

Debate: Transparency¹

Democracy and Transparency

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Democratic institutions are generally expected to be transparent. By transparency, broadly understood, we refer to the way that such institutions operate under public scrutiny. This will typically entail the possibility for (groups of) citizens to access documents produced by representatives or civil servants, or the possibility of witnessing deliberative processes in action, e.g. in parliamentary assemblies. Yet, the precise effects of transparency and the exact function it plays in such a democratic setting are still not entirely clear, despite the fact that the public generally tends to consider transparency as having globally positive effects on democracies.

In the academic literature most relevant to political scientists, there are at least four sets of focus points. First, there is an extensive legal literature on "Freedom of Information" or "sunshine" laws, devoted to the mechanics of such complex regimes, i.e. their scope in terms of right-holders, the interpretation of the various grounds justifying temporary or permanent denial of access (trade secrets, privacy,...), the ways in which one can accommodate different conflicting rights in this context (e.g. Eagles, Taggart and Liddell 1992 for a legal source and for a recent public administration approach, Roberts 2006). Second, the growing literature focusing on corruption has some papers on the connection between transparency and corruption (see e.g. Linstedt and Naurin 2005 focusing on the "free press" dimension). Third, there is some literature dating back to the nineteenth century on whether voting by citizens should remain secret or become transparent. Whereas the debate was lively at that time, involving contributions of major figures such as James Mill (1830) or John Stuart Mill (1861) there is hardly any recent literature on the topic, with the notable exception of Brennan and Pettit (1990) (see Gosseries 2005 on this "secret ballot" debate).

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Finally, there is some recent literature on whether going public influences the quality of deliberation in a democracy. One of the hypothesis in this set is Elster's (1998) idea of the "civilizing force of hypocrisy". This conjectures that politicians would tend, through a variety of mechanism including the reduction of cognitive dissonance, as well as the operation of normative expectations among the public, to develop more civilized discourses when operating under public scrutiny. Naurin (forthcoming) has however recently provided evidence such that going public would *not* necessarily entail that actors would express themselves in a more principled manner, and in a way that would refer more to the general interest. Moreover, other effects of going public have been hypothesized in the past, including by James Madison (1787), emphasizing the difficulty of publicly changing one's mind in the view of new arguments once one has already committed oneself in public to a given position. Such a phenomenon, if confirmed, would tend to threaten the true spontaneity and interactivity of any deliberation, and transform it into a succession of preprepared statements. Other worries include the risk of publicity pressing deliberating actors to leave aside more personal and particularistic reasons to adopt a given position, to the benefit of sometimes more shallow arguments (Chambers 2004). These constitute examples of a literature querying the effects of publicity on the nature of debates or even on the possibility of genuine deliberation.

It is essential however to both test the empirical validity of such arguments and to assess their full implications for those who value deliberation in democracies. The papers presented in this debate aim at taking further steps on each of the four literature trends identified above, with the exception of the third one (voting transparency).

Transparency, publicity and the evasion problem

In the first paper, Naurin proposes a distinction between transparency and publicity, insisting on the relevance of this distinction to empirical and normative research. He contrasts transparency, understood as the mere accessibility of information, with publicity, by which he means whether information is actually being accessed by citizens. Education levels are clearly a factor that will determine whether people are able to understand (and hence act upon) the information made available. A paradigmatic example of how Naurin draws the distinction in the press context is the following: while measuring *media access* by the people will give us a measure of *publicity*, offering an index of *press freedom* will tell us how much transparency there is in a given state.

Moreover, Naurin makes clear that transparency only "increases the chances of publicity". Cases may indeed obtain in which too much transparency would actually *reduce* publicity because of informational flooding. This is also why the press plays an essential role. For, on top of making the information accessible to people, it

also *selects* among all the information available what the people should look at first. Moreover, in some cases, well-structured transparency mechanisms are not even needed for publicity to take place, as the case of leaks illustrates. In any case, the distinction draws our attention on the requirements that need to be fulfilled before the information has actually been brought to the people.

For a transparency regime to have any real impact, not only do we need to make sure that the available information is actually brought to the people in an accessible manner, we also need to ensure that the information be made available in the first place, be it in a format requiring further treatment before the content would be accessible. There is a risk of transparency-evasion however, that can take at least two forms. One is that some actors may lobby to resist the adoption of sunshine laws or other transparency-enhancing regulations. And once enacted, there may also be great resistance to the full implementation of such laws. The second form is the risk of shifting from written deliberation or recorded phone conversations, to informal face-to-face discussions, whenever civil servants or policy-makers want such debates to take place in secret.

The story that Rosendorff and Doces tell us in the second paper aims at finding out why policymakers would not oppose the adoption and/or the implementation of transparency enhancing measures. For the latter put them at risk whenever they happen not to manage resources as efficiently as they should, or whenever they abusively put money in their own pocket. However, by making their activities more visible, transparency may simultaneously render them less vulnerable to *unfair* eviction, understood as cases of eviction from office due to causes that are beyond the control of policy-makers (e.g. an adverse conjuncture in the world economy). The argument is then that policymakers would prefer to reduce their room for rent-extraction (i.e. increase the risk of fair eviction) provided that transparency will help them to reduce the risk of unfair eviction. This is tested against two predictions. First, democracies are more likely to be transparent, since in non-democratic regimes, policy-makers do not need to fear unfair eviction. Second, one should expect that while tenure in office would tend to diminish with the degree of electoral accountability, it would rise with transparency. Data are provided and analyzed in this respect. Note as well that if Rosendorff and Doces are right, their hypothesis will also tell us something about the conditions under which civil servants and policy-makers could be actors of publicity and not just of transparency, in Naurin's sense.

Transparency and the quality of deliberation

Let us assume now that we have a transparency regime that is clearly effective in bringing the information to the citizens. Besides issues regarding the *possibility* of transparency, broadly understood, there is also the one of its *desirability*. What is

the impact of transparency on the quality of deliberation? MacCoun in this debate provides us with a rich overview of the insights from social psychology on the matter. We may expect publicity to force people to shift from what he refers to as a system 1 mode of reasoning to a system 2 mode. The former involves associative, holistic and automatic cognitive processes whereas the latter is characterized by rule-based, analytic and controlled modes of reasoning. Drawing upon this distinction, MacCoun substantiates two sets of claims, one belonging to the “possibility of transparency” sphere and the other to that of the “desirability of transparency”. The first set of claims involves the question whether it is always psychologically possible to shift toward more transparency. One of the elements is the difficulty encountered by many of us to accept the idea of trade-offs, once they are being made explicit, hence the idea of “taboo trade-offs”. The second set of claims contained in MacCoun’s contribution has to do with psychological factors that are relevant in studying the impact of transparency on deliberation. Among the relevant findings of social psychologists, let us emphasize one: having to be *explicit* about – as well as being expected to *list* the reasons that justify one’s position may introduce a strong bias in favour of considerations that can be more easily articulated, even if they could turn out not to be the most important ones – a point to be linked to Naurin’s emphasis on “clear objectives” in his paper.

As to Meade and Stasavage, based on data on deliberation at the US Federal Reserve’s Federal Open market Committee (FOMC), they confirm one conjecture and identify a new effect. The conjecture dates back to Madison (see above), and has to do with the idea that once people have defended one view in public, it is quite hard for them to publicly revise this view at a later stage, even if there are good reasons for doing this. The underlying mechanics is not entirely clear though. One guess would be that citizens will generally regard people changing their mind as being less “committed”, hence less able to defend the interests of those they represent. Besides this “posture effect”, they identify a second type of effect. Rather than dealing with the possibility of “changing one’s mind”, it has to do with the risks involved in dissenting from a well-known figure’s position. They found that the level of dissent by FOMC members with the Fed’s authoritative chairman (Alan Greenspan) had gone down since the meeting transcripts started being published and were known to be so by the FOMC members. Hence, transparency may make it more difficult for deliberating people to change their minds despite good arguments raised in the course of such deliberation, or to dissent whenever there is a prominent figure taking part in the debate.

The methodological challenge

These four papers invite us to pursue further rigorous research on the transparency issue. Yet, there is a methodological challenge specific to any research on trans-

parency – and that may explain in part the sparse data we still have: whenever something takes place in secret, it is usually difficult to get data on it. Hence, it is a hard task to compare e.g. deliberation taking place in secret and in public. Yet, two of the studies from this debate suggest ways of doing so. One can be referred to as the *diachronical* strategy and is illustrated by Meade and Stasavage’s paper. This strategy is available whenever researchers seize the opportunity offered by transparency-oriented reforms, making institutions transparent in case in which they were not so before. The other strategy could be referred to as the *proxy-based* one, and is illustrated by Rosendorff and Doces’s paper. Here, the idea consists in working directly on intermediary variables that are likely to be strongly correlated with publicity and on which data are more easily available.

Moreover, the idea of transparency evasion is interesting here. It can of course be treated as a real transparency issue, to be studied as such, as the paper by Rosendorff and Doces does. Yet, it can also be seen as a methodological challenge, as Meade and Stasavage’s paper exemplifies. For, when identifying that the level of dissent within a given committee has been reduced, one needs to ascertain whether this level of dissent hasn’t just shifted from meetings to pre-meeting informal discussions. Dealing more systematically with transparency evasion as a methodological issue should thus also be part of our research agenda.

Bridging empirical and normative research

Besides such methodological questions, there is a set of substantive questions that should be answered. Rather than offering here a fully-fledged research programme, let me point to four *types* of questions that should attract our attention for further investigation. First, there is definitely a need to engage in a systematic examination of the various hypotheses at work when it comes to the empirical issues addressed above. Take for example the paper by Rosendorff and Doces. We could raise the following challenge to the “fear of unfair eviction” hypothesis: could we exclude that policy-makers be actually tempted, in implementing transparency regimes, to go for something like *selective transparency*? For they could very well fully comply with transparency whenever it comes to alleviating risks of unfair eviction, while at the same time ignoring its demands whenever it may increase fair eviction based on mismanagement or misuse on their part.

A second type of issues worth further investigation is the factual link between transparency and other social dimensions that are normatively relevant. We looked at the impact on the quality of deliberation. What about the impact of transparency on solidarity? For one of the things that could be made more transparent is the amount of net transfers among people in a state, be it among individual citizens or between the federate entities within a federation. Take social insurance schemes for example. Of course, more transparency would allow citizens to

decide more freely on these matters. Yet, such a gain at the “informed consent” level may well come at a cost from the perspective of distributive justice, were it to turn out that making net transfers more transparent would lessen the willingness of the wealthiest and/or luckiest to contribute as taxpayers. The latter effect will not be straightforward, as transparency might as well increase the taxpayer’s confidence in the way budgets are actually being managed, the “confidence effect” possibly dominating in some occasions the “aversion to net transfers” effect. We do not dispose of many data on such effects though (see e.g. Schokkaert 1998). This is certainly an area worth further investigation, together with other ones that are directly relevant from a normative point of view, such as whether making wages more transparent would tend to reduce or increase wage inequalities.

A third interesting set of questions arises once we consider the fact that transparency requirements apply not only to directly accountable institutions – the findings of Rosendorff and Doces on the tenure-transparency-accountability link being especially relevant here – but also to institutions that exhibit a high degree of independence, in which people have life and/or non-renewable appointments, such as central banks. These institutions are the focus of both Meade and Stasavage, and of Naurin in this debate as well as of, amongst others, Keohane and Nye (2003). In those cases of independent institutions, the very function of making them more transparent needs to be rethought.

If we take central banks as a paradigmatic case – civil servants constituting more of an intermediary case –, there are at least two ways of looking at transparency. The first one consists in showing that members of independent bodies are only temporarily or partially independent, e.g. because they may have to find another job once their mandate comes to an end. This may explain why they care about their reputation, as in Meade and Stasavage’s paper. The second avenue is that, even if the members of such bodies were totally independent, both politically and financially, they would *still care* about the public, about making their policies explicit enough, etc. (see Naurin’s paper). In other words, they could still consider themselves accountable while being completely independent. In the latter case, it may be relevant to pin point the effects on these people’s behaviour (including their deliberating one) that would be both positive and relevant despite their institutional independence.

Finally, we need to develop a primarily normative methodology to assess under which conditions, and to what extent, transparency in a given context is a desirable requirement, all things considered. Imagine for a minute that we would have a full picture of the key effects of transparency on the quality of deliberation. We would probably have to undertake two additional tasks. First, we would need to assess whether, once all effects are considered, transparency can be considered a good thing from the perspective of the quality of deliberation. Second, whenever the balance weighs heavier on the negative side, should we necessarily conclude that we should shift to secret deliberation? For example, some people are not con-

vinced about the centrality of deliberation in a democracy. They may consider that the latter is rather about people being able to vote on the basis of their pre-existing preference in a manner that is as informed as possible about what policy-makers think. From this perspective, transparency could still be desirable, despite its – ex hypothesi – overall negative impact on the quality of deliberation.

Moreover, there might be cases in which, despite having a positive impact on the quality of deliberation, transparency could be detrimental in terms of solidarity, i.e. of people's willingness to contribute to compensate for disadvantages suffered by others due to no fault of their own. In such a case, we would have to decide about the articulation of democracy (especially its deliberative component) and justice (understood here in the distributive sense). These are just two examples of the importance of articulating factual conjectures (and findings in some cases) with explicit normative assumptions on the theory one has about what is most central in a democracy (e.g. deliberation and/or other features), how to arbitrate conflicts between democracy and justice, but also for example what view one should have about what representation means in a democracy (see da Silveira 2003, on the latter).

As the reader will have realized from these introductory lines, there is still room for a very substantial amount of research, both at the empirical level and at the level of normative principles. We hope with this debate to fill in some of the existing gaps and to invite further interest in this fascinating topic.

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Transparency, Publicity, Accountability – The missing links

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In the terminology of principal-agent theory transparency is a means by which the 'principal' controls that its 'agent' does not engage in 'agency-shirking' (i.e. pursues policies which promote its own interests rather than the interests of the principal). This article argues that the growing social science research on transparency and agency behavior should avoid assuming an automatic link in this respect. Just adopting the common sense notion that 'if people can see what is going on, elite actors will have to shape up their acts' may be misleading. Rather the causal link is subject to two conditions: First, in order for transparency to alleviate agency shirking the information made available must also reach and be taken in by the principal – what I will call publicity. Secondly, in order to affect agency behavior the principal must also have some kind of sanctioning mechanism in its hands – i.e. a possibility of accountability. In order to be able to account for these conditions researchers must distinguish between the concepts of transparency, publicity and accountability. Below I will show how not making these distinctions have lead scholars to draw misleading conclusions about the significance of transparency in two high profile policy issues – the fight against corruption and the question of central bank accountability. First, I will present the theoretical argument.

Transparency, publicity and accountability

Let us assume that rational politicians, civil servants or other political agents will engage in agency shirking if the perceived benefit is large enough to exceed the uneasiness created by the combination of the potential costs of accountability and the perceived risk of actually having to face these costs. Thus, agency shirking

can be prevented by increasing the risk for, or the costs of, accountability or by decreasing the benefits of shirking. Transparency enters the equation as a possible determinant of the probability of accountability. But the link between transparency and accountability is not as straightforward as is often assumed.

First of all accountability is primarily a function of publicity rather than transparency. Publicity, one can say, is a causal mechanism linking transparency and accountability. These concepts may be distinguished as follows. The concept of transparency captures the accessibility of information. Transparency literally means that it is possible to look into something, to see what is going on. A transparent organisation, political system, juridical process or market is one where it is possible for people outside to acquire the information they need to form opinions about actions and processes within these institutions. The information about agency behaviour is there for those principals who are willing and able to seek it.

Publicity on the other hand means that the information is actually spread to and taken in by the principal. With respect to voters and elected representatives, thus, transparency implies that there is documentation available on the actions of the representatives, while publicity means that the content of this information has also become known among the voters. Clearly transparency will usually increase the chances of publicity. In most cases information that is easily accessible would stand a greater chance of also being spread (although one can imagine that secret information that is leaked to the press may sometimes be more interesting to publish than information from official documents – just because it was secret). But there will be no publicity, i.e. no actual exposure of actions to a public audience, no matter how transparent the process or the institution in question is, if the available information about these actions is left unattended.

There may be different reasons why transparent information does not reach the principal. Lack of mediators, such as mass media, is one. Lack of demand (rational ignorance) is another. A lot of information which is accessible, such as public documents which are subject to freedom of information laws, will never be spread to a broader audience of voters simply because they concern issues which are immediately interesting only to a small group of especially interested actors. A third reason why transparent information may not reach the principal concerns the capacity of the principal to access and process the information. Again considering voters in a democracy especially the level of education will be an important link between transparency and publicity. The higher the level of education the stronger the capacity of people to access and process information from the media and public records, and subsequently the higher the risk – from the policy-makers' perspective – of publicity.

However, while higher risks of publicity may imply higher risks of accountability, and therefore less agency shirking, this link is also not an automatic one. Again we need to look more closely at the concepts being used. The concept of

accountability should be separated from transparency and publicity. Being held accountable involves 'paying the price' for one's actions. Accountability therefore involves something more than just having one's actions publicly exposed. In case of misconduct some kind of sanction should be imposed on the actor.¹ Sometimes the embarrassment and social stigma of having one's bad behaviour exposed to the public may in itself constitute a costly sanction. But in other cases an actor may not care much about what the public thinks.

Thus, while transparency increases the chances of publicity, publicity may promote accountability. If the agent's actions are known to the principal they will be possible to sanction. But while publicity is a necessary condition it is in itself not sufficient to acquire accountability. It must be accompanied by some mechanism for sanctions. Increasing the risk of publicity will not induce any change in behaviour on the part of the agent unless it believes that the principal will go from awareness to action and actually impose the costs of accountability. And in order to take that step the principal must have some instrument for holding the agent accountable. Thus the probability of accountability is a function of the probability of publicity and the existing sanctioning mechanisms.

Conceptual clarity is always a virtue, but that is not the major point here. The point is that failing to distinguish between transparency, publicity and accountability may lead scholars who are empirically investigating these phenomena to employ the wrong research designs and misinterpret their findings.² I will give two examples of when this has happened.

Transparency vs. corruption

In the research and debate on the causes of and remedies for corruption the purifying power of transparency is a well established assumption.³ A particularly attractive feature of transparency as a potential medicine against corruption is that it is a factor which seems to be feasible to implement by institutional reform. In one of the most comprehensive studies of the causes of corruption so far Treisman found that many of the important factors explaining corruption are long-term economic and socio-cultural variables, such as economic development,

¹ See, for instance, Manin, Przeworski and Stokes (1999: 10), Behn (2001) for a similar view.

² Two methodological points should be kept in mind. While the distinctions made here are theoretically valid it may not always be possible to find estimates that are sufficiently uncorrelated to avoid multicollinearity in regression analyses. Furthermore, especially in political organisations, the question of endogeneity may be important, i.e. is it transparency, publicity and accountability that prevent agency shirking or is it the other way around? Shirking agents have a clear incentive to manipulate the conditions for transparency, publicity and accountability.

³ See, for example, Montinola and Jackman (2002: 151), Rose-Ackerman (1999: 162 ff.), Gerring and Thacker (2004: 316).

religion and colonial heritage. Free and fair elections also had a negative effect on corruption in Treisman's study – but only after 40 years! Introducing free elections and party competition today would not help to bring down the level of corruption for a long time (Treisman 2000: 433ff.). From a central reformers' perspective, thus, a factor which can be used in anti-corruption reforms and have an effect in the present time would be especially welcomed.

But does transparency really make a difference for corruption – what evidence do we have? The most important study so far is that of Brunetti and Weder, who present very promising results with respect to press freedom, which may be used as a proxy for transparency. A free media is a particularly relevant indicia of transparency for studies of corruption. While formal access to documents and information may also be problematic for corrupt actors, making their activities more difficult to conceal, very few instances of corruption will turn up in public archives. Fact-digging journalists, however, are a real potential threat to those who wish to keep their back-door manoeuvres secret. Following the previous definitions of transparency and publicity the media as such may promote both. In its digging function it creates transparency, by making previously secret information available to the public. In its publishing function it creates publicity to this information, by spreading it to people. While measures of media access (newspaper circulation, access to radio and TV sets) may be used to capture the publicity part, indexes of press freedom are preferable for measuring transparency, as they concern the ability of individual journalists to reveal instances of corruption. High levels of media access does not in itself constitute a threat to corrupt elite actors, if the media is not free to report on corruption.

Brunetti and Weder's cross-country and time-series studies indicate a strong effect of press freedom on corruption (using perception indexes to capture these variables). "A complete move to press freedom would lead to a dramatic reduction of corruption in the average country", they claim (Brunetti and Weder 2003: 1813). By way of illustration, they calculate on the basis of their model what an increase in press freedom would mean for a couple of countries. Thus, if Nigeria at the bottom of the corruption ranking would attain the same level of press freedom as Norway, which has the highest score on the press freedom index, "it would mean a reduction in corruption to the level of Belgium" (Brunetti and Weder 2003: 1821) (which would be a remarkable improvement).

Together with Catharina Lindstedt I have challenged Brunetti and Weder's (along with some other studies') conclusions about the average effect of press freedom on corruption (Lindstedt and Naurin 2006). We argued that press freedom would not affect corruption if it was not also accompanied by at least a risk (from the perspective of the elite actors) for publicity and accountability.

Simply making information available would not be enough, we hypothesised. The argument was tested by analysing to what extent the press freedom effect was dependent on publicity and accountability mechanisms in a cross-country study of 110 countries. As indication of the presence of an accountability mechanism we used measures of free and fair elections. Our proxies for publicity were education, which is a factor that increases the capacity of people to access and process available information, and newspaper circulation.

If higher levels of free and fair elections, on the one hand, and education and newspaper circulation, on the other hand, would amplify the press freedom effect on corruption our hypothesis would be confirmed. Looking at the interaction effects between these variables we saw that precisely this was the case (there is no room for tables and figures here, see the original study). We demonstrated that press freedom would do a fine job reducing corruption in countries with relatively free and fair elections and with high levels of education and newspaper circulation. At the same time, however, there was no significant effect of press freedom in countries which were lacking with respect to these conditions for publicity and accountability. The marginal effect of press freedom would not become significantly negative until countries had reached a level of free and fair elections above ca 5 on the scale from 0 to 10 (which is the level of, for instance, Sierra Leone and Armenia), and above ca 4 on the education scale (which is the level of Uganda and Albania). Thus, a free press would only reduce corruption if there was a chance that the information would be spread and taken in by a broader public, which also had the power to put sanctions on the corrupt elite. We also tested a broader measure of transparency, including both press freedom and indicia of the degree of disclosure of political campaign funding, and the results were the same.

Earlier studies' attempts to calculate the average effect of press freedom, while omitting the interaction effects of publicity and accountability, had been misleading. The great hopes that Brunetti and Weder had for Nigeria – would they increase their level of press freedom – would not be realized as Nigeria did not (in 2003) meet the required degree of free and fair elections. One important conclusion from this study was that transparency is no quick fix. Transparency reforms would not help reduce corruption in many countries if they were not accompanied by strategies to strengthen the capability of people of holding their leaders accountable.

Central bank independence and accountability

A very different research question, it may seem, is the question of central bank independence and accountability. This is also a research field, however, where confusion of the concepts of transparency and accountability has lead scholars astray.⁴

⁴A more elaborated argumentation than the space limits here allow is outlined in Naurin (2003).

