

## PRESS RELEASE

**Economic Policy has Become Dangerously Politicized, says new Politeia study.  
Effective controls are needed to prevent inflation, spiraling public debt and public spending.**

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**Digital Version:**

[http://www.politeia.co.uk/sites/default/files/files/Crises\\_Managed\\_30-11-11.pdf](http://www.politeia.co.uk/sites/default/files/files/Crises_Managed_30-11-11.pdf)

The Chancellor's Autumn Statement revealed plans to stimulate the economy while continuing to cut the country's deficit. Small business will be helped with credit, new infrastructure projects will take off and there'll be a package for home ownership. The plans indicate that our system for dispensing money and credit has become politicized, a trend against which Politeia's new study warns.

**In Crises Managed: Monetary and Fiscal Frameworks for the Future**, the authors explain that the heavily political approach to using the tools of our economy as political bribes - public spending, policy towards the financial sector and the circulation of money - must be curbed. Meanwhile the fundamental problems which led to the 2007 crisis must be tackled.

Professors Michael Bordo and Harold James explain that many of these problems remain or have returned. Global imbalances remain and long-term deficits in some countries contrast with surpluses in others; the fiscal consequences of the banking crisis make more real the danger of unsustainable debt; and European labour costs are too high in relation to productivity. Meanwhile people fear for the future: they fear the results of fiscal and monetary policy, the danger of a currency war fuelled by low interest rates, and a rise in food a commodity prices fuelled by loose monetary policy.

However, the lessons of 2007 have not been learned, and the authors warn that our system is even worse placed to tackle such problems than before. Financial and monetary policy have become politicised as politicians seek to appease or bribe various groups, and the lines between them have been blurred. The independence of central banks (and of the MPC here) has been compromised. The pressures to spend are making governments interfere in all sorts of areas which they should leave to themselves.

How can we ensure that political opportunism does not prompt decisions which affect the stability of the economy and are needed, if generations to come are not to be saddled with debt? The authors urge tighter controls over political action on three areas central to our economic future.

In particular they propose:

- An adequate basis for monetary stability and controlling inflation: Central banks should have legally guaranteed independence with a remit to overall price stability and an inflation target over the medium term.
- Rules to limit government debt and spiraling public spending: Long term fiscal rules to limit the size of government and prohibit increases in government debt, with a limit placed on deficits over the course of the business cycle.
- Independent policing of public spending, with an independent fiscal council to cost spending commitments and the impact of political promises on taxation and the risk of escalating costs. This would be analogous to central bank's monetary role and further than the remit of the OBR. Voters should be shown the amount of tax they need to pay for favoured social policies. A visible link should be made for voters between the costs of providing social policies and the taxes needed to pay for them.

The authors conclude by urging the UK Government to lead change, as it did under Margaret Thatcher in the '80s, and set a model for the industrial world.

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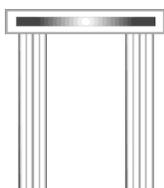
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**Crises Managed: Monetary and Fiscal Frameworks for the Future**, by Michael Bordo and Harold James is published by Politeia. Hard copies available to journalists on request via Politeia.



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