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A global index of information transparency and accountability

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Interest in the political and economic consequences of transparency has grown significantly over the past decade. The literature, however, has been hampered by methodological issues over what actually constitutes 'transparency', as well as the lack of a quantitative indicator that has substantial coverage across countries, and time. This paper uses a relatively new methodology, similar to Transparency International's *Corruption Perceptions Index,* to construct composite indicators of what we call Informational Transparency, and Accountability. These new indicators use data from 29 sources, with scores being derived annually between 1980 and 2010 across more than 190 countries. *Journal of Comparative Economics* **xxx** (xx) (2014) xxx–xxx. UWA Business School, M251, 35 Stirling Hwy, Crawley, WA 6009, Australia.
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1. Introduction

The economic, social and political importance of transparency has gained increasing traction over the past decade, amongst academics and practitioners alike. This has been part of a broader movement that seeks to explain and understand the role that institutions play in a nation's economic development. However, despite the increasing focus, this issue has been plagued by a number of conceptual and methodological problems that have led to some confusion over what exactly is meant by 'transparency'. Moreover, the difficulty in providing a quantifiable measure of transparency has hampered our empirical understanding of its economic and political causes and consequences.

The aims of this paper are therefore twofold: (i) to undertake a brief review of previous research into what constitutes 'transparency', and to consequently provide a conceptual framework that guides the following analysis, and (ii) to set out a new composite indicator of transparency that has extensive coverage across countries, and time. Section 2 attempts to tease out a definition of transparency that takes into consideration the fact that what has traditionally come under the 'transparency' rubric requires greater nuance. Section 3 looks more directly at existing empirical measures of transparency, whilst Section 4 takes this discussion and uses it as the basis for the construction of a composite indicator of transparency. Section 5 then looks at some basic summary statistics and comparisons of this indicator, whilst Section 6 concludes with some thoughts on how this indicator may assist in future empirical work in this field.

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2. Definitions and literature review

2.1. Defining transparency

The first obvious step is to denote exactly what is meant by 'transparency' in this paper. On the surface, this may sound like a fairly simple task. However, transparency can mean different things to different groups, and can be important for different reasons. Florini (2000) takes as broad a view as possible on this. In her view, transparency is the "release of information by institutions that is relevant to evaluating those institutions". Because these institutions can mean either public or private institutions, this provides a nice starting point. Of course, this looseness stems precisely from the fact that it is used in so many different areas: corporate governance, national security, government budgets, international organisations and so on. In a definition that has been commonly used (see for example, Hollyer et al., 2011; Bellver and Kaufmann, 2005 and others), Vishwanath and Kaufmann (1999) define transparency as the "increased flow of timely and reliable economic, social and political information which is accessible to all relevant stakeholders". Others, such as the OECD (2002) prefer to focus their definition on the removal of informational asymmetries, a feature of transparency highlighted by Stiglitz (2000), who prefers a definition whereby transparency is really just 'another name for information', and so greater transparency becomes a way of minimising informational asymmetries in the market. Other, such as Bauhr and Grimes (2012) prefer a checklist approach, whereby transparency only exists if certain criteria are met.

A number of definitions place the importance of transparency firmly in the sphere of public accountability. For example, Kopits and Craig (1998) define fiscal transparency as *"openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections."* In this sense, fiscal transparency is not necessarily about access to the budgetary information itself (although that certainly constitutes part of the definition), but rather the openness of the procedures and policies. Andreula et al. (2009), and the IMF (2012) make a similar point. In this context, it is the constraints this information may place on public officials that is the key. In other words, it is not the information itself that is important, but the fact that the information is *potentially discoverable*. Public officials may refrain from undertaking illegal and corrupt behaviour if they know that there is a high probability of this information getting out.

2.2. Literature review

As these definitions highlight, 'transparency' as a concept ranges from issues surrounding information, through to issues of accountability. The following review (loosely) divides the literature into research that highlights the 'information' component of transparency, and research that focusses more on issues of accountability, and its use as a constraining mechanism.

2.2.1. On the value of information

A simple, though not necessarily uncontroversial, statement in economics is that 'more information is always preferred to less'. In standard microeconomic competitive market models, information is assumed to be 'perfect'. Indeed, imperfectly competitive and market failure models are often characterised by the informational asymmetries they possess (for example, see Stiglitz, 2000 and others).

From a relatively early point in this literature, however, a distinction was made between public information (available to all, and considered to be a public good), and private information, available only to those who generated (or purchased) this information. In the early 'island economy' models of Phelps (1970) and Lucas (1972, 1973), or the Keynes 'beauty contests', there is a distinct co-ordination aspect that is crucial. And, when information is perfect, it was shown that this co-ordination maximises social welfare.

The literature quickly moved on from this to explore the interesting situations in which players were faced with imperfect information – either through asymmetries, or when the information itself was imperfect, or 'noisy'. