is largely self-regulating is increasingly challenged.

In addition to the demand for new or far-reaching regulation, the fresh commitments into which governments are entering may have 'strings' or rules attached, or may do so in the future. This pamphlet considers the fundamental role of regulations as an instrument of economic policy. It argues that they should be seen as one of a number of tools available to the government to pursue its goals; that the benefits and the costs of their use need careful assessment; that they should be used as sparingly and wisely as other instruments; and that when used, they should be as transparent as possible. It proposes that regulation should be subject to as much scrutiny and caution as other instruments of economic policy such as tax and benefits. It concludes with a series of proposals for government with regard to new legislation and provides a checklist to guide reform. It proposes that regulatory budgets report on all economic regulations; that these budgets be reviewed periodically; and that unnecessary or damaging regulations are removed and others, for which there is a need, added.

---

* This pamphlet develops the themes of an initial paper presented at Politeia (London) in 2008. Comments received from Dr. Alok Sheel on an earlier draft were appreciated. I am solely responsible for the views expressed here.

I

Regulation: Friend or Foe?

Over the centuries, the development of societies has often been mirrored in the rules which developed to govern conduct in them. Rules were seen as necessary by organized society to guide the behaviour of its members, prevent anti-social behaviour and establish certain agreed norms to govern conduct.[1] Economic transactions and other interactions must be guided by the code of behaviour considered appropriate by the majority. This is true for clubs, professional associations and other groups. It is especially true for countries in which, because of size and diversity, their citizens may be less predisposed to follow accepted behaviour, in turn generating negative externalities for others. As societies become more complex and more heterogeneous, they are likely to require more precise rules and perhaps a larger number of them or more actions by the government. The question then is whether the rules or the actions need to be imposed by the state; or whether such rules could arise spontaneously from the free actions of the relevant members. In other words, who should be the regulator? This question lies at the heart of the current debate about economic affairs and their regulation.

Some economic analyses have concluded that in important instances, such as commercial activities, justice, or urban planning, rules developed spontaneously from the interactions of individuals, without any active role by government (see Beito et al, 2002). The rules contributed to relatively smooth and efficient economic and social interrelations, and were enforced by those who took part in the relevant activities. The penalty for not following the rules was social exclusion or exclusion from a certain sphere of economic or social activity. Some also argue that the intervention of the state, when it came, often resulted in the crowding out of existing rules by government rules, which were often less flexible and produced more costly and less effective outcomes.[2]

The more forceful advocates of this position suggest that markets, or more broadly the patterns of economic behaviour of free individuals, are largely self-regulating so that formal, government-imposed rules are not needed. Some have argued that government-imposed rules are, in many situations, damaging because they eliminate the self-correcting action of markets or groups and make transactions more costly. By doing so, they also reduce the innovative spirit that drives markets, thus possibly reducing economic growth.[3] This important argument

1 *Webster's Encyclopedic Unabridged Dictionary of the English Language* (1996) states: a regulation is 'a law, rule or other order prescribed by authority, especially to regulate conduct'.

2 A recent and more analytical version of a similar argument was presented in an IEA Occasional Paper by John Blundell and Colin Robinson, 1999.

3 For some evidence on the impact of economic regulations on economic growth see Nicoletti and Scarpetta, (2003).

will be considered further below (pp. 16-17). However, other examples indicate that in pre-modern societies some rules and regulations involved exclusion or discrimination against particular groups.

While it may be true that in some cases the intervention of the government in a specific area replaced spontaneous, self-regulating private action, the view now prevailing is that governmental action is often necessary: (a) to discourage dangerous or unruly behaviour on the part of some elements of society; (b) to create desirable safety nets for some individuals; (c) to supply pure public goods and many social goods; or, in a more controversial public role, (d) to change the income distribution in favour of low-income groups. Today, at least in theory, the modern state has monopolized the use of force, taking it away from other dominant groups and directing it towards the presumed public good. Regulation is one of the many tools available to governments to pursue their objectives and will now be considered in this light.

II

Regulation: One Tool in the Armoury

Today we think of regulation as standing alone. Yet it is part of a wider armoury of tools used by government—tools such as tax and regulation, certification, authorisation, the use of private finance for government projects, or pledges of insurance or cover against certain liabilities. Not only do organized societies need governments, but governments need tools to promote their goals and actions. Behind the use of such tools is the expectation that democratic governments promote the goals assigned to them by the majority of voters in fair elections and that, at least in their declared intentions, politicians and policy-makers follow the citizens' instructions. At the same time those citizens who share common interests, or represent particular sectors of the economies, may organize themselves in political parties or groups to lobby policy-makers for policies favourable to them.

Not only do governments now have a number of tools at their disposal to promote their objectives; but to an extent greater than realized, these tools can be substituted among themselves, and some of them become more important than others at different times. These tools or instruments of economic policy include:

(1) Government spending. Both the level and the structure of government spending are important. In recent decades both became more important than they had been in the past in advanced countries (see Tanzi and Schuknecht, 2000).

(2) Taxes. Once again, both the level of taxation and the structure of the tax systems are important tools of policy. Additionally, 'tax expenditures' and tax incentives have played major roles in recent decades. Tax expenditures are tax credits that can mimic, and so replace, some public spending, as when mortgage payments are deducted from taxable income.

(3) Ownership of large enterprises. In many countries, and during particular periods, governments have nationalized (after World War Two) or privatized (in the 1980s and 1990s) large enterprises to promote particular economic objectives.

(4) Governments (national or local) have occasionally used their legal power of expropriation, or of rezoning land use, to promote particular goals.

(5) Governments have also used the instrument of conscription, as for example with compulsory and unpaid military service. This instrument has become

less important in the modern, democratic world in which governments prefer to buy the services of the citizens with public money. In the past conscription was often the major instrument used to fight wars, to build roads and canals, or to help with other major projects. As a result heavy burdens were imposed on the populations.[4] Many of the great works of the past, such as the Great Wall of China or the Pyramids of Egypt, were most likely built using the tool of conscription.

(6) Another increasingly important instrument over the last century has been that of <u>certification</u> or <u>authorisation</u>, which requires an explicit licence or authorisation to perform particular activities. The certification comes from the government, or from institutions specifically authorised by the government, to grant these licences or permits. The certification documents may be obtained after some training or through the payment of fees. In non-democratic governments they may be used to grant favours and at times monopoly powers to favoured individuals. They can thus be associated with a form of 'crony capitalism'. They are important in the provision of specialized services and especially in the provision of medical, legal and other similar services. In 16th century France, even beggars needed a city authorisation or licence to be allowed to beg in that city (see Solomon, 1972, p.30). In recent years the tool of authorisation has become important for allowing direct investment in a particular country by foreign investors or by so-called 'sovereign wealth funds', the investment funds owned by foreign governments. For example, authorisations have not been granted to investors from Arab countries or from China who wanted to make investments in the operation of ports or in oil-related activities in the American market. These refusals are often justified on grounds of security.

(7) A more modern instrument is that of <u>contingent liabilities</u>. This instrument has come to play an important role in the current financial crisis. Contingent liabilities are guarantees given (implicitly or explicitly) by the government to private or quasi- private investors or activities. The importance of this instrument has been growing, especially in the past two decades, when the push towards privatization became intense. Activities that previously had been publicly financed (such as the building of public infrastructures) were taken over by private enterprises which built them with some government guarantees. Activities that in the past had been totally private (such as bank depositing) acquired some government guarantees. When this instrument is used, the government, or some publicly-financed institution, assumes the financial risk in the event of a private activity failing or, in some cases, not meeting earnings' expectations.

4 See, for example, Hemming, 2008, pp. 45-46.

Contingent liabilities may be associated with private activities or with the activities of sub-national governments or quasi-public institutions. Some of the guarantees provided by the government may be implicit rather than explicit. They are not based on formal agreements but on the expectation that the government will intervene if certain events occur. This was clearly the case with Fannie Mae and Freddie Mac (see below p.8). These expectations may be influenced by the past behaviour of the government that may have created what economists call 'moral hazard', that is the expectation that the government will come to rescue investors who have taken excessive risks. Contingent liabilities become important in connection with catastrophic events. By assuming these potential risks, the government, intentionally or unintentionally, encourages private concerns to enter some activities, or to continue operating in some riskier circumstances or places.

Common examples of contingent liabilities are those related to investments in major infrastructure projects by private operators through what are called public-private partnerships (PPPs). In these cases the governments may guarantee a minimum rate of return on the investment financed and operated by private investors. Another example is the assumption of the liability for acts of terrorism that was provided for some commercial airlines after September 11, 2001. This allowed the airlines to continue flying when the private insurers suspended their insurance coverage. Another example still is the expectation of the government's financial assistance to individuals who build houses in areas subject to earthquakes, floods, hurricanes or other natural disasters. Without that expectation fewer houses would be built in those areas.

These guarantees are at times explicit and at times implicit. The explicit ones are given in advance of the activities. The implicit ones remain uncertain until the problems arise. In either case, the expected assumption of these risks by the government promotes some activities and encourages some individuals to take more risks. In some cases the pressure for the government to intervene may come from the view that an institution has become too big to fail and its failure might create systemic risk. This may have been the case in the interventions in Northern Rock and in AIG and other institutions by the British and U.S. governments respectively.

The potential but uncertain costs to the government are not included in the countries' budgets. Thus these guarantees do not change the 'look' of fiscal policy while they may change substantially the 'substance' of it and may, in some cases, put 'governments at risk' of large potential expenses (see Polackova and Schick, 2002). The current financial crisis will leave governments with much worsened fiscal situations. Accountants have been encouraging governments to give details in budget documents of the explicit commitments that they undertake. When this information is provided, which is not always the case, it is contained in footnotes or in memoranda added to the budgets. However, as argued earlier, many contingent liabilities are not visible *ex ante*. It should be clear that the more complex the financial system becomes and the greater the chance of failure, the greater the reason to keep fiscal policy in good shape so that it can more easily assume the extra costs of financial failures. A problem that will arise in the current financial crisis is that its fiscal consequences will damage already overburdened fiscal situations.

Contingent liabilities represent one way in which governments can promote some of their goals, such as the building of infrastructure, keeping commercial aeroplanes in the air, or promoting house buying, or keeping deposits in the banks, without the (immediate) commitment of public money. The guarantees given to holders of bank accounts are examples of contingent liabilities, although in some cases fees may have been paid to institutions that insure these accounts. Banking crises have often required very large amounts of public money. These crises have been frequent in recent years and have had major impacts on countries' fiscal situations.

These contingent liabilities must be distinguished from the future liabilities for governments associated with defined benefit pensions or with public health care systems when the costs of these programmes are expected to grow over time, as in the United States and in most European countries. These are also not reported in the fiscal deficits and thus also lead to statistics that do not correctly measure the fiscal situation of a country. However, these liabilities, arising from demographic changes or from the rising cost of health protection, are not the result of an unlikely and catastrophic event but are known and anticipated costs deferred in time and not shown in the current budgets. A comprehensive system of accrual budgeting would show them. However, their estimation should be subjected to careful analysis to take into account potential, alternative developments in future years that may increase or decrease the size of the liability.

As already mentioned, some of the contingent liabilities are implicit rather than explicit, making current accounting even more difficult. For example, as suggested above, many had believed that the liabilities assumed by Fannie Mae and Freddie Mac, the large U.S. financial institutions that buy the mortgages of many home buyers, had the backing of the U.S. government. This allowed these institutions to get cheaper credit from the market and promote more house ownership. Their enormous expansion put the U.S. government at risk of huge liabilities when the institutions failed, forcing the U.S. government to take them over and assume some 5.3 trillion dollars of additional gross liabilities. Expectations have arisen that governments will intervene when catastrophic events occur in the more exposed geographical areas—for example, along the Caribbean Coast and the Atlantic Coast of the United States, which are exposed to dangerous hurricanes.

(8) The use of economic regulations is another important instrument of governmental economic policy, and will be considered in the next section. At various times and in particular situations, this instrument has been extensively used, and often abused, by governments, at both the national and the sub-national levels. Regulations have been the focus of current attention because of developments in the financial market (with the sub-prime crisis and the fight against money laundering) and in other markets (especially airlines, pharmaceutical, mining and other industries). They have also received much attention during the current crisis in banking and in the financial market with some arguing that more regulation had been needed and some blaming wrong regulations for the crisis. Economic regulations should be recognised as one among many tools of government policy. They are no different from budgetary tools and should receive the same amount of attention as taxes and public spending receive. Like other tools they can be useful or they can be abused and damaging.

