



## Dollar, Euros and Debt

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## Dollar, Euros and Debt

How we got into the Fiscal Crisis and how we get out of it

### Vito Tanzi

Vito Tanzi received his PhD in Economics from Harvard University in the USA. He was the Chief of Tax Policy (1974–1981) and Director of Fiscal Affairs Department (1981–2000) at the International Monetary Fund. He was the President of the International Institute of Public Finance (1990), and Undersecretary for Economy and Finance in the Italian Government (2001). He has worked as a consultant for several international organizations and is the recipient of five honorary degrees. Tanzi has written and edited numerous publications. His most recent books are *Government versus Markets* (2011) and *Recent Contributions to Public Economics*, (in two volumes, 2011). He has published hundreds of articles in professional journals.

### About the book

The current economic crisis has been assumed to reflect a cyclical problem, and some economists have asked that it be dealt with 'fiscal stimulus packages', especially packages associated with public spending. This action is similar to that of giving steroids to a patient who suffers from a serious illness. It might make him or her feel temporarily better, but it actually aggravates the illness. *Dollars, Euro's, and Debt* suggests that an increase in public spending is the wrong medicine, because it was precisely the increase in public spending that created some of the structural problems that are now confused with, or have led to, the cyclical slowdowns. The book argues that, over the years, and in a growing number of countries, the high and increasing levels of public spending were, first and progressively, being financed by higher tax levels and, subsequently, by increasing borrowing. In the early years of the twenty-first century governments started facing strong taxpayers' resistance to tax increases. Thus, they relied more and more on public borrowing, pushing the public debts to high levels. More recently they started facing stronger resistance by private lenders, that led to the progressive easing of monetary conditions by central banks. The central banks' actions have made it difficult to separate fiscal from monetary actions and have hidden some of the true deterioration in the fiscal accounts. They have also increased future uncertainty and potential 'time consistency' problems. The book evaluates the effects of 'fiscal stimulus packages', especially when they start from precarious fiscal conditions, and presents a novel 'law of public expenditure growth', and suggests how that law may help in the design of 'exit strategies' from the current crisis. It also discusses similarities and differences between the monetary union that the euro and the monetary union that is the dollar.

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