A global trend the last ten to fifteen years has been to give central banks a higher degree of independence from the elected political institutions. The basic motivation for this is found in economic theories of time-inconsistency problems, where it is argued that elected politicians should not be entrusted with handling monetary policy since they will be too focused on winning the next election to act in the long term interests of the citizens.⁵

One of the most independent banks so far is the European Central Bank (ECB). The Governing Council consists of the national central bank presidents (12 at present) and an Executive Board of six bankers appointed for eight years. There are no ways for the elected political institutions to put sanctions on the Council members should they engage in agency shirking or in other ways perform poorly. Once appointed they cannot be removed from office during their term (and the Executive Board members cannot be re-elected afterwards). There is no override mechanism, as in some countries, where the government in a crisis situation may step in and take over the duties of the bank for a period of time. Furthermore, since the rules regulating the ECB are laid down in an intergovernmental treaty, which can be changed only if all member states are in agreement, these rules are in practice difficult to change.

Considering the importance of monetary policy, affecting interest rates and unemployment levels, it is no wonder that concerns have been raised about the democratic legitimacy of the ECB. Is it reasonable to delegate powers over such an important policy area to untouchable bureaucrats, some have wondered? Defenders of the ECB, on the other hand, have argued that independence does not necessarily exclude what they refer to as democratic accountability.⁶ This line of argument finds support in indexes developed by scholars to measure the degree of accountability of central banks.⁷ The ECB scores relatively well with respect to accountability in these indexes, in spite of the high degree of independence. It thus seems as if we can have the best of both worlds—*independence and accountability* are not mutually exclusive.

The problem with these indexes, however, is that they are based on a confusion of *accountability and transparency*. Indicators of transparency (for example the publishing of reports, parliamentary hearings, publication of minutes, press conferences etc.) and “clear objectives” (the degree to which the targets of monetary policy—for instance the level of inflation – towards which the bank should be working have been clearly specified) form a major part of the indexes. For

⁵ See, for example, Amtenbrink (1999).

⁶ See, for instance, Issing (2000) and Trichet (2001). Political scientists will recognize the argument that the trade-off between independence and accountability is a “myth” from the works of Majone (1996).

⁷ See de Haan and Eijffinger (2000), Briault, Haldane and King (1996), Bini-Smaghi and Gros (2001).

example, eight of the thirteen indicators of the accountability index of de Haan and Eijffinger (2000) refer to transparency and clear objectives, and three out of four indicators in the index of Briault, Haldene and King (1996) concern transparency measures. In the accountability index of Bini-Smaghi and Gros (2001) all fifteen criteria which build up the index are connected to transparency and clear policy objectives. In practice, therefore, accountability is to a large extent the same as transparency and clear policy goals. It is possible to achieve a relatively high degree of accountability even though there is no sanctioning mechanism available.

Furthermore, many of the transparency indicators of the indexes do in practice capture attempts at shaping the publicity of the doings of the bank, rather than giving outsiders a chance to see for themselves what is going on inside. Press conferences, public hearings and speeches certainly raise the publicity of the bank. On the other hand, these types of information channels are controlled by the bankers themselves. In fact, there is a big resistance, both among the bankers themselves and among economists analysing the ECB, against more objective measures of transparency, such as publishing minutes and voting records (which the ECB does not do at present).⁸ If people were trusted with too much "raw" information, they argue, they will misunderstand what is going on. "The 'public's right to know' has to be balanced by the 'public's need to understand'", as one member of the Executive Board put it (Issing 1999: 508). De Haan, Amtenbrink and Waller (2004: 776) support this view by defining transparency as "the public's understanding of the decisions taken", rather than availability of information. According to this logic publishing more objective information like minutes and voting records may rather decrease the level of transparency, as people will misunderstand the content of this information without the bankers' assistance with the interpretation.

In my view the argument that the ECB is both unusually independent and accountable is based on an unreasonable stretching of the concept of accountability. It assumes that transparency automatically leads to accountability, but as I have argued here this is not the case. Even if we would agree that the public relations activities of the ECB are a form of transparency measures (which is doubtful) there are still no sanctioning mechanisms available. No matter how many press conference the Executive Board holds, we still have to wait eight years before we can replace its members if they perform badly.

But is public critique not a form of sanction, someone could argue? The ECB president will have to put up with critical questions from the press and hearings in the European Parliament (or rather, the ECB has so far decided that they will

⁸ See, for instance, Padoa-Schioppa (2000), Trichet (2001) and De Haan, Amtenbrink and Waller (2004).

engage in these activities although they are not bound to do so, see Amtenbrink (1999: 296f.)). Surely public critique can be an effective sanctioning mechanism in some circumstances. In the case of the ECB, however, it is hardly enough to achieve accountability. One cannot simply assume that a badly performing or agency shirking bank will shape up its act if it is exposed to public critique. The members of the Board probably would like to avoid such critique if they could. On the other hand, their jobs are not at stake and they have in fact a strong argument for not listening too much to critique from outsiders. Article 108 of the treaty states that the ECB is forbidden to “seek or take instructions from Community institutions or bodies, from any government of a Member State or from any other body”. Furthermore, “the Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the ECB or of the national central banks in the performance of their tasks”. If the public critique becomes heavy article 108 may be referred to by the ECB to protect its independence.

The defenders of the present construction of the ECB have been helped by scholars in handling the difficult debate on democratic legitimacy. Rather than being forced to discuss what is a reasonable balance between the two values of independence and accountability – it is of course possible to have a different balance than the one chosen for the ECB, for instance by including an override mechanism – they have been able to point at the accountability indexes and argue that the two are not mutually exclusive. Being more sensitive to the distinctions between transparency, publicity and accountability would have helped scholars avoid playing such a doubtful political role.

Conclusion

I have argued here that the common sense idea that ‘if people can see what is going on, elite actors will have to shape up their acts’ is too simple a notion of the link between transparency and agency shirking. There is indeed a causal link, but it is a conditional one. Just making information available is not enough to affect agency behavior. There must also be a reasonable chance that the information actually reaches the public/principal and can be used for sanctioning shirking. The common practice of mashing the concepts of transparency, publicity and accountability into one tends to blur the importance of these different causal mechanisms. The examples given here from the research on corruption and central bank accountability demonstrate the point. Paying attention to these distinctions thus is not just a question of conceptual clarity, but also one of research design for the evolving empirical social science research on transparency.

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Transparency and unfair Eviction in Democracies and Autocracies

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Corruption, resource extraction and waste by policymakers are endemic to any polity, and are often a source of poor economic performance. Voters in democracies can reduce this dissipation by revoking the authority of their elected officials at election times, but only if they have the information necessary to allocate responsibility for poor economic performance to this corrupt and inefficient leadership. This paper investigates the incentives of policymakers to provide this information about their actions and behavior, and investigates the differences in this willingness to be transparent across regime types. Key to understanding a policymaker's willingness to be transparent is his/her susceptibility to "unfair eviction". If a policymaker can be tossed out of office when aggregate conditions are poor (which is observed by the voters directly), but waste and corruption have not been excessive (but these are not directly observed), this policymaker may be unfairly evicted from office. In order to avoid such a fate, a policymaker may provide more transparency-enhancing institutional devices to avoid such an outcome. Since democratic executives are more susceptible to unfair eviction, they are more likely to be more transparent when compared to autocratic policymakers.

Transparency is viewed by many as a necessary prerequisite for a well functioning democracy. Voters, who are asked periodically to select their policymaking representatives, are expected to exercise their civic responsibilities in an informed manner. Elected officials, in turn, rely on the support of voters in order to stay in office (at least in democracies). Policymakers hence trade policy in return for holding office – and policymakers need to provide the appropriate information (or at least permit it to become available), to convince (enough of) the voters that their policymaking has been in their best interest. Hence the flow of information is crucial to understand the inner workings of the democratic process.

Policymakers of course have opportunities to extract part of society's scarce resources at the expense of the general interest. Sometimes this involves direct appropriation of productive resources, and is clearly intentional and for the benefit of his (rarely, her) own welfare. Other instances involve corruption and other rent creating activities, of which they may receive a share. And at other times, policymaking behavior is simply wasteful and inefficient. This resource dissipation is contrary to the interests of society at large, and if unobserved, can have catastrophic effects on economic performance, growth and welfare. Voters who

observe routine and excessive corruption, waste and inefficiency may choose to remove those policymakers from office. Elections, together with good information about the behavior of the policymakers, act as accountability devices.

It seems clear therefore that for voters to exercise their accountability responsibilities, better information about policymaker behavior facilitates greater accountability. Voters clearly demand more, and better information.

Control over the supply of information rests squarely however, in the hands of the policymakers. To a significant degree those with the power to make allocation decisions over resources also have the power, within certain boundaries, to set the rules over information dissemination. Transparency requires the policymakers to be willing to have the voters observe their actions, to institute and enforce rules that permit the acquisition of this information by interested parties, and potential competitors for political office. It must engineer institutions and organizations designed to produce this information; and it must protect the rights of individuals to gather, disseminate, and publish these data.

The central question posed therefore, is that what are the circumstances under which democratic policymakers accede to the free flow of information? One can think of the relationship between the voter and the policymaker in the face of an information problem as a principal-agent relationship, with the voters as the principals, the policymaker the agent, and the unobservable the policy choice, and rephrase the question: Under what conditions is transparency "incentive-compatible" for the policymaker?

Transparency can take a number of forms, ranging from freedom of the press, a passive form that permits external parties to acquire and disseminate information about government behavior, to more active direct information revelation. One particular form this transparency might take is disclosure laws: "freedom of information acts" or "sunshine policies" that require that documents requested be turned over except in specific circumstances. Governments may engage in active record-keeping, and turn over these requests with speed and accuracy. In cases where the rules governing bureaucratic or policymaking processes require disclosure, a policymaker facing a low risk of unfair eviction might engage in activities designed to evade these rules - we call this "transparency-evasion". Governments in polities where unfair eviction is less likely may fail to store or actively hide documents.

This work adds to a growing literature on the endogenous supply of information about policymaking in democracies and autocracies. Persson, Roland and Tabellini (1997), show that separation of powers and divided budgeting responsibility result in the revelation of private information about actions taken. When the executive must recommend a budget for approval to a legislature, both of whom are subject to recall by the voters, the voters can induce the two bodies to discipline each other. Ferejohn (1986) permits the level of transparency

to be an explicit choice of the policymaker. In a model where the voters must contribute (in the form of taxes) to the size of the government budget, they may be willing to contribute more when the executive chooses more transparency – generating both bigger government spending and (in contrast to this paper, and surprisingly) more resource diversion.¹

Hypothesis: The Eviction/Extraction Trade-off

Consider a polity in which policymaking takes place in the presence of uncertainty. Policies are chosen, and then elections are held, and policymakers will be unsure of the aggregate state of the economy at the time of the election.² The electorate observes their own welfare, but is unable to differentiate the effects of aggregate economic conditions from the policies adopted by the executive. If the economy happens to be in a good state, and the executive has not been too extractive or wasteful or corrupt, the voters will observe bulging pocketbooks and be likely to vote to reelect the incumbent. If on the other hand, aggregate conditions are poor, and even if the executive has not been excessively extractive, the voters (acting retrospectively) may choose to evict the incumbent. The executive has, to some degree in this instance, been “unfairly” evicted from office – extraction was modest, but exogenous conditions conspired against the executive. “Unfair”, in the sense that the enhanced risk of eviction from office is due to circumstances beyond the policymaker’s control.

Clearly, executives with a greater degree of sensitivity to the electorate have more to fear from this possibility of unfair eviction. Those executives less accountable to the electorate (more autocratic) will be inclined to extract more and worry less about eviction. They run a lower risk of unfair eviction – but they raise the risk of eviction, with increased waste, corruption and extraction. Absent any ability of the voters to distinguish between corruption and waste, on the one hand, and bad aggregate conditions beyond the control of the policymaker on the other, a policymaker faces a trade-off – more extraction today increases the chances of eviction; lower extraction and waste today increases the chance of holding office tomorrow. The policymaker balances the gains from increased extraction with the risks of dismissal – we call this the “eviction/extraction trade-off” in the absence of transparency.

If, on the other hand, policymaking is transparent, voters can better separate economic conditions from extractive policy, and voters are less likely to

¹ These papers stand in contrast to the more usual approach in the literature, which is to assume an equivalence between democracy and transparency, for example Shultz (1998), Broz (2002) and Fearon (1994).

² Policymakers don’t condition their policy choices on the outcome of the uncertain economic conditions, but merely must make a choice within this uncertain environment.

punish executives when aggregate conditions are poor, and will instead only punish extractive and wasteful behavior.

A policymaker, interested in both staying in office, and maintaining at least some opportunities for future extraction can therefore use “transparency” to reduce some of the eviction/extraction risk. An elected politician may choose to be more transparent (and as a result, engaging in less waste and fraud, relinquishing some opportunities for extraction), in exchange for eliminating the risk associated with being unfairly dismissed. By admitting a free press, oversight agencies, publication of data, and freedom of information procedures, policymakers can establish that they have not been excessively extractive, or dissipated rents and resources into unproductive, private, wasteful activity.

The central conclusion then is that we would expect to see those politicians more sensitive to the will of the electorate more likely to adopt transparent modes of policymaking in order to enhance the possibility of remaining in office. This leads to the first prediction: polities characterized by higher degrees of electoral accountability (by and large, democracies) will be more transparent.

This logic also provides secondary hypothesis, that if supported by the data, will lend credence to the overall approach. On the one hand, more democracy (here, a greater susceptibility to the will of the voters) means that the threat of eviction that voters hold permits them to demand better economic performance, increasing the likelihood of unfair eviction – on average reducing tenure in office. But policymakers are at the same time increasing transparency (and lowering their extraction) with the specific intent to increase their tenure in office. Hence we specify the trade-off directly: the period of office-holding is likely to fall with electoral accountability, but rise with increased transparency.

This yields two predictions we subject to empirical test:

1. Democracies are more likely to be transparent;
2. Tenure in office of policymakers falls with the degree of electoral accountability, but rises with the degree of transparency;

We report below the results of two sets of regressions, each of which addresses one of these empirical predictions.

Empirical Evidence for the Predictions

Data

To measure the degree of electoral accountability, we use the Polity IV measure (Marshall and Jaggers 2000), which captures the institutional elements of interest across countries. It combines data on five dimensions – the competitiveness of the process for selecting a country’s chief executive, the openness of this process,

the extent to which institutional constraints limit a chief executive's decision making authority, the competitiveness of political participation within the country and the degree to which binding rules govern political participation within the country. Polity IV creates a 21 point scale ranging from -10 to 10, with larger values of *Polity* referring to more democratic polities.

This index captures the institutional structure of governing; it does not rely on other attributes often considered "democratic" such as the presence of civil liberties (Gastil), the presence of a free press (Freedom House), the absence of political prisoners etc. This is consistent with the intent to try to focus solely on the dimension of democracy we are addressing - electoral accountability. Polity IV covers 161 countries between 1800 and 1999.

Transparency is captured using data assembled by Knack and Keefer (1995) drawn from the "International Country Risk Guide" (ICRG), a monthly publication of Political Risk Services, a private consulting firm. In-house experts assigned a score for each country-year along five dimensions: government repudiation of contracts, risk of expropriation, corruption, law and order, and bureaucratic quality. Key to the measure of transparency we use is that it captures how well informed the voters are about the policy actions of the policy-making bureaucracy. Contract repudiation, expropriation, corruption, when they occur, are often done secretly or without publicity; when these are perceived to be absent, there is less to hide. Similarly, more law and order means a more predictable regulatory environment, less prone to unexpected reversals, and therefore consistent with a more transparent policy-making process. The arithmetic average along these five dimensions is taken for the *Transparency* measure. The dataset runs from 1982 to 1995 across 130 countries.

Tenure is drawn from the World Bank's Database of Political Indicators (Beck et al. 2002), and is a measure of stability of the political system. The variable TENLONG is used, which measures the tenure of the veto player in the system with the longest tenure. In autocracies, only the chief executive's years in office are counted. In presidential systems, the longest tenure among the president and the largest party in the legislature is used. In parliamentary systems, the veto players are defined as the Prime Minister and the three largest government parties. There is data for 177 countries over the years 1975-95.

Descriptive statistics are in Table 1. To provide a flavor of the data, the US (in 1995) gets a transparency score of 7.2 out of a maximum 7.6, while Cuba gets 2.2. Netherlands gets the maximal score of 7.6. The 47 year tenure is North Korea in 1994.

Table 1: *Descriptive Statistics and Sources*

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>	<i>Source</i>
<i>transparency</i>	1641	4.54	1.64	0.6	7.6	ICRG
<i>tenure</i>	1579	9.88	8.57	1	47	DPI
<i>polity</i>	1552	1.07	7.79	-10	10	Polity IV
<i>GDP</i>	1369	7502.80	7094.83	321.80	34372.76	PWT 6.1
<i>open</i>	1369	64.38	44.77	6.32	403.10	PWT 6.2
<i>finite term</i>	1581	0.77	0.42	0	1	DPI
<i>political cohesion</i>	1590	0.70	0.81	0	3	DPI

Transparency is the mean of 5 dimensions: government repudiation of contracts (0-10 scale), risk of expropriation (0-10), corruption (0-6), law and order (0-6) and bureaucratic quality (0-6). Larger values suggest higher transparency. Larger values for *polity* imply more democracy. *Tenure* is the number of years served by the longest veto player. *GDP* is at 1996 prices (\$ US billion). *Open* is (Exports + Imports/Nominal GDP). *Finite term* is a dummy with value 1 if there is a constitutional limit on term lengths.

Sources: ICRG is from Knack and Keefer (1995). Polity IV is from Marshall and Gurr (2000). PWT 6.1 is from Heston et al. (2001) and DPI is from Beck et al. (2000).

Model 1: Transparency and Democracy

We begin the econometric analysis with a simple presentation of the results from a least squares estimator utilizing panel-corrected standard errors to deal with heteroskedasticity and correlations across panels that may be contemporaneous, issues that are common in panels of this type (Beck and Katz 1995). The panel consists of between 1222 and 1552 observations drawn from 124 countries over 14 years (1982 to 1995).

The first column of Table 2 shows that the degree to which the polity is democratic has a significant and positive impact on the degree of transparency. The effects of increased democracy are quantitatively non-trivial: a pure democracy (*polity* = 10) is predicted to have a transparency score 70% larger than a pure autocracy (*polity* = -10); polity alone explains about 32% of the variation in transparency.

Table 2: Effects of Polity, GDP, Openness on Transparency in 124 Countries, 1982-1995

	1	2	3	4	5	6
<i>Intercept</i>	4.48** (0.092)	3.39* (0.154)	3.22* (0.173)	0.28* (0.105)	0.35* (0.125)	0.34* (0.124)
<i>polity</i>	0.117* (0.092)	0.028* (0.0059)	0.03* (0.00579)	0.0063** (0.0026)	0.0066* (0.0024)	0.0068* (0.0025)
<i>GDP</i>		0.0001711* (8*10 ⁻⁶)	0.0001654* (8*10 ⁻⁶)		(7*10 ⁻⁶) (7*10 ⁻⁶)	(7*10 ⁻⁶) (7*10 ⁻⁶)
<i>Open</i>			0.0032* (0.00075)			0.0003 (0.0002)
<i>Lagged Transparency</i>				0.962* (0.021)	0.935* (0.032)	0.933* (0.033)
<i>N</i>	1552	1320	1320	1431	1222	1222
<i>R-squared</i>	0.3212	0.7037	0.7113	0.9575	0.9606	0.9606

Note: Estimates are OLS with panel-corrected standard errors in parentheses. * = $p < .01$, ** = $p < .05$.

The effect of *Polity* on *Transparency* is robust to the inclusion of control variables. We might expect that as a country becomes richer, and transparency being a normal good, it might purchase or invest in the institutions and agencies needed to provide the information to better monitor the officials. Hence we include GDP of the country at the year in question. Countries more dependent on international trade and capital flows will desire more transparency to continue to attract international trade and capital in an increasingly competitive international environment. We therefore include a measure of the openness of the country-year (*Open*), the fraction of imports and exports in nominal GDP. Both controls are drawn from the PWT 6.1 (Heston et al. 2002).

Both the coefficients of GDP and *Open* are positive (as expected) and significant. Columns 2 and 3 of Table 2 establish that *polity* remains positive and significant at the 1% level in the presence of these controls.

An important problem could plague these results. This approach ignores the potentially dynamic nature of the process that determines the level of transparency in any polity. That is transparency today could be affected by the levels of transparency in previous periods, as well as the nature of the polity in previous periods. There are two potential sources of dynamic effects – the first is that there may be serial correlation due to persistence – transparency is slow to adjust and the history of transparency-enhancing institutions might matter for today's measure, in addition to democracy today. And secondly, the democracy measure may be endogenous with respect to the transparency measure – there may be a degree of simultaneity bias

To deal with the serial correlation, one possibility is simply to include a lagged dependent variable in the least squares regression, as done in columns 4, 5 and 6 of Table 2. While our key variable of interest (*polity*) remains positive and

significant, the estimator is likely to be biased and inconsistent due to correlation with any potential fixed effects (Warwro 2002: 26). An alternative approach is to assume that all the dynamics are captured by individual-specific effects – that is what affects both today’s and yesterday’s transparency measure is something specific to each country – such as its culture or religious practices. If the individual effects are not controlled for and are relegated to the regression error then there will be correlation between the lagged dependent variable (i.e. the dependent variable in period $t-1$) and the regression error thus causing estimator bias. A simple solution might be to just add dummy variables for each country, but this does not address the possibility that there are dynamic effects not captured by the fixed effects (such as the endogeneity problem), leaving open the possibility of remaining estimator bias (Wawro 2002: 29).

Another alternative to deal with the correlation between the lagged dependent variable and the individual effects is to take the first difference of the regression equation and eliminate the individual effects and thus the correlation between the lagged dependent variable and the individual effects. This assumes the individual effects are time invariant which we believe is a tenable assumption given that the likely impact we are purging from our equation is some type of country-specific factor which generally will not change from one year to the next.

While the first difference eliminates the correlation between the lagged dependent variable and the individual effects, there is still the remaining dynamic effect due to endogeneity – the problem that the lagged difference in the dependent variable is correlated with the difference in the error term. That is, there may be a correlation between the change in the lagged dependent variable, say $t-1$ and $t-2$, and the change in the error term over periods t and $t-1$. In our case, the lagged value of transparency in $t-1$ will be correlated with the error in $t-1$ making the change in transparency correlated with the change in the error term – the remaining source of estimator bias. Following Anderson and Hsiao (1981) and Arellano and Bond (1991), we can exploit the fact that past differences in the dependent variable (e.g. the difference in transparency from $t-3$ and $t-4$) are highly correlated with current lagged differences in the dependent variable (e.g. the difference in transparency from $t-1$ and $t-2$) but not the differenced error from periods t and $t-1$. Hence we can instrument these later changes with earlier changes in the regression equation. That is, since we have explicitly included the difference in transparency from period $t-1$ and $t-2$ in the regression equation it is no longer a part of the error term and thus past values of transparency, say the difference from period $t-3$ and $t-4$, will not be correlated with the error term and thus satisfy the two important assumptions for instrumental variables (i.e. the instruments are correlated with the endogenous regressor and uncorrelated with the regression error).

Arellano and Bond (AB, 1991) improving on Anderson and Hsiao (1981) have developed a first-difference generalized method of moments (GMM) estimator, that can handle issues of endogeneity and individual effects. In political science it has been applied most recently in prominent work by Scheve and Slaughter (2004) and Henisz and Mansfield (2006).