(9) There is another, potentially useful instrument that governments use, or can use, to influence the behaviour of citizens to make them choose more desirable courses of action: that of nudging or cajolement, often used by mothers and grandmothers within families to promote good behaviour on the part of children. Recent behavioural economics research suggests ways of influencing often irrational individual behaviour in positive directions, e.g. inducing people to save more. It represents a clearly paternalistic approach. Through this instrument governments may try to influence the decisions of citizens about health, happiness, wealth accumulation and other areas. This is not a new instrument apart from the use of results of recent experiments conducted by behavioural economists. It has been used, for example, in times of war when appeals to patriotism have urged citizens to buy government bonds or to comply with their tax obligations (a recent book by Thaler and Sunstein, 2008, provides an interesting discussion of additional potential uses of this instrument) and recent accounts describe this as 'libertarian paternalism' because individuals are encouraged, but not forced, to take particular lines of action (e.g. quitting smoking, keeping their weight down, or saving more). In such cases this 'libertarian paternalism' could be employed in place of other policy tools, with public money being used to promote particular aims through publicity campaigns, or to provide particular incentives.

III

Regulating to Some Purpose?

Regulations have a number of aims and purposes, and can, to varying degrees, be either damaging and useless, or useful and essential, for a modern economy. They aim generally to promote specific public goals associated with social behaviour, the environment or day-to-day activities. However, they do not always achieve their objectives. Although regulations do not fit easily into specific or well-defined categories, some general categories seem common.

(1) **Nuisance regulations**. Some regulations seem to have no other purpose than to empower the public bureaucrats charged with their enforcement. They can in a sense be considered as stealth taxes to achieve particular social objectives. They may benefit one group by imposing costs on others. They may also extract taxes hidden as fees. This is often the case with the myriad of authorisations often imposed by local government on legitimate activities, such as opening new shops and factories, or to continue to operate these activities. The time, the cost, and the number of steps required to start a new economic activity or to set up an enterprise vary, from country to country, from a few days to years. The authorisation of city mayors is required in some European cities for a shop to have sales with discounted goods or to sell below cost. With the mayor's authorisation, shops can discount the prices of selected items only on specific dates and the discounted items cannot be shown in the shop windows. Various rules establish the opening and closing hours of shops or when taxi drivers can operate their vehicles. Particular items (newspapers, aspirin, etc.) can only be sold in specific places (e.g. news-stands or pharmacies). Regulations encourage corruption when public employees have some discretion over them, or when they are not written clearly. Discretion allied to opacity creates a fertile ground for corruption (see Tanzi, 2006). The recent 'index of liberalization' focuses on the impact of regulations that restrict economic activity, reported to be especially common in Russia and in developing countries (Istituto Bruno Leoni, 2008).

(2) **Second–best regulations**. At times regulations aim to achieve social objectives that could be achieved more efficiently by other means. However, for political or administrative reasons more efficient policies may not be seen as feasible. Examples include rent control, minimum wages, and price controls for some essential goods. In all these cases better results could be achieved by taxing some groups and subsidising others. However, this explicitly budgetary alternative may not be considered feasible. Rent controls often lead to urban decay as can be seen in striking form in cities

such as Cairo and Mumbai. The owners lose interest in repairing and the properties deteriorate. Rent control damages those who have not yet had access to rented housing, by restricting the supply of houses offered for rent. They discourage the building of new rented houses and encourage some owners to keep their houses unoccupied, during periods when they do not need them, rather than renting them. Thus the country loses income and the government loses tax revenue. Similar arguments can be made about regulations that establish minimum wages. These may help some workers and hurt others by restricting the demand for labour. Regulations that establish price controls lead to black markets and to scarcity of the goods whose prices are controlled.

(3) **Purely social regulations** have debatable objectives. Such regulations establish official working hours, vacation times, limits to overtime, age limits for workers, etc. They lower demand for labour and lower the percentage of the working population that works. The differences in output per worker between European countries and the United States are explained by some economists in relation to these regulations. Some economic problems of continental Europe in recent decades, such as slow growth and high unemployment, have been attributed to these regulations by some economists.

(4) **Safety-related regulations** are necessary to allow particular activities to operate smoothly and safely, such as traffic regulations.

(5) **Externality-correcting regulations** aim to correct negative externalities, when more flexible and more efficient tools are not (or not easily) available. This is the case of environmental policies that use regulations instead of taxes, to reduce pollution. Regulations are generally less efficient economically, but easier to administer or enforce.

(6) **Regulations for natural monopolies** are the natural companion of natural monopolies. Natural monopolies or public utilities run by private interests need some controls over the tariffs set by the privately run enterprises. Because of the monopoly power of the enterprises, regulation seems justified. When the regulators do not control the tariffs of natural monopolies, the latter can easily put an unfair burden on the users by imposing tariffs that give the enterprises excessive rates of return. However, at times tariffs may become too low, reducing the ability of the public enterprises to modernize.

(7) **Transparent or protective regulations** aim to protect the public in situations where full, honest, and transparent information is not available to everyone (see Tanzi, 2007a) and may be necessary in advanced, market-oriented economies. This is especially true in areas such as the financial market, the

market for medicines, air and rail transport, and so on. In a modern economy, where consumers have little specific knowledge of products and services, there are valid reasons for government to play a protective role through its regulatory power in the relevant industries. Passengers, for example, need some confidence that a plane meets reasonable safety standards. Bank depositors need some guarantee that the bank does not take excessive risks, e.g. with the internal incentive system which determines the remuneration of the bank's managers, or that the bank is not run by crooks. Patients who require medicine need a guarantee that the medicine does not have serious or lethal side-effects. While the most desirable course would be to trust the honesty, judgment and the incentives to the providers to make supervision (the regulation) by the government unnecessary, the evidence suggests that such a course would be foolhardy.

In the above examples it would not be rational for individuals to acquire, on their own, the knowledge to be able to make rational decisions. The acquisition of that knowledge would be too costly for the average citizen. Furthermore, there is a 'public good' quality to this knowledge because, once available, it can be provided to others at zero cost. Thus, it may be reasonable for the government, or for a proxy for it, to have a fundamental responsibility in regulating the activities of these sectors, making available the necessary information to the public, and forcing the providers to give full, reliable and easily understood information. However, the information provided to both the government and the public, especially in the financial sector, seems to have been inadequate.

Regulations can come in different shapes and forms. Under particular circumstances they may not be easily distinguishable from some of the other instruments of policy mentioned above. For example, at times it is difficult to distinguish a regulation from an authorisation or a certification. It is also difficult to distinguish authentic policy instruments from tools that may be used to promote 'crony capitalism' and the extraction of economic rents. The wording of regulations matters: they will be examined for loopholes by representatives of regulated industries so the regulated groups or industry can avoid costs or so that some of the restrictions imposed can be relaxed. Thus complexity or opaqueness of wording reduces compliance. Alternatively, those charged with monitoring their application (the regulators) may use the ambiguity in the regulations to extract rents from the regulated, as reports from some countries suggest. Or lobbies representing the regulated enterprises may press for apparently minor, insignificant revisions in the wording of the regulations that may pass unobserved. However, those small changes might have large benefits for the enterprises and potentially large costs for society. This is especially true in the environmental area.

Some regulations will generally be considered necessary—for example, most of those that regulate road traffic. However, even in these instances, there may be disagreement on the level of, or the need for, particular aspects of the regulations, such as safe speed limits, the qualifying age for a driving licence, the freedom to drive in the centre of cites, the use of car horns in particular areas, the need to enforce fuel efficiency on cars, the requirement for, and the obligation to, wear seat belts, the need to have liability insurance, the amount of alcohol in the blood that should prevent a person from driving, and so on.

Some regulations may be more controversial—for example, those that limit smoking in public places or prohibit the use of certain drugs, or establish the age when individuals are allowed to buy or use alcohol. In the U.S. that age is higher than the age at which a youth can enlist for the army and be sent to war. In Tokyo car ownership requires proof of a permanent place for parking. In China individuals over 70 cannot own a car. Another highly controversial regulation in some countries is that which relates to the buying or carrying of guns.

8) **Market-enhancing regulations**. In recent decades regulations have played an important role in various sectors of the economy, as they did during the so-called mercantilist period criticized by Adam Smith. But, unlike the mercantilist period, when regulations were largely used to extract rents and to create monopolies, modern regulations are expected to reflect a specific, genuine need for them. They have been playing a large role in developing countries where, unable to collect high tax levels to support higher spending, governments have tried to achieve some of their goals through regulations rather than through taxing and spending (see Tanzi, 2004). Centrally planned economies were, to a large extent, 'regulatory states' because most economic activities were regulated by Communist parties.

The sectors where economic regulations have been especially important in market economies are: (a) financial markets; (b) labour markets; (c) foreign trade; (d) markets for some goods and especially services; and (e) housing markets. In some of these markets (financial markets, foreign trade, transport) important reductions in the scope of regulation in recent decades have taken place. The so-called Washington Consensus, which became popular in the early 1990s, strongly advocated a reduction in regulations and greater market freedom with the aim of improving the working of the economy.

Economic regulations have a number of declared objectives:

(a) to protect the public;
(b) to protect domestic producers from foreign competition;
(c) to protect the positions or the incomes of particular groups or sectors;
(d) to replace taxing and spending by regulations, because the latter are often administratively and politically easier to use;
(e) to provide some 'internal subsidies' to particular activities.[5]

Governments have at times found it simpler and cheaper to promote particular objectives through regulations than through the budget. Regulations that are largely or more obviously substituted for fiscal action can be called quasi-fiscal regulations.[6] When used, they implicitly tax some groups while subsidizing others. Thus they replace taxes and public spending. Not all regulations are of this type although most would, on close analysis, have some element of taxing and subsidising. For this reason they should be treated in the same way as budgetary measures.

Examples of quasi-fiscal regulations abound around the world (p. 13 above). Take the aim of helping poor families with the cost of housing. The costs of rents can be reduced either by subsidising the rental cost using budgetary resources (or by giving them a credit against their income taxes), or by regulating the housing market by imposing rent controls. The intended objective may be the same but the direct cost to the government and the economic impact of the policies are different. Rent controls can be effective subsidies to those who are already in rented houses, and at the same time be a tax on those who own those houses.

Another example is the regulation in some countries that requires enterprises of a given size to hire a proportion of handicapped employees. Regardless of its merit, this regulation can be seen as equivalent to a tax on the enterprises and a subsidy to the handicapped people hired. Another example is where enterprises are obliged to provide health insurance or private pensions to their employees. In these cases the beneficiaries would seem to be those receiving the benefits but the incidence of the cost is difficult to determine. Cost may fall on the enterprises who pay; on the general public (if the enterprises can shift the cost into higher prices); or, on the workers themselves, if their cash wages are adjusted downward to reflect the higher fringe benefits that they receive. The competitiveness of the market and the power of the labour unions are important elements in determining where the effective burden falls. General Motors, the U.S. car manufacturer, has been arguing that the cost of pensions for present and past workers falls on the company, making it less competitive.

---

5 As mentioned by Posner (1971).
6 See Tanzi (1998) for various examples, and Posner (1971).

In particular cases the cost of regulations falls largely and directly on the government and indirectly on the population. For example, the retail price of petroleum products in India (and other countries) has been fixed by the government but the international oil price went up. This has created huge losses for the Indian Oil Corporation that imports the petroleum products and sells them domestically. The government covers the losses with bonds that cannot be sold by the Oil Corporation but can be used as collateral to get bank loans. Thus cheaper petroleum is made available to current consumers by increasing the public debt and thus the future taxes on the population.

The wider picture is one where economic regulations and budgetary instruments (taxes and public spending) are analogous. Regulations could in theory be used to pursue the same fundamental objectives of economic policy normally associated with taxes and public spending: the allocation of resources, redistribution of income and stabilization of the economy.[7] Regulations can be used to influence the allocation of resources. They can be used to change the distribution of income by favouring some groups or some activities over others. They can also be used to stimulate or to slow down economic activity. Making regulations less rigid should have a positive impact on economic activity. Making them more rigid ought to have the opposite effect. Thus, at least in intention, regulations can be used to achieve a counter-cyclical economic objective in the same way as changing taxes and public spending.

7 These objectives were made popular by Richard Musgrave (1959).

IV

Good and Bad Regulation

Very often the debate about regulation today tends to be polarised, and all the more so in the case of economic and market regulation. Regulations can be powerful instruments of economic policy as has been discussed. Like other instruments they can be used wisely or unwisely, and there can be too many or too few of them. They may be used when they ought not to be, or not used when they ought to be. Like taxes they may be used efficiently or inefficiently. They are among the least understood of the policy instruments mentioned earlier.

Some economists and financial market operators argue that the market is largely self-regulating so economic activities do not require the imposition of outside regulations—a view that became popular over the past three decades but is under strong challenge at the moment. According to this view, the market develops its own internal rules which weed out the bad apples or the incompetent providers of goods and services. An enterprise or a person producing an inefficient or unsafe product will lose customers and be eliminated from the market. The same will apply to unscrupulous or corrupt participants. The expectation is that those trading in the market will behave in a responsible, efficient, and honest manner. Protagonists of this view argue that outside regulations are not needed; and can have a negative effect where they increase the costs of the economic activities and in particular stifle innovation and progress, thus reducing economic growth.[8] The regulations introduced in the United States by the Sarbane-Oxley law after the collapse of ENRON have been criticised for imposing a heavy burden on American enterprises and for reducing presumed competitiveness. This is a powerful and important argument. However, it could be argued that the negative impact may have been caused not by the regulations but by the application of the wrong kind of regulations. Some of these generated perverse behaviour.

Various arguments can be advanced to justify some well-designed economic regulations to protect the public, and to legitimize and make the working of the economic system more efficient. The arguments do not necessarily counter the view that many regulations are useless or damaging.

The case for regulations against cartels and monopolies

As Adam Smith recognized as far back as 1776, in *The Wealth of Nations*, while businessmen pay tribute to competition, they like to create monopolies and cartels

8 See Nicoletti and Scarpetta (2003) for some evidence of the negative effect of excessive regulations on growth in some OECD countries). Some studies have concluded that in some industries the regulatory costs per worker tend to be high.

and to establish 'positional rents' for them. Pure competition is unlikely to arise spontaneously. Without an effective regulatory hand, some sectors of the market might establish monopolistic or abusive practices. In a globalizing economy with more open frontiers between countries promoting competition, this is more difficult. However, in today's world, the danger and the tendencies identified by Smith still exist and frontiers remain closed for many activities. The impact of foreign competition is therefore much reduced. In some cases regulatory differences across countries impose costs which, though difficult to measure, do affect competitiveness. In some cases the foreign competition itself comes from presumably unfair foreign monopolies. Furthermore, using various arguments, businessmen often campaign for maintaining import duties and other restrictions, arguing that the latter will protect them from what is presumed to be unfair foreign competition.

Transparency

Today as life and its organisation have become progressively more complex, the transparency of many transactions is reduced and opportunities for abuses and corrupt practices in many areas have increased (see Tanzi, 2007). Buyers often have little knowledge or understanding of the services and the products they buy and must rely on information given by providers. This is especially so in the case of technically-based products and services, including medical and financial services. A full understanding of some financial services may now require an advanced degree in mathematics. In fact, the complexity is recognized on both sides of the Atlantic. The business of banking is 'exponentially more complicated now than a generation ago' according to a former member of the UK's Financial Reporting Council (see Myners, 2008) and is 'so complex, their balance sheets so massive and opaque, that hardly anyone outside the tent [understands them]' as the *Wall Street Journal* put it (see Mollenkamp et al, 2008). Without some controls on the providers, it may be difficult for citizens to protect themselves from bad practices. Those buying certain goods or services from the financial market, the health industry, or from other sectors, are at the mercy of the providers who may provide little transparent and reliable information on these goods and services. Asymmetric information between buyers and sellers has increasingly created more opportunities for abuse in these sectors. For example, those active in the sub-prime operations may not have emphasised sufficiently to borrowers that their mortgage interest rates could change significantly. They may have also encouraged people to borrow more than they should have; such behaviour was encouraged by the absence of good regulations and abuses were reported by the media. The U.S. Federal Bureau of Investigation has begun to investigate the conduct of several financial institutions, including executives from Lehman Brothers, in the belief that bad practices contributed to the ongoing financial crisis.

Through the granting of patents and other rights over intellectual properties, and the right given to private enterprises to run public utilities which often are natural monopolies, the government itself creates or allows the existence of some monopolies. As a result the need arises for some regulatory role by the government vis-à-vis those who might exploit their (government-granted) monopoly powers. The use of new technologies strengthens this need. Full transparency plus full disclosure of information could, in theory and in some cases, be an alternative to regulations. However, the information may be too technical for most customers to understand and it might be protected by intellectual property rights acquired by those who have developed it. This may be the case in hedge funds; it may also be the case for some products where strategies or production techniques are kept secret from competitors or can claim intellectual property rights. When provided, much information is in fine print and written in a language ('legalese') that only specialized lawyers can understand.

The sub-prime crisis in the financial market was in part created by the limited transparency of the contracts for those who acquired houses or, indirectly, lent money to the buyers. Some of those who signed these contracts did not fully understand the details of what they agreed to. The whole industry became so complex, and so lacking in transparency, that risk could no longer be properly assessed and valued even by the managers of the financial enterprises and by the experts in the rating agencies that made what now seem to be major blunders. Resources were often allocated to the wrong investments. Thus the price system failed to carry out its expected allocation function. Rating agencies ended up giving AAA ratings to institutions that were in fact on the verge of bankruptcy. In some cases insiders provided misleading information to those who invested their money in these activities. Thus, the prices of the financial instruments no longer provided the needed information on returns and risks to all the market participants to allow them to make rational investment decisions. Genuine transparency and understandable information would reduce the need for regulations, but there is a limit to this trade-off. There are too many instances where the willingness to provide full, honest and transparent information does not exist. In other cases regulatory mistakes and financial excesses led to disasters.

