

**Albert Breton, Gianluigi Galeotti, Pierre Salmon,
and Ronald Wintrobe, eds., *The Economics
of Transparency in Politics***

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Most would agree that transparency is an important characteristic of effective political institutions. In theory, openness serves as a check on political actors as citizens are able to readily observe their actions and respond accordingly. However, is more transparency always a good thing? One observes many instances where less transparency is preferred to more. Secret ballot voting is one obvious example. Further, increasing transparency is not costless. While there are benefits to more openness, those benefits need to be weighed against the relevant costs. This edited volume of papers prepared for the 10th Villa Colombella Seminar held in Beaune, France, explores these and other issues associated with the economics of transparency. The volume is a collection of ten papers (excluding the Introduction) broken into four parts.

Part 1, consisting of three chapters, deals with transparency in democratic contexts. Pierre Salmon and Alain Wolfelsperger are not surprised that some individuals, or groups of individuals, in democratic settings would attempt to distort or hide information. What is more interesting is that obfuscation often exists in democracies for long periods of time despite the existence of political competition. They explore why obfuscation may persist over time. According to their analysis, voters may prefer opaqueness when they cannot judge certain aspects of a policy or when the revelation of certain information would breed discomfort. Further, even if an individual personally values transparency, he or she may not want others to have that same information. From this standpoint, while an individual's utility may increase from personally possessing more information, he also may derive disutility from others having access to that same information. If more information generates net disutility, the individual will prefer that information remains opaque.

Russell Hardin contends that deceit on the part of public officials can sometimes be in the public interest while at other times it can harm citizens' welfare. Examples of the former are situations of war or when the government is pursuing a criminal. Hardin also concludes

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that secrecy might be preferable where expert knowledge is required to formulate rules or policy. The logic here is that increased transparency and political participation can reduce the effectiveness of policy when those policies require a level of expertise that citizens lack. In contrast, the welfare of a society may be reduced when the interests of a narrow group are pursued at the expense of the broader population. Consider for instance that many interest groups strike political deals that narrowly benefit their members even while members of the groups and politicians claim that the deal is in the interest of the broader public.

Albert Breton explores transparency in the context of the existing literature on bureaucracy, decentralized government structures and regulatory capture. In the cases of bureaucracy and decentralized government, Breton concludes that transparency is preferable in some cases, but not in others. For example, transparency is important in the process of competition between decentralized government units as political actors seek to satiate citizen wants. However, transparency may hamper the process of the reassignment of power resulting in inefficient outcomes. This is because a more efficient reallocation of powers across government tiers may not take place if it does not align with citizen preferences. In the case of regulatory capture, Breton concludes that transparency always reduces the spoils associated with situations where private individuals self-police their own industry and activities.

The second part of the book consists of two chapters and focuses on transparency in international settings. Manfred Holler's chapter is an exercise in cultural economics and explores the relationship between transparency and obfuscation in Cold War cultural policy. During the Cold War the CIA, in conjunction with several political and private groups, covertly supported propaganda in the form of Abstract Expressionist artwork. The policy was clearly an example of obfuscation, both domestically and internationally, and as Holler notes, it is far from clear that it was a "bad" policy.

Ronald Wintrobe focuses on transparency in the context of political and corporate governance. He frames his analysis in the context of Benjamin Barber's *Jihad vs. McWorld*. McWorld, which refers to western-style capitalism, promotes transparency but also has the unintended effect of promoting jihad. Wintrobe differentiates between the shareholder and stakeholder systems of organization. The shareholder model is concerned with profit maximization and does a superior job in terms of promoting transparency. The stakeholder system, in contrast, goes beyond maximizing value and also takes into account various stakeholders (owners, employees, citizens, etc.). The stakeholder system tends to foster solidarity and therefore is preferable for constraining jihad. The tradeoff with the stakeholder system is that increased solidarity may also constrain economic growth and breed corruption. The more general tradeoff between transparency and economic growth promoted by the shareholder system, and the solidarity and reduced jihad fostered by the stakeholder system, is a critical challenge facing societies around the world. The central issue is finding a balance between the benefits and costs associated with both systems.

Part 3, consisting of two chapters, explores the connection between transparency and corruption. Johann Lambsdorff begins with the uncontroversial claim that corruption reduces the welfare of a society. Transparency tends to reduce corruption and therefore is welfare enhancing. However, depending on the model chosen, the negative effects of corruption on welfare can vary greatly. Lambsdorff's chapter provides an overview of four key models of corruption and welfare. The models are grounded in the principal-agent framework where the principal is the government and the agent is some authority (e.g., tax authority, etc.). In each case the mechanism through which the adverse effects of corruption operate differs.

In the first model, the principal is unable to enter into effective contracts because of corrupt agents. In the second case, the principal is corrupt and therefore cannot credibly commit to policies. In the third model, competition for the position of principal may generate

waste through rent seeking. The final model considers the waste associated with situations where the agent can obtain more powerful positions.

Glenn Jenkins and Chun-Yan Kuo focus their analysis on the growing emphasis on export-led growth policies in developing countries. These policies tend to generate a variety of regulations and bureaucracy which fosters corruption. The authors consider two issues related to the design and administration of fiscal provisions affecting the competitiveness of a country in the production of manufactured exports. These issues include designing a system allowing exporters to avoid the burden of a domestic sales tax as well as relieving exporters of import tariffs on inputs used in the production of exports. The authors pay particular attention to the design and administration of rules and institutions in order to increase transparency and reduce corruption.

The final section of the book, consisting of three chapters, explores the role of transparency in government behavior. Giorgio Brosio explores the possibility of obfuscation in intergovernmental transfers. He considers some of the arguments for continued obfuscation in the way that intergovernmental transfers take place. In doing so, he recognizes the merits of the arguments, but is also careful to point out the costs in terms of reduced efficiency and the reduced accountability of government. Brosio's main conclusion is that the potential benefits from obfuscation in intergovernmental transfers are context-specific and cannot be generalized. However, the costs can be generalized. A reduction in transparency tends to reduce efficiency while fostering corruption and the misuse of funds.

The focus of Louis Imbeau's chapter is transparency in the budget process of a bureaucratic organization. His proposed theory is grounded in the principal-agent model and he considers a basic situation where the principal and agent can choose to be either transparent or opaque. This is followed by a more complex analysis of a situation where the principal can delegate part of his responsibilities to a supervisor. In both cases, Imbeau finds that the outcomes depend on the incentives facing the various players involved in the budgeting process.

The final chapter by Federico Etro and Piero Giarda focuses on redistribution, decentralization and constitutional rules. The authors consider the trade-off between the transparency of rules and efficiency. The central trade-off is between decentralization, which can promote transparency, and redistribution, which can promote efficient fiscal policy. Etro and Giarda consider this trade-off in the context of centralized and decentralized systems and discuss the implications of their analysis.

Given this overview, I would like to raise a few issues with the volume. The editors fail to provide a clear definition of transparency in the Introduction. A core theme of the book is that the notion of transparency is more complicated than is typically recognized. There are multiple facets and aspects to transparency with varying costs and trade-offs. More discussion of these various aspects of transparency in the Introduction would have been beneficial and would have served to better frame the chapters. The lack of discussion regarding the concept of transparency relates to another issue with this book. As with any edited volume, the chapters do not always flow and connect in a readily apparent manner although grouped by general categories. Finally, the general policy implications of the volume are not always clear. Many of the chapters are either too narrow or too theoretical to effectively inform policy. Nonetheless, the volume raises many important issues and draws attention to many of the benefits and costs associated with transparency.