Table 3: *Dynamic Panel Analysis of the Endogenous Effect of Democracy on Transparency*

<i>Test Variables</i>	1	2	3	4
<i>ΔLevel of Democracy</i>	.0256*** (.009)	.0276*** (.009)	.031*** (.007)	.0266** (.009)
<i>Control Variables</i>				
<i>ΔTransparency (t-1)</i>	.794*** (.035)	.813*** (.039)	.814*** (.032)	.814*** (.039)
<i>ΔGDP</i>		-.000026* (.000015)		-.000026* (.000015)
<i>ΔTrade Openness</i>			.0003 (.0009)	0.0002 (.0006)
<i>Constant</i>	.0256*** (.005)	.0277*** (.0067)	.022*** (.0047)	.028*** (.0066)
<i>Diagnostics</i>				
<i>Sargan Test</i>	124.58	104.37	105.14	103.05
	p=.96	p=.99	p=.99	p=.99
<i>H₀: No AR(1)</i>	Z=-6.95	Z=-6.33	Z=-6.34	Z=-6.33
	p=.000	p=.000	p=.000	p=.000
<i>H₀: No AR(2)</i>	Z=-.50	Z=-.19	Z=-.16	Z=-.19
	p=.62	p=.85	p=.87	p=.85
<i>Wald</i>	588***	527***	672***	501***
<i>Observations</i>	1288	1100	1100	1100

Notes: Arellano-Bond estimator is used. Coefficient estimates are based on one step method. Diagnostics based on two step method. All covariates except democracy are treated as if they are exogenous. Robust standard errors in parentheses. *** = $p < .01$, ** = $p < .05$, * = $p < .10$

Table 3 presents the results of applying this AB estimator. The results indicate a high degree of persistence as the parameter estimates for the lagged difference in the level of transparency are approximately .80 in all four treatments. Accounting for the dynamics of transparency seems to be warranted. Turning to the measure of democracy, in column 1 of Table 3, now controlling for the lagged effect of the change in transparency, indicates that a one point change in democracy will increase the change in transparency by approximately .026 points. The mean change in transparency is approximately .24 so that the effect of the change in democracy is about 11 percent of the mean value.

Next, column 2 includes a control for GDP which is negative and not what we expect but it is statistically insignificant below the five percent level. Column 3 controls for only trade openness the change in democracy has indicating a slightly increased impact and an even higher level of statistical significance. In this case a one-point change in democracy increases the change in transparency by about .031 which is approximately 13 percent of its mean score. The change in trade openness has a positive impact on the change in transparency but it is statistically insignificant. Finally, in column 4 both GDP and trade openness are included in the specification. Here the change in democracy shows consistent results as do the results for both GDP and trade.

When employing the AB estimator several diagnostic checks are required. First a Sargan test over-identifying restrictions should be checked in which rejection of the null hypothesis suggests misspecification. The Sargan test indicates we cannot reject the null hypothesis and the test for first-order serial correlation is negative and statistically significant while the test for the second-order serial correlation is also negative and importantly, statistically insignificant. These diagnostic tests hold for all of the columns in Table 3.

Overall the results in Table 3 provide further support for the first hypothesis. Some additional points help solidify the robustness of our results. First, we note that adding controls for time in our regressions does not change the results in Table 3. The statistical significance for the change in democracy increases and all diagnostic tests are cleared for all the columns in Table 3. Second, we also note that in their application of this estimator Henisz and Mansfield (2006) find for their full sample the Sargan test is weakly significant. Based on this finding they divide their full sample into sub-samples and find the Sargan test can no longer be rejected. Given that rejection of the null hypothesis indicates model misspecification this seems like a reasonable alternative to consider. For our results in Table 3, however, there is no case in which we reject the null hypothesis of the Sargan test and thus we believe there is no reason to divide the sample. Dividing the sample will cause us to lose valuable information and much of the variation on our key causal variable and thus does not seem warranted. Third, Scheve and Slaughter (2004: 672) compare Sargan tests in order to determine if their decision to relax the assumption of exogeneity for their key test variable is warranted. We do this too and find that in every regression in which democracy is assumed exogenous the Sargan test is rejected indicating model misspecification while in every case it is modeled as endogenous in Table 3 the Sargan test cannot be rejected indicating no model misspecification. We feel this indicates support for treating democracy as an endogenous covariate.

Based on Tables 2 and 3 the impact of an increase in the level of democracy and the change in democracy is to increase transparency. As we theorize increases in democracy represent more accountability for politicians who respond by increasing government transparency. This protects them from unnecessary evictions from office. The econometric results indicate robust support for this argument.

Model 2: Tenure

Next we test the second hypothesis. The dependent variable here is the tenure of the veto player with the longest tenure (*Tenure*), and hence a measure of the duration of office-holding by the most successful politician. The theory predicts that increases in *Transparency* lead to longer tenures, and more democracy (larger value of *Polity*) leads to shorter periods of office-holding as elected officials are evicted from office more frequently.

Due to the different dependent variable we utilize a different estimator. Here the dependent variable is in a class referred to as a count variable (see Greene 2003: 663). Specifically the form of the length of tenure of the longest serving veto player is counted by the number of years beginning with 1. To account for the count nature of the data we use a widely used technique most commonly referred to as a Poisson regression estimator (see Greene 2003: 740). In addition, to continue to account for any time invariant factors we employ a fixed effects estimator which in this case is typically preferred over the random effects estimator (Greene 2003: 749). We do, however, run the random effects estimator and the results are essentially identical with the exception that the measure of trade openness is statistically significant below the five percent level.

The results are reported in Table 4. The basic model in column 1 including only the measures of democracy and transparency indicates as expected that more democracy means less veto player tenure and more transparency means more tenure. Adding *GDP* as a control in the second column shows consistent results for the measure of democracy. In this second model, transparency drops in practical significance but is still statistically significant. Adding trade openness yields consistent results in column 3.

When controlling for the presence of a constitutional limit on the length of term policymakers can hold office (*Finite Term*), we observe little impact. *Political Cohesion* has the expected sign – as the divisions in government increase, the tenure in office falls – and is significant.³

An important assumption of the Poisson regression set-up is that the conditional mean of the dependent variable equals its conditional variance. If this

³ Both *Finite Term* and *Political Cohesion* are drawn from the DPI database (Beck et al. 2002). *Finite Term* is a dummy variable which takes on the value of 1 when there is a constitutional limit on the number of years the executive can serve before new elections must be called, and takes value zero where such limits are absent, suspended, unenforced or not explicitly stated. *Political Cohesion* (IPCOH) is based on the criteria of Roubini and Sachs (1989), where under a presidential system, this variable scores 0 if the same party is in control of the executive and legislature, 1 if not. Under parliamentary systems, this variable scores 0 if the government is unified under a single party, 1 if a coalition government with two parties, 2 with three or more parties, 3 if a minority government. *Political Cohesion* rises with the degree of divisions in government.

assumption cannot be upheld then the model is misspecified. Several alternative estimators have been suggested to deal with this problem. The common approach is to utilize the negative binomial estimator (see Greene 2003: 744). As a robustness check we subject all the regression specifications in Table 4 to both a fixed effects and random effects negative binomial estimator. The results for both the measure of democracy and transparency from the negative binomial estimator yield estimates very similar in magnitude and statistical significance to those reported in Table 4. The only difference to report between the fixed effects and random effects estimator is again that the statistical significance of the measure of trade openness is only significant for the random effects estimator. Based on this and other estimators, such as the random effects Tobit, we feel our results are robust to specification and estimation technique.

Table 4: Regression of Tenure on Democracy and Transparency and other Covariates

	1	2	3	4	5
<i>Democracy</i>	-.052*** (.003)	-.045*** (.003)	-.045*** (.003)	-.045*** (.003)	-.042*** (.003)
<i>Transparency</i>	.118*** (.011)	.067*** (.014)	.064*** (.014)	.058*** (.015)	.060*** (.015)
<i>GDP</i>		.00008*** (.000009)	.00008*** (.000009)	.00008*** (.000009)	.00008*** (.000009)
<i>Trade Openness</i>			.001* (.0006)	.001* (.0006)	.001* (.0006)
<i>Finite Term</i>				.142** (.056)	.087 (.057)
<i>Political Cohesion</i>					-.155*** (.023)
<i>Observations</i>	1513	1285	1285	1282	1282
<i>Wald Statistic</i>	397***	317***	320***	302***	302***
<i>Log-likelihood</i>	-3906***	-3236***	-3234***	-3212***	-3212***

Notes: *** = $p < .01$, ** = $p < .05$, * = $p < .10$. Fixed effects Poisson regression. Dependent variable is TENLONG.

Conclusion

Policymakers, more susceptible to the will of the voters, use transparency to manage the risk associated with the trade-off between extracting or wasting more of society's productive resources today, and remaining in office tomorrow. That is, transparency can reduce the risk of being unfairly evicted when resource dissipation is low, but aspects of economic functioning beyond the policymaker's control have generated poor economic outcomes. Executives less prone to unfair dismissal (because they are less accountable to the electorate) face less risk, and hence are less inclined to need transparency, or use less of it.

Transparency therefore rises with democratic accountability. Moreover, since transparency is used to mitigate a risk associated with the eviction/extraction trade-off, transparency and electoral accountability influence the ability of policymakers to hold onto office. Tenure in office falls as the voters are able to put tighter reins on their executives (by virtue of the electoral process); policymakers, in order to mitigate this choose more transparency. Hence tenure in office will rise with transparency (as it falls with electoral accountability). These results emerge robustly from the data, and are consistent with our expectations of the varying effects of accountability and transparency.

Transparency then is viewed as a choice variable, from the point of view of the of the policymaker. This may take the form of both increased adoption of transparency-enhancing institutions – free press, disclosure rules etc., and increased compliance with those rules and obligations.

There is a broader implication of these findings. Transparency and electoral accountability are often viewed as synonymous. This work spells out that they may in fact have very different impacts, and operate in different ways within the broad realm of “democracy”. Indeed, they clearly have opposite effects on tenure in office, for example. The implication is that “democracy” is a multifaceted object, and care is needed not to conflate the impact of many of its individual components. More broadly, the things we identify with “democracy” – the rule of law, and independent judiciary, a free press, civil liberties, elections etc., each are likely to be related to each other in different and counteracting ways; moreover, their impact on the things we care about – economic growth and performance, etc., may be very different.

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Psychological Constraints on Transparency in Legal and Government Decision Making¹

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In a democratic society, the desirability of openness and transparency in government decision making would seem nearly self-evident. The average newspaper reader has consumed a steady diet of examples of deception, bigotry, cronyism, and corruption by public officials, providing obvious arguments in favor of greater transparency. But my goal for this essay is to illustrate ways in which the complexity of cognition and motivation make transparency difficult to achieve, even with the full cooperation of well-intentioned government actors. The claim is not that particular judgments themselves are complex; indeed many seemingly

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complex judgments are actually well explained by simple linear models. Rather, the claim is that the complexity of the underlying machinery of the brain makes it difficult for actors to either consciously monitor or control their judgment process (Wegner and Bargh 1998). Moreover, some attempts to achieve transparency may have unintended and undesirable consequences.

Any judgments about the merits of transparency, and optimal design of transparency mechanisms must necessarily involve a host of complex issues involving moral and political philosophy, political science, economics, history, and sociology. Many of these perspectives are addressed elsewhere in this symposium. Also, the psychological literature I draw upon relies heavily on experimentation with students. These studies provide strong causal inference about cognitive mechanisms, but weak external validity. Importantly, these experiments inevitably exclude organizational structure, historical context, and most of the tactical and dramatic elements that characterize the “rough and tumble” of real-world politics. Thus, the ideas presented here should be considered hypotheses for further consideration rather than firm conclusions about actual political systems. Fortunately, a number of scholars have begun to investigate some of the social psychological aspects of transparency and political deliberation in legislative bodies, citizen focus groups, political internet chat rooms, and other settings (e.g. Bächtiger, Spörndli, Steenbergen and Steiner 2005; Conover and Searing 2005; Steenbergen, Bächtiger, Spörndli and Steiner 2004; also see Rosenberg 2005).