Complexity and the Role of 'Fat Cats'

Complexity and the large size of modern enterprises have created 'public spaces' <u>within</u> business which increase the potential for corrupt or abusive practices taking place within the private enterprises (see Tanzi, 2006). Often managers do not understand what their subordinates do.[9] The possibility of corruption within the private market has led to calls for further regulation to protect consumers or shareholders from these practices. One example is insider trading that has, apparently, taken place with a disturbing degree of frequency; another is the high incomes paid to managers of enterprises where performance does not justify these incomes (see Tanzi, 2007). There have been several recent, egregious examples of

9 This was clearly the case in the crisis that brought the collapse of AIG.

these 'abuses'. These large incomes have at times been the consequence of the controls exercised by heads of enterprises on the selection of board members who determine the remuneration of those who select them. These large incomes are often not the result of spontaneous competitive market forces. Some of these board members are selected from an 'old boy' network even when they know little of the activities of the companies they are hired to supervise. They thus contribute little to the success of the enterprises or to the evaluation of the risks that the enterprises take. However, they can definitely have an impact on the compensation of those who appoint them. This 'crony hiring', combined with the complexity of the compensation packages, and the confidential nature of the contracts, has created abuses that have damaged the shareholders and possibly the workers in particular enterprises. It has contributed to the widening gap between the average compensation of managers and that of the workers that has characterized recent years and has started to create a populist reaction against the free market system.

Self-regulation

Markets might be self-regulating but only *ex post*. That is they may self-regulate only after some individuals have paid the consequences of poor performance or of crises. These consequences can be very painful as the current financial crisis indicates. If markets correct or self-regulate themselves only after a crises (say only after the crises connected with ENRON or the current financial crisis), many individuals will, inevitably, have been hurt. Therefore, the *ex post*, self-regulating action of the market, if it occurs, will bring no solace to those hurt by the crises. Furthermore, the self-correction may last only until the next crisis occurs. That in turn might have different features, or it might be the consequence of the self-correction losing its effectiveness over time. Some of the underlying problems may in time resurface in a different form. As already mentioned, financial crises have been uncomfortably frequent in the world in recent years.

To conclude, 'market fundamentalism' as it is sometimes called, has been rejected by some observers, including prominent market participants, and instead, regulation of the financial market is called for (see especially Soros, 2008a and 2008b). Therefore, (a) when markets are not fully transparent; (b) when they involve sectors that are technically very complex so that the precise value of what they sell, and the risks connected with their use, are hard to determine; and (c) when the people who operate in them have their self-interest in mind, may be greedy, or, in some cases, may even be corrupt, it is difficult for market forces spontaneously to generate outcomes or equilibria that can be considered socially optimal and that a competitive market economy would be expected to generate. These views are behind the calls today for more regulation. Of course more regulation does not guarantee that the additional regulation that would be introduced would be the right one. Regulatory mistakes can also contribute to crises.

Difficulties

While the theoretical case for regulation has become easier to make on account of the current crisis, the 'nirvana error' should not be ignored, an error first identified many years ago by the economist Harold Demsetz. The nirvana error occurs when reality is compared against some idealized alternative, e.g. comparing what happens in the real market with what would happen in one regulated and supervised by individuals with the wisdom of Solomon, the knowledge stored by Google and the honesty of saints. Many problems may arise when real-life regulators are given the regulatory responsibility over particular sectors or products, and some are considered below. They point to the need to use regulations sparingly and wisely and to have modest expectations. Besides, regulations that are introduced may be the wrong ones to deal with future developments.

Too much regulation (especially when several regulating agencies are involved) may mean that no effective or useful regulation takes place because each of the regulators assumes that the others are doing the job of regulating. This happens when the precise responsibility of each regulator is difficult to specify, e.g. when activities go global or spill out of the original sectors, as in the case of investment banking which has spilled out of the traditional banking sector or the capital market which has spilled out of country borders. Meanwhile, a huge derivative market developed globally in the past two decades. Regulating these new sectors or financial products would require the work of regulators from different countries. It would be difficult and probably inefficient. A second problem is that regulation often lags well behind the developments of the areas that need to be regulated, as often happens with the creation of institutions. By the time a market is regulated, other features may have developed that require new types of regulations. Also some regulations may stimulate perverse behaviours. For example, some believe that the Basel capital adequacy regulations induced banks to take liabilities off balance sheet in order to extend their portfolios to increase profitability. Equally, the Stability and Growth Pact that imposed regulatory limits on the size of the fiscal deficits in countries belonging to the European Monetary Union may have created incentives to use one-off policies or to push some public spending off-budget. Such possible perverse outcomes suggest that incentives created by regulations should be anticipated so as to avoid those that are likely to lead to these reactions.

To be effective, those charged with regulations will need to know well the industry to be regulated. Increasing technical complexity in various sectors makes such knowledge desirable or even necessary. As a result, the regulators tend to come from the regulated industries, bringing with them the culture and the connections acquired in their previous jobs. This makes it difficult for them to insulate themselves from their own biases, from the social and political pressures and from the occasional bribe offers, that they will face. On the other hand, if the regulators do not know the areas to be regulated well, they are not likely to be effective.

Regulatory Capture

The cosy relations which often exist or that develop over time between the regulators and the regulated, especially when the political climate encourages or allows such relations or when contacts between the two sides are frequent, present a further difficulty. This can lead to 'regulatory capture' when the regulators *de facto* end up almost working for the interest of the regulated and not for those of the general public, a problem identified by George Stigler three decades ago (see Stigler 1971). Reports in the U.S. press in recent years have highlighted the alleged development of cosy relations between the regulators and the regulated in the railroads, the airlines, the pharmaceutical, the mining and other industries, especially during the Bush Administration. These relationships remove the 'bite' from the regulations and, some suggest, defeat their objective. Those who use the products or the services of these regulated industries, or work in them (such as miners), are as a result endangered. A culture of cover-up and complacency contributes to this outcome. Some observers have called attention to the slow deterioration of standards and the abuses that over time tend to become progressively more common. Eventually this deterioration may contribute to crises or other difficulties.