The Limits of Introspection

There is broad agreement among contemporary psychologists that people are generally unable to fully perceive, and reliably and validly report, the causes of their behavior. The Freudian account of repression or other defense mechanisms is familiar to most readers. But even in the absence of dark subterranean motives, our span of awareness permits only limited access to most other cognitive processes (Hassin, Uleman and Bargh 2005; Wegner and Bargh 1998; Wilson 2002). In a classic 1977 article, Nisbett and Wilson argued that when people attempt to explain their behavior, “they do not do so on the basis of any true introspection”. They showed that research participants repeatedly failed to detect experimental factors that were demonstrably influencing their behavior. At the same time, research participants routinely cited “causes” for their behavior that were in fact demonstrably uncorrelated with their responses. Nisbett and Wilson argued that their participants’ “explanations” were based not on introspective access, but rather on *a priori*, implicit causal theories about whether a particular stimulus seems plausible as an account of their behavior. In other words, self-attributions reflect not direct perception of the causes of one’s behavior, but rather “common sense” or “lay theories” about what those causes might be.

Evidence for limited introspective access runs counter to “folk psychological” notions of mind and rationality, but is entirely in accordance with contemporary scientific psychological theory and research – much of it developed in the years after Nisbett and Wilson’s analysis. There is now a considerable body of converging evidence (from research on learning, memory, stereotyping, attitude change, and perception) the brain has two distinct modes of information processing, often working in tandem. Table 1 summarizes the basic properties of System 1 (or associative) and System 2 (or rule-based) cognition (Chaiken and Trope 1999; Sloman 1996; Stanovich 2004). Of particular relevance to the question of transparency, System 2 is conscious and deliberative, but System 1 is characterized by automatized and/or implicit cognition. Automatic cognitive processes can be triggered without conscious effort or intent, are difficult to interrupt without disruption, and often run to completion without any apparent awareness by the actor (Wegner and Bargh 1998)

The distinction between System 1 and 2 modes of cognition suggests plausible constraints on the transparency of decision processes. In particular, *System 1 processing is inherently lacking in transparency – for the decision maker as well as the audience*. Can we simply require decision makers to engage in System 2 processing? Unfortunately, decision makers can simply choose which cognitive processes to engage in. System 2 processes rely heavily on a substrate of System 1 products, though some tasks are more deliberative than others. For example, the process of grading an arithmetic test is inherently more transparent than the process of grading an essay exam; the process of choosing the best credit card is inherently more transparent than the process of choosing a painting to display on your wall. Few important legal or policy decisions involve straightforwardly algorithmic reasoning. Arguably, System 2 thinking might be a curvilinear function of familiarity; very novel tasks demand more System 2 thinking because they can’t (yet) be routinized, and very familiar repetitive tasks may be more likely to have produced formal rules. It is the domain in the middle – tasks that are somewhat familiar but not formulaic – that are likely to be most opaque in their processing.

Table 1: *Properties of the two systems (adapted from Stanovich 2004)*

<i>System 1</i>	<i>System 2</i>
Associative	Rule-based
Holistic	Analytic
Parallel	Serial
Automatic	Controlled
Relatively effortless	Relatively effortful
Relatively fast	Relatively slow

Due to the limits of introspection, cognitive processes are sometimes more complex than the actor realizes. But it is sometimes the case that actors cite a complex configuration of factors underlying their judgments, when in fact their judgments are well described by a simple linear model, in which a few variables are weighted and then added together (Dawes, Faust and Meehl 1989). A classic example is Ebbesen and Konecni's (1975) study of bail setting decisions by judges. In reactions to fictitious cases, judges made use of a number of legally relevant criteria, including the accused's ties to the area and prior criminal record. But a regression analysis of actual bail decisions failed to reveal any influence of these factors; instead, judges relied almost exclusively on the recommendations made by the district attorney – in essence, acting as a “rubber stamp”.

Unintended Consequences of Promoting Transparency

Having argued for the psychological difficulty of achieving transparency, I now list reasons why attempts to encourage transparency can go awry. Psychologists have a seemingly endless supply of biases and perversities to invoke against optimal rationality, but I limit the focus to a few well documented phenomena arising in circumstances that might be expected to promote transparency. These phenomena by no means imply that the net or total effect of an intervention is undesirable, which would require a broader assessment of costs and benefits in context. Instead, the argument is just that the interventions are likely to perform less well than intended.

Accountability Can Have Perverse Effects

Most efforts at transparency lead decision makers to expect some degree of accountability to an audience. In the face of accountability pressures, Tetlock (2002) argues that people are more like “intuitive politicians” than like intuitive scientists. He and his students have shown that the effects of expecting to be held accountable for a decision vary depending on whether the audience's views are known or unknown, and the nature of those views (see Lerner and Tetlock 1999). If decision makers expect to be accountable to an audience of unknown views, they engage in “pre-emptive self-criticism” – a process of careful consideration of alternatives and systematic reasoning about evidence. But if the audience views are known, the decision maker is more likely to engage in some “attitude shifting” – moving in the direction of the audience's viewpoint.²

² Tetlock also considers what happens when one only discovers that one is accountable after a decision has already been rendered. In such situations, accountability cannot affect the decision but, if the audience is dissatisfied, the decision maker may engage in “defensive bolstering” in an effort to rationalize the position.

An experimental study of the effects of juror anonymity can be interpreted in this light. Hazelwood and Brigham (1998) compared verdicts rendered by 20 anonymous and 20 non-anonymous juries in a student disciplinary case. When the case against the student defendant was strong, the anonymous juries were considerably more likely to vote for conviction and punishment, suggesting that the non-anonymous juries were reluctant to publicly sanction a fellow student.

Another means of promoting transparency is to ask decision makers to self disclose any personal biases or conflicts of interest. But there are a number of problems with this idea. First, it assumes people are aware of their biases, but in fact most people believe they are less biased than others (Pronin, Gilovich and Ross 2004). Second, Cain, Loewenstein and Moore (2005) have demonstrated that disclosures can actually increase the influence of bias in expert advice; apparently experts – having “come clean” feel they have full license to say what they want without caution or qualification. Making matters worse, their audience – having heard the expert come clean – no longer adjust their understanding of the advice to correct for possible bias from the source.

Group Processes Can Amplify Bias and Discourage Deliberation

Group deliberation is commonly endorsed as a means of promoting legitimacy and encourage a diversity of viewpoints to be heard. Of course, aggregation will cancel out random error (noise). And it can cancel out systematic error (bias) provided that some biases offset others. But what about shared biases? In general, group deliberation tends to *attenuate* shared individual biases when a “wrong” (or biased) response is readily recognizable as such by the group. But in judgmental tasks lacking a shared conceptual scheme for recognizing a correct response, deliberation tends to *amplify* bias (Kerr, MacCoun and Kramer 1996).

In collective decision making, transparency is often sought by requiring decision makers to state their views publicly (rather than privately). A basic finding in social psychology is that public commitment to a position makes people more resistant to moderating their views in light of subsequent argument (Jellison and Mills 1969). In criminal juries, for example, premature voicing of opinions can make deliberation “verdict-driven” rather than “evidence-driven” (Hastie, Penrod and Pennington 1983). Norbert Kerr and I found that the instruction to conduct open “show-of-hands” polling led to a significantly larger number of “hung” (deadlocked) juries than did secret balloting (Kerr and MacCoun 1985). Gosseries (2005) quotes James Madison’s concern about this kind of premature commitment at the 1787 American Constitutional Convention: “Had the members committed themselves publicly at first, they would have afterwards supposed consistency required them to maintain their ground, whereas by secret discussion no man felt himself obliged to retain his opinions any longer than he was satisfied of their propriety and truth, and was open to the force of argument”.

Gosseries (2005) argues that deliberating actors need to be able to “try out ideas out of the blue with the risk of having to abandon them straightaway (trial and error), to show hesitation, to reconsider the issues again and again with a fresh eye, the actual deliberation may not be more than the juxtaposition of pre-prepared statements with no actual interaction taking place”. In the organizational behavior literature, this concern is promoted with the concept of “brainstorming”, in which group members are encouraged to generate a large body of candidate solutions to a problem while postponing any criticism or reality testing. Unfortunately, in practice, brainstorming groups tend to prematurely seize upon early plausible candidates; a greater pool of candidate solutions can be generated by distributing the ideas generated by individuals working alone (Mullen, Johnson and Salas 1991).

Being Explicit Can Distort Goals and the Willingness to Make Tradeoffs

The System 1 processes described earlier presumably evolved largely to permit fast responding and to achieve metabolic efficiency – extended bouts of highly controlled conscious processing are very taxing, as exam takers and novice meditators can attest. But another advantage of System 1 processes is that parallel distributed processing facilitates the simultaneous pursuit of multiple goals or objectives. I’m not referring here to multitasking (doing many different tasks at once), but trying to achieve multiple ends with the same task. Robbenmolt, Darley and I (2003) have argued that legal decision making routinely requires fact finders to pursue multiple goals; e.g. consistency with the evidence, allocation proportional to fault, compensation proportional to need, retribution for or deterrence of negligent or egregious conduct and so on. We described four basic principles of cognitive goal management:

First, the *principle of equifinality* holds that some goals may be alternately satisfied through multiple pathways. ...Second, the *principle of best fit* holds that pathways may sometimes better fulfill some goals than others. ...Third, the *principle of multifinality* holds that a particular pathway may accomplish multiple goals simultaneously. ...Finally, the principle of *goal incompatibility* holds that some objectives will inevitably conflict and, thus, be difficult or impossible to satisfy concurrently.

We concluded that parallel constraint satisfaction networks – a type of System 1 cognitive architecture – are particularly well suited to achieving these four principles.

Interestingly, our proposal resonates well with Sternberg’s (1998) “balance theory of wisdom”. Sternberg’s theory defines wisdom as “the application of tacit knowledge as mediated by values toward the achievement of a common

good through a balance among multiple (a) intrapersonal, (b) interpersonal and (c) extrapersonal interests in order to achieve a balance among (a) adaptation to existing environments, (b) shaping of existing environments and (c) selection of new environments”.

A concern with efforts to mandate transparency is that the explicit listing of reasons tends to valorize certain easily articulated or salient goals at the expense of others. This is a good thing if the goals that get neglected are socially inappropriate (e.g. pecuniary conflicts of interest), but it is a bad thing if it discourages the practice of “wisdom” in Sternberg’s sense. In a clever set of studies, Timothy Wilson and his collaborators have demonstrated that process of listing one’s reasons for a judgment can actually produce judgments that are poorer by a variety of criteria (see Wilson 2002). For example, they have shown that analyzing one’s reasons:

- makes lay participants’ judgments become less correlated with those of experts,
- makes people less satisfied with their choice at a later time,
- makes people more likely to later change their mind about the judgment they reached, and
- produces greater overconfidence, greater reliance on confirmatory bias and reduces the correlation between one’s announced judgment and one’s subsequent behavior.

Wilson argues that analyzing reasons leads people to give disproportionate weight to those factors that are salient or easily brought to mind, relative to other factors that otherwise would have (and often should have) weighed heavily in their judgment process. A possible exception to this general pattern is that an explicit “reasons analysis” may be more helpful in situations where the decision maker has available an explicit algorithm or conceptual scheme which, if used, will improve the chance of finding the right answer (McMackin and Slovic 2000).

In schools of public policy analysis, we actively instill our students with the belief that good policy making requires a willingness to make difficult tradeoffs.³ Unfortunately, people are often highly resistant to confronting such tradeoffs. A great many of my students – even Masters in Public Policy candidates with several years of government experience under their belts – display visceral discomfort when confronted with expert analyses of the economic valuation of human life. Many students roll their eyes, shake their heads, or scowl. When asked to explain, they struggle to verbalize their feelings; they find it distasteful to place a value on human life, but they can’t say why, and most acknowledge the need for policy analysts to do so.

³ The discussion that follows is adapted from MacCoun (2000).

A psychological analysis of this discomfort is provided by the “taboo trade-offs” theory of Fiske and Tetlock (1997). Drawing on Fiske’s earlier work, the authors contend that relations in all societies are governed by various combinations of four fundamental psychological templates: We sometimes categorize individuals and treat category members identically (communal sharing), we sometimes treat individuals by their rank within a group (authority ranking), we sometimes keep score of outcomes and strive to equalize them (equality matching), and we sometimes value outcomes on an absolute metric and make tradeoffs among them (market pricing). Each template has its own rules of appropriate conduct, its own norms of distributive fairness, and most crucially, its own consensually agreed upon domains of operation in a community’s life.

Fiske and Tetlock (1997: 294) argue that “cost-benefit analysis ignores and usually does violence to normative distinctions that people value as ends in themselves”. They recognize the normative value of formal cost-benefit analysis; they recognize that “taboo tradeoffs are unavoidable. ...In practice, there is a limit to the dollars we will spend to enhance our own personal safety at the workplace or in cars or airplanes, and we will certainly spend less for the safety of others” (Fiske and Tetlock 1997: 290). But they argue that attempts to apply market pricing to the domain of human life will inevitably encounter resistance: “It is gauche, embarrassing, or offensive to make explicit trade-offs among the concurrently operative relational modes” (Fiske and Tetlock 1997: 273). This suggests that explicitness can discourage tradeoffs that we might otherwise prefer to make. Though tradeoffs can be inappropriate or corrupt, most policy analysts believe some such tradeoffs are a necessary part of responsible governance.

Another example of this kind of tension is Tribe’s (1971) argument that standards of proof at trial should not be explicitly quantified. He contends that an explicitly probabilistic criterion (e.g. “you must be more than 95 percent certain”) is undesirable because it provides an explicit statement of error rates; thus, certainty less than 100 percent implies that some innocent defendants might be acquitted. Tribe worries that this admission might delegitimize the system. But Kagehiro (1990) has shown that jurors actually perform better with quantified standards of proof than verbal standards; thus, the unwillingness of courts to openly acknowledge error tradeoffs may increase legal error.

There are also many controversial examples involving vice policy. For example, “harm reduction” interventions like needle exchange are demonstrably beneficial from a public health standpoint, but when they are too visibly discussed and acknowledged, they raise objections that the government is “sending the wrong message”, tacitly endorsing injection drug use (MacCoun and Reuter 2001). The Dutch are notorious for comfortably tolerating policies that are difficult to reconcile when examined explicitly. For example, the Netherlands prohibits cannabis possession, yet has a written policy of non-enforcement of this

law for small quantities; this allows them to target high level traffickers, to avoid punishing low level offenders, to separate the cannabis and hard drug markets, to control retail vendor behavior, and reduce the “forbidden fruit” effect of banning marijuana (MacCoun and Reuter 2001).

A related reason why public accounts may differ from private reasoning is that *ex ante*, declared rules are intended to have an expressive, injunctive function. But *ex post*, holding citizens to those standards may sometimes seem unreasonable. Legal scholars have drawn a distinction between conduct rules (which tell the public how to behave) and decision rules (which tell judges how to evaluate the public’s conduct). Dan-Cohen (1984) has examined the benefits and difficulties of achieving an “acoustic separation” between these two types of rules.

Are There Better Ways to Achieve Transparency?

In this essay, I’ve “problematized” transparency without offering better solutions, but I can make some tentative suggestions about potentially more effective ways of achieving the same ends.

A number of procedural tools for encouraging unbiased decision making have been identified (see MacCoun 1998, 2005), including task decomposition (e.g. special interrogatories for juries), the use of devil’s advocacy, and bifurcated decision processes. And there are a variety of less intrusive methods that social scientists routinely use to study and evaluate decision processes, including observational coding, content analysis, process tracing, econometric analysis, and quasi-experimental program evaluation designs. Social auditing studies can identify biases using experimentally doctored “cases” that are submitted to decision makers without their knowledge. For example, Ayres (2001) and others have documented racial discrimination in automobile sales, bail bonding, bank lending, and other markets by having white or African American actors with the same personal backgrounds (education, income, etc.) pretend to seek services.

More generally, I offer three conjectures about the likelihood of success in achieving transparency:

1. It may be hardest to achieve transparency for decisions that are intermediate between the very novel (which are more likely to be made in a deliberate fashion) and the very routine (where formal procedures or rules may have been established).
2. At least with respect to psychological constraints, it should be harder to achieve transparency in the reasoning process than for the inputs to and outputs from that process. In order to get inside the black box of the *reasoning process*, we should not expect much help from the decision makers themselves. Indeed, efforts to direct influence their openness can have unintended consequences.

3. Decision making performance ranges from the corrupt and inept to the wise and inspired. Efforts to increase transparency can and probably do eliminate many decisions from the worst end of the continuum, but it is conceivable that they do so at the expense of impairing high quality decisions at the other extreme.

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Two Effects of Transparency on the Quality of Deliberation

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While there has been much recent discussion of transparency in government, there have been relatively few empirical studies that examine in a systematic fashion how public officials behave in 'transparent' versus 'secretive' environments. One reason for this dearth of empirical studies undoubtedly involves practical difficulties. When a committee meets in public session we have access to minutes, verbatim transcripts, or even televised proceedings that allow us to examine statements of individual participants. In contrast, when a committee meets in secret by definition we have no official record of what individual participants say or do. As a result, if we want to examine how behavior differs between a private and a public committee, then we are faced with a serious problem of data truncation. This paper reports on research we have conducted on the US Federal Reserve's Federal Open Market Committee (FOMC) (Meade and Stasavage 2005). Our work takes advantage of a rare opportunity to compare how government officials behave in public and private settings. In 1993 the FOMC began releasing verbatim transcripts of its meetings, albeit with a five year delay. Before 1993 the FOMC did not release transcripts, but as was subsequently revealed, all pre-1993 meetings had been taped, and contrary to the expectations of participants, these earlier records had been preserved. After 1993 the verbatim records of these earlier meetings were also released to the public. As a result, the FOMC transcripts provide a rare opportunity to compare decision-making in two environments: after 1993, when officials knew that their statements would eventually become public, and before 1993, when officials believed (erroneously as it turned out) that their statements would remain private. In what follows we provide background on FOMC procedures and the 1993 debate whether to publicize proceedings, we then summarize our statistical tests which suggest that post-1993 publicity has hindered the quality of deliberation, where quality is referred to as willingness of committee members to

share dissenting opinions. Finally we briefly discuss how our findings relate to existing theoretical and empirical work on the effects of publicity/transparency. Before proceeding further, however, we first briefly review the theoretical reasons why we might expect publicity to affect the quality of deliberation.

Public versus private deliberation

The potential positive effects of having government officials deliberate in public are widely referred to and highly plausible. Whether one considers elected legislators or appointed bureaucrats, conducting deliberations in an open setting facilitates efforts by members of the public to hold officials accountable for their actions. Publicity may also increase the legitimacy of decisions. While publicity of legislative debate has been a norm since the late eighteenth century, there has been increasing interest in recent years in subjecting unelected decision makers to similar levels of “transparency”. There has been much less attention devoted to the possibility that publicity of deliberation between government officials might have costs as well as benefits.¹

The formal model we develop in Meade and Stasavage (2005) helps identify one potential cost of holding deliberations in public. In the context of a central bank governing board, or in fact any collective body whose members would like to establish a reputation for having a high level of expertise, then committee members may be more reluctant to openly express their policy views when deliberations are held in public. If in the order of speaking an official follows someone with a more established reputation, then the official may be less inclined to express a dissenting view, even if their private beliefs suggest that this should be the case. Say that the head of a monetary policy committee who is known to have a high level of expertise has spoken first and has proposed keeping the central bank’s short-term interest rate unchanged. This policy view will logically be derived from information the committee chair has seen involving the current state of the economy. One of the goals of collective deliberation is to pool information from multiple sources so as to arrive at more accurate decisions on average than would be the case if a single individual were setting policy.² Ideally, if other committee members have information about the state of the economy that contradicts that held by the chair, then more efficient decisions will result if they share this information, even if the other committee members each individually believe that the chair has a more accurate opinion, in expected terms,

¹ Important exceptions involve the work by Elster (1998), the discussion of publicity in Manin (1997), the review article by Gosseries (2005) and the recent theoretical work by Prat (2005).

² Blinder and Morgan (2005) use a monetary policy experiment to illustrate the gains from group decision-making.

about the state of the economy than do they. The problem is that if committee deliberations take place in public, meaning outsiders observe both the committee's final decision and the individual statements made by members, then committee members who are concerned about establishing a reputation for expertise can face an incentive to agree with the chair's proposal rather than offer dissenting opinions.³ A member who dissents can face a bigger loss if she turns out to be wrong, then does a member who does not express dissent but who turns out to have accurate information.

Now consider the case of private deliberation, where outsiders observe the committee's final decision, but they do not observe the individual statements made by committee members. Here committee members will know that they can offer dissenting opinions without having their reputation for expertise be so highly dependent on their individual statement. As a result, committee members will be more likely to volunteer free opinions, and private deliberation will be more likely to lead to an efficient decision.

We should emphasize that the above argument is focused exclusively on identifying one potential cost of conducting deliberations in public. As a result, we are not conducting an overall welfare analysis that would weigh the costs of less efficient decision-making against the benefits of increased accountability. We should also emphasize that we are focusing on one specific element in the quality of deliberation, the willingness of committee members to share dissenting opinions, and we are interested in testing a proposition about this particular aspect of the quality of deliberation as closely as possible. In making this choice, however, we are by no means implying that willingness to offer dissenting opinions constitutes the only important aspect of the quality of deliberation. Drawing on the definitions of high quality deliberation developed by Jürgen Habermas, Steiner et. al (2004) have recently conducted an empirical study of the quality of deliberation in several national parliaments, focusing on features such as the extent to which sophisticated justifications are provided for statements, as well as whether respect for counter-arguments is registered.

The Federal Open Market Committee and transcript publication

As described above, the recent experience of the US Federal Reserve's Federal Open Market Committee (FOMC) provides an especially interesting opportunity to examine whether shifting from private to public deliberation can have significant costs. The FOMC is the committee of the Federal Reserve that has the responsibility for setting short-term interest rate policy. It has eight regularly

³ Ottaviani and Sorensen (2001) provide a theoretical discussion of the way in which reputational incentives can give members of a committee the incentive to not reveal private information in the form of views about the state of the economy.

scheduled meetings per year and includes twelve voting members: the seven members of the Board of Governors of the Federal Reserve System and five of the Presidents of the twelve regional Reserve Banks.⁴ Although there are only twelve voting members at any given FOMC meeting, it is typical for all nineteen policy officials to participate in FOMC discussions. During the period we consider (1989-1997) the FOMC was chaired by Alan Greenspan and FOMC meetings were divided into two “rounds” of discussion, followed by a formal vote. In the first round officials (both voting and non-voting) presented their general views on the economy, while in the second round officials discussed specific policy options. The first policymaker to speak in the second round was Alan Greenspan, who generally offered lengthy remarks on his views and made an interest rate policy recommendation. Other policymakers followed by expressing their views. At the end a formal vote was taken. It is important for the purposes of our study to note that throughout the period considered here, a policymaker with an established reputation for expertise (Alan Greenspan) was always the first to reveal his specific policy views and recommendation. This raises the question of whether FOMC members with less fully established reputations faced incentives to avoid dissenting with Greenspan’s position.