Finally, there is no worse outcome than one in which some market operators are made to observe strict rules while others are not. For example, some drivers respect stop signs or traffic lights while others do not. This is likely to happen when the regulators have too much discretion in the enforcement of the rules or when they are not doing their job fairly and efficiently. It may also happen when the resources available to the regulators to do their job are too limited. This creates problems of enforcement similar to those that exist in tax administration.

V

What Next? Where to Draw the Line

As pressure mounts on Western governments to change and strengthen the regulation of their financial systems, countries face fresh danger. Regulation is a powerful tool to which governments are attracted and, like tax and spending, one of the most important policy tools. But unlike tax or spending, it is one of the least understood tools. Against the clamour for more regulation, this pamphlet considers the role of existing regulations and the emerging debate over how far the market economy should be regulated.

First, it should be recognized that regulations are attractive to governments because they are generally cheap to impose and, unlike taxes and public expenditure, cost less to administer or supervise. In fact governments sometimes use them to reduce public spending (by imposing costs on others). When imposed, regulations rarely prompt as much resistance or scrutiny as the traditional budgetary tools of taxing and spending. Regulatory costs, though often significant, receive much less attention than budgetary spending. Officials also like and promote regulations because bureaucrats enjoy the powers that regulations give them. For these reasons governments (and not just central governments) tend to overuse them. This has happened in many countries. As a result, while many damaging or useless regulations are in place, some that are needed are not. This is because the regulations needed for new complex sectors or products are only recognised some time after the sectors have developed or even after crises have occurred. Furthermore, regulations are resisted by those who would be regulated and in several cases they have strong political power.

Also it is clear that some regulations can play an important role in protecting citizens from potential abuses on the part of unscrupulous participants in the market; some aim to maintain the competitiveness of markets and prevent the establishment of monopolistic practices. These considerations have become more important in the modern, complex world. Governments regulate airlines, to keep them safe; pharmaceutical companies, to prevent them from selling drugs that may turn out to have dangerous side-effects for those who use them; railways and mines, to limit the number of accidents; public utilities to prevent them from overcharging customers, taking advantage of their monopoly power; and the financial market and especially banks, to protect those who entrust them with their savings.

However, the central issue in today's debate—how far the market economy is self-regulating, or whether, without effective outside regulators, it tends to develop uncompetitive practices (monopolies, cartels), or engage in corrupt, dangerous, or abusive practices—will have no simple resolution. Not only is there the counter-view which maintains that regulations stifle innovation and, over the long run, reduce the growth rate of economies or the development of particular industries. But some empirical evidence has indicated that excessive or inefficient regulations have a negative impact on the rate of growth of some countries or industries. Over time, regulations tend to become progressively less effective in achieving their original objectives, in part because they may keep fighting a past war while ignoring new developments. For example, the regulation of banks appears to have failed in relation to the investment banks or hedge funds that have become very important in recent years, a failure now blamed for the ongoing financial crisis.

The evidence therefore suggests that when introducing fresh regulation, governments should follow clear principles:

- Regulation, if it is to be for the good, should be undertaken in moderation with its objects carefully chosen.
- Regulations that are rushed in after a crisis often tend to be too rigid and too burdensome.
- They should not be so lax as to be ineffective in achieving their intended objectives.
- Regulations should always be based on clear and valid principles that justify the rules. Rules that are not based on clear principles are less likely to be effective.

In particular, governments, before introducing new regulation, should ensure that the regulations will:

- Be few and not be so rigid as to stifle innovation.
- Promote as much transparency as possible.
- Be subject to constant effective monitoring and occasional 'retooling'.
- Be suited for the current weather - like the clothes that we wear.
- Be written in the clearest way possible so that the average citizen can understand them. There should be no room for the regulated, or for government officials who administer them, to exploit ambiguities.
- Be tested for clarity *before* being adopted.

Above all:

- A specific regulatory budget should be introduced for regulations which affect economic behaviour (that is, a full compilation of all the rules in existence).
- All aspects of the budget should be reviewed regularly—at least every ten years—to be amended, as needed.
- All regulations should be discussed and approved by the legislative body, national parliaments, and not just by the executive.

- Proposed new regulations should be subjected to rigorous cost benefit analyses.[10]
- The reviews should also aim at making the existing regulations as clear as possible to the general public and not just to experts, reducing misinterpretations and eliminating ambiguities.

Once economic regulations are recognized as proxies for spending and taxing, they can be treated in the same way as the more traditional fiscal instruments. This will remove pressure to introduce regulatory reform only after crises, when the likelihood of making mistakes is greatest. In the proposed reviews it is essential to recognise that the more transparent an activity is, and the more clear and complete the information provided to the public can be, the less need there will be to regulate the activity: for those involved will be aware of the benefits, the risks, and the costs in using it. This potential trade-off would create an incentive for those responsible to increase the transparent information made available. The reviews will make clear which regulations have become obsolete and should be eliminated or which new regulatory needs as a result of market developments should be considered.

Finally, it should be recalled that the financial market is now under intense scrutiny, partly because of the financial crisis; partly because of the many crises that have hit the banking system of different countries in recent years; and partly because banking has moved from being a national activity involving a few products, that could be more easily regulated by national regulators, to a global activity including many new products that can only be regulated globally. How this global regulation could take place, in the absence of a global government, remains to be seen. At some point some international institution may have to be given that responsibility (see Tanzi, 2008).

Initially, and given the enormous losses associated with the current crisis, we are likely to witness the introduction of many new regulations. This pamphlet urges that new regulation must be guided by the need to make the market safer without affecting its efficiency. Previous financial crises did not slow down the world's rate of growth. Let us hope that the same will be true for the ongoing crisis today.

10 In the United States an 'Economic Impact Analysis' must be prepared by the Office of Management and Budget, that is, an office within the Executive Branch. However, it is not clear how serious these analyses are. They do not seem to have had much impact on the adoption of new regulations

Bibliography

Beito, David T., Peter Gordon and Alexander Taborrok, 2002, *The Voluntary City: Choice, Community and Civil Society*, (Ann Arbor, University of Michigan Press-The Independent Institute).

Blundell, John and Colin Robinson, 1999, *Regulation Without the State* (IEA Occasional Paper 109, July 1999).

Hemming, John, 2008, *Tree of Rivers: The Story of the Amazon*, (New York: Thames Hudson).

Istituto Bruno Leoni, 2008, *Indice delle Liberalizzazioni* 2008, (Torino: Italy).

Mollenkamp, Carrick, Susanne Craig, Jeffrey McCracken and John E. Hilsenrath, 2008, 'Public Optimism Masked Private Scramble for Lehman,' *The Wall Street Journal* (October 7) p.6.

Musgrave, Richard, 1959, *The Theory of Public Finance*, (New York: McGraw-Hill).

Myners, Paul, 2008, 'Reform of Banking Must Begin in the Boardroom', *The Financial Times* (April 25) p. 11.

Nicoletti, Giuseppe and Stefano Scarpetta, 2003, 'Regulation, Productivity and Growth: OECD Evidence', (working paper, 2003).

Polackova, Hana and Allen Schick, 2002, *Government at Risk* (World Bank).

Posner, Richard A., 1971, 'Taxation by Regulation', *The Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (Spring 1971) 22-50.

Soros, George, 2008a, 'The False Belief at the Heart of the Financial Turmoil', *The Financial Times* (April 3), p. 9.

_____, 2008b, *The New Paradigm for Financial Markets: The Credit Crash of 2008 and What it Means*.

Stigler, George, J. 1971, 'Theory of Economic Regulation', *The Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (spring 1971).

Solomon, Howard M. 1972, *Public Welfare, Science, and Propaganda in Seventeen Century France: The Innovation of Theophraste Renaudot* (Princeton, New Jersey: Princeton University Press).

Tanzi, Vito, 1998, 'Government Role and the Efficiency of Policy Instruments', in *Public Finance in a Changing World*, edited by Peter Birch Sorensen (McMillan Press).

_____, 2004. 'Globalization and the Need for Fiscal Reform in Developing Countries', Journal of Policy Modeling, 26, pp. 525-542. Also published in *Integration and Trade*, INTAL, 19, Vol. 7, 2003.

_____, 2006, 'Corruption and Economic Activity', *Distinguished Lecture Series*, 26 (Cairo Egyptian Center for Economic Studies).

_____, 2007a, 'Complexity and Systemic Failure' in *Transition and Beyond*, edited by Saul Estrin, et. al. (London: Palgrave-MacMillan).

_____, 2007b, 'Tax System Reform Can Address Unrest Over High Pay', *The Financial Times*, March 2, 2007.

_____, 2008, 'The Future of Fiscal Federalism' in *European Journal of Political Economy* (24)

_____ and Ludger Schuknecht, 2000 *Public Spending in the 20th Century* (Cambridge University Press).

Thaler, Richard H.and Cass R. Sunstein, 2008, *Nudge: Improving Decisions About Health, Wealth, and Happiness*, (New Haven: Yale University Press).

Auditing the New Deal: What Figures for the Future?
Oliver Heald & Mark Waldron.

Systems for Success: Models for Healthcare Reform
Sheila Lawlor, Georg Baum, Jean-Louis Beaud de Brive and Deepak Lal

Conservative for The Future
Liam Fox

University Challenge: Freedom, Fees and Future Funding
John Marenbon

Funding Failure: How Schools Pay For Success.
Nicholas Boys Smith, Gabriel Stein & Adrian Butler

Criminal Negligence: How Current Policies Towards Crime, Policing and Punishment Fail the Nation.
Robin Harris

The EU Constitution: What it Means for Me.
David Heathcoat-Amory

How Savings Damage Your Retirement.
Frank Field

A Balance for the Best: Towards Accountable and Responsible Local Government.
John Redwood

Building More Homes
Richard Ehrman & Crispin Kelly

Tackling Terrorism: The European Human Rights Convention and the Enemy Within.
Martin Howe

A - Levels: Fiasco and Future
Sheila Lawlor

Retreat from the Streets.
John Bird

Pension Systems: The EU and Accession Countries, Lessons for the UK.
Chris Daykin

Conservative Debates: Liberty Under The Law.
Oliver Letwin, John Marenbon & Martin Howe

Comparing Standards: Academic and Vocational, 16-19 Year Olds. The Report of the Politeia Education Commission.
Chris Woodhead, David Burghes, Sheila Lawlor, Sig Prais et al.
Edited by Sheila Lawlor

Tax Credits: Do They Add Up?
David Willetts & Nicholas Hillman.

Comparing Pre-School Standards: The Report of the Politeia Education Commission.
Sig Prais, Caroline St John Brooks & Chris Woohead.
Edited by Sheila Lawlor.

Forever Enslaved? Female Dependency and the State
Sheila Lawlor

The Challenge of Ageing: Pension Reform, International Trends and Future Imperatives
Chris Daykin

Aspire Ever Higher: University Policy for the 21st Century
Boris Johnson

At a Price! The True Cost of Public Spending
Allister Heath and David B. Smith

Good for the Public! Competition, technology and the shrinking state
Irwin Stelzer

ABC: A Balance Constitution for the 21st Century
Martin Howe

Crisis at Christmas: Predictable and Preventable?
John Bird

Policing Matters: Recruitment, Training and Motivation
A Howlett Bolton, A Burden, T Caplin, D Ramsbotham, K Rutherford, C Woodhead, edited by S Lawlor

Providing for Pensions. Savings in a Free Society
Tim Congdon

For Better, or For Worse? The Economic Record of the Labour Government
Warwick Lightfoot

Let Freedom Prevail!
Liam Fox

Working in Harness: parliamentary government and the role of the Lords
Thomas Strathclyde

Saving Savings: How to Promote Personal Investment.
Charles Jackson

The Pensions Predicament: Means Testing, The Savings Trap and the Labour Market.
Paul Thornton, Jonathan Gardner & Mike Orszag.

Comparing Standards: Teaching the Teachers. The Report of the Politeia Education Commission.
David Burghes, John Marenbon, Bob Moon, Alan Smithers, Chris Woodhead.

Mounting Costs: Regulation, Employment and the British Labour Market
Nicholas Boys Smith

How to Lower Schools Standards: Mike Tomlinson's Modest Proposal
Chris Woodhead

Why Britain Needs a Foreign Policy
Robin Harris