Relative to a number of other central banks (such as the European Central Bank) the US Federal Reserve moved early to establish a certain level of openness for its committee meetings. Throughout the period we consider (1989-1997) the FOMC published the voting records of individual committee members and it also published minutes of each meeting. However, crucially, these minutes did not attribute specific comments or views to individual FOMC members. As a result, during the pre-1993 period when the Fed published only voting records and minutes, but not full transcripts, individual FOMC members believed that the policy views they expressed during FOMC discussions would not be made public. Meade (2005) has established that members of the FOMC are more willing to dissent from the chair’s position during the policy discussion round (which until 1993 was private) than in the formal voting round, the results of which become public soon after the meeting.

During the Fall of 1992, the FOMC came under pressure from the Banking Committee of the US House of Representatives to reveal more information about its internal deliberations. The Federal Reserve Accountability Act of 1993, which was introduced as a bill in January of that year, actually called for a verbatim transcript and videotape to be made public within 60 days of each FOMC meeting. During internal FOMC discussions about the Congressional initiative, a number of officials expressed fears that publishing transcripts would have a

⁴ The President of the Federal Reserve Bank of New York always votes, and the remaining four votes rotate annually among the remaining Reserve Bank Presidents, according to a set scheme.

chilling effect on debates. Edward Boehne, the President of the Federal Reserve Bank of Philadelphia, noted that during a previous period in the 1970s when the FOMC had published information about its deliberations, “meetings were much more formal [with] less give-and-take and there was a tendency for people to come in with prepared statements, which made it difficult for the subsequent give-and-take that I think has become a real strength of the Committee” (Transcripts, October 5 conference call 1993: 4).⁵ In testimony to the House Banking Committee, Alan Greenspan expressed similar reservations that are worth quoting at length.

“A considerable amount of free discussion and probing questioning by the participants of each other and of key FOMC staff members takes place. In the wide-ranging debate, new ideas are often tested, many of which are rejected... The prevailing views of many participants change as evidence and insights emerge. This process has proven to be a very effective procedure for gaining a consensus around which a directive to the Open Market Desk can be crafted. It could not function effectively if participants had to be concerned that their half-thought-through, but nonetheless potentially valuable, notions would soon be made public. I fear in such a situation the public record would be a sterile set of bland pronouncements scarcely capturing the necessary debates which are required of monetary policymaking” (Hearing 1993a: 27).

In the end, the FOMC voted in November 1993 to begin publishing verbatim transcripts of meetings with a five-year delay. In making this decision, the FOMC’s hand was forced by the revelation that the Federal Reserve staff had in fact kept raw transcripts of all FOMC discussions since 1976. Although discussions were tape recorded, most FOMC officials thought that these tapes were used to construct minutes and then recorded over at the next meeting. The five-year delay in transcript publication is certainly sufficient to ensure that transcript publications do not create financial market volatility, but several FOMC officials expressed the view that even a delay of this length would be insufficient to avoid having the character of FOMC debates change significantly. This is the issue we consider in the next section.

Assessing the effect of publicity

We adopt a simple technique in order to assess the impact on FOMC behavior of the 1993 decision to release verbatim transcripts. We use a logit model to esti-

⁵ Until 1976, the FOMC published Memoranda of Discussion with a five-year lag. These documents were extensive and identified individuals and their opinions, but were heavily edited.

mate the probability that an individual will voice disagreement with the Fed Chairman's interest rate proposal (as expressed in the second round of discussion), including a dummy variable that takes a value of 1 for all meetings after 1993, in addition to a number of control variables. The theoretical argument we presented above suggests that greater publicity of debates after 1993 should have resulted in a lower frequency of dissent. Before proceeding with this exercise, however, it is useful to first take a more simple look at the frequency with which FOMC members verbally dissented. Table 1 shows the frequency with which members verbally dissented before 1993, and subsequent to the 1993 decision to publish transcripts, and it does so for three separate categories of FOMC members. It is important to note that this table refers to the frequency with which officials *verbally* dissented from the chair's interest rate proposal during the discussion round that preceded the actual vote.

Table 1: *Frequency of verbal disagreement with Greenspan interest rate proposal*

	<i>Pre-1993</i>	<i>Post-1993</i>
<i>Voting Board members</i>	10.2	3.1
<i>Voting Bank Presidents</i>	19.6	13.8
<i>Non-voting Bank Presidents</i>	17.1	23.1

The figures in Table 1 show that there has been a very significant drop in the frequency of dissent for two types of FOMC members: members of the Board of Governors and Presidents of the regional Federal Reserve banks who voted at that particular meeting. It is interesting to note that in practice Fed Governors tend to remain in office for shorter periods than the regional bank Presidents, and they are younger on average. Either of these two factors may have made them likely to react particularly strongly to the decision to release transcripts.

As a next step, we use a logit model to estimate whether the 1993 decision to publish transcripts produced a lower frequency of verbal dissent on interest rate decisions, even when controlling for other potential determinants. We report the results of a single regression in Table 2. Our dependent variable is verbal dissent from the Greenspan interest rate proposal with a value of 0 indicating agreement and 1 indicating disagreement. In addition to the Tape dummy variable which takes a value of 1 for all meetings after 1993, we include a number of controls. We distinguish between the three key groups of FOMC officials by including dummy variables for Bank presidents who vote and non-voting Bank presidents (the Governors are the base group). We also include interaction terms between the two dummy variables and the Tape variable, which allows us to examine whether the decision to publish transcripts had differential effects on each group. In addition to the above, we also include a number of other varia-

bles that might be correlated with the likelihood of dissenting. These include the number of months of experience on the FOMC, relative to Alan Greenspan's experience. We also added variables for the absolute value of the output gap, the absolute value of inflation (one month change in the CPI), and volatility of productivity.⁶ Finally, we also included two variables that capture the standard deviation between inflation and growth forecasts from private forecasters at the time of each meeting (for one year ahead forecasts). The inflation, output gap, productivity, and forecast variables are all designed to proxy for the extent to which there was uncertainty about the state of the US economy at the time of a particular FOMC meeting. While there may be a causal link between such uncertainty and the likelihood of dissent, it is not clear what direction this effect would take. On the one hand, we might expect that greater uncertainty will produce greater dissent because FOMC members will have widely divergent views or information about the state of the economy. On the other hand, greater uncertainty may also imply that FOMC members are more likely to defer to the chair's position on interest rates.

Table 2: *Estimated probability of disagreement with Greenspan interest rate proposal*

	<i>Coefficient</i>	<i>T-value</i>
<i>Tape (post-1993 dummy)</i>	-1.39	-2.53
<i>Bank president voter</i>	0.65	1.67
<i>Tape*Bank president voter</i>	1.03	1.59
<i>Bank president non-voter</i>	0.46	1.23
<i>Tape*Bank president non-voter</i>	1.90	3.08
<i>Experience</i>	0.00	1.42
<i>Inflation (absolute value)</i>	0.14	2.55
<i>Output gap (absolute value)</i>	0.24	0.92
<i>Productivity (conditional variance)</i>	-2.29	-0.83
<i>Standard deviation CPI forecasts</i>	-1.79	-1.12
<i>Standard deviation GDP forecasts</i>	-2.39	-1.60
<i>Sample start year</i>		1990
<i># obs</i>		931
<i>Prob>Chi²</i>		<0.01

⁶ The latter is the conditional variance of productivity estimated using an ARCH model.

The Table 2 results show that the shift to publishing transcripts has had a negative and statistically significant effect on the likelihood that Fed Governors (the base group in the regression) will dissent, and the same is the case for voting Bank presidents. It is also useful to separately consider the substantive magnitude of these effects. If we set the uncertainty and experience variables to their means, and we set the *Bank President voter* and *Bank president non-voter* dummies to 0 we estimate that a Fed Governor would have had a 10% likelihood of verbally dissenting before the 1993 change and only a 3% likelihood of verbally dissenting after transcript publication began. This is a very significant drop. When we conduct a similar exercise for voting Bank presidents we observe that they would have a 17% likelihood of dissenting before 1993 and a 13% likelihood of dissenting after transcript publication began. This is a smaller but still significant reduction in the probability of dissent.

In addition to the main empirical test described above, we also considered an additional implication of our argument concerning the effect of transparency on committee deliberation. If publishing transcripts makes it more likely that FOMC members will follow the chair's proposal irrespective of their own private view about the economic situation, then under publicity we should observe fewer cases where members switch their position between the preliminary discussion stage and the official voting stage of the meeting. As can be seen in Table 3, after the FOMC began publishing transcripts in 1993 there was a dramatic drop in the frequency with which members publicly switched their views during the course of the meeting. When we examine these figures in more detail we observe that this trend was apparent both for cases where officials initially disagreed with the chair's interest rate proposal but then voted with the chair, as well as in cases where officials initially agreed with the chair but then decided to dissent during the official voting round. In Meade and Stasavage (2005) we report logit estimates of the likelihood of switching views, and these regressions suggest that the decision to publish transcripts has resulted in notably fewer occasions of switching by Fed Governors in particular, even when one controls for a number of other potential determinants.

Table 3: Number of cases where FOMC members switched views between preliminary discussion round and voting round

	<i>Pre-1993</i>	<i>Post-1993</i>
<i>Cases with no switch</i>	283	300
<i>Cases where view switched</i>	41	18
<i>Of which:</i>		
<i>Voiced disagreement but voted assent</i>	27	16
<i>Voiced agreement but voted dissent</i>	14	2

The empirical evidence we have summarized here provides a strong indication that the decision by the FOMC to begin publishing its verbatim transcripts has had a significant impact on the behavior of FOMC members. Committee members have been less likely to offer opinions that dissent from the Fed chairman's interest rate proposal, an effect that should harm the quality of deliberation. Likewise, the 1993 change appears to have resulted in a reduced tendency for members to publicly change their views during the course of a meeting. This is another sign of a reduced quality of deliberation. It should be re-emphasized that because our research has focused uniquely on identifying these two potential negative effects of publicity, these results do not necessarily indicate that the 1993 decision to publish transcripts was an unwise one in an overall sense. One might potentially argue that the costs of transcript publication have been outweighed by benefits associated with increased accountability.

Relevance to debates about publicity and transparency

Our study of publicity and the FOMC contributes to a small but growing body of work which suggests that while there may be clear benefits to establishing greater transparency in government, advocates and institutional designers should also take into account the possibility that openness can entail important costs. In so doing we provide support for several recent theoretical contributions that have already been cited above, including Prat (2005), Manin (1997), Elster (1998) and Gosseries (2005).

Our work also contributes to an emerging empirical literature on the multiple effects of transparency. The study by Steiner, Bächtiger, Spörndi and Steenbergen (2004) found that parliamentarians engaged in lower quality debate in floor debates, which occur in public, when compared with legislative committee meetings, which in many countries occur in private. Their conclusions about publicity are similar to our own, although rather than considering the tendency for individuals not to reveal their true opinions during public debates, they emphasize how publicity produces adverse effects such as a reduced respect expressed for alternative opinions. Another difference is that while our data actually allow us to compare an environment where officials believed they were acting in secret with an environment where they knew they were acting in public, the study by Steiner et al. (2004) compares differing levels of publicity.⁷

⁷ Committee meetings are more private than floor debates, but individuals in both contexts know that their statements will potentially become public. Switzerland appears to differ here, however, in that records of statements in parliamentary committee meetings are only available for use by researchers and cannot be directly cited. We would like to thank an anonymous referee for pointing this out.

The FOMC experience with regard to greater openness also appears to parallel that observed by scholars investigating the effect of transparency in European Union decision-making. Naurin (2004) demonstrates that greater transparency has not had an effect of “improving” the behavior of EU lobbyists in Brussels. The evidence presented from the EU context in a recent edited volume by Checkel (2005) provides a further interesting indication in this regard, as he observes that EU committees that meet in more secretive settings tend to have more of the free exchanges characterized by actual deliberation than do committees where discussions are more public. This is a very similar conclusion to our own. The work by Stasavage (2004) has also provided evidence on the shortcomings of transparency, both at the EU level and in the context of eighteenth century legislatures. In sum, there appears to be evidence from several different environments that is consistent with our own conclusions about the potential negative effects of transparency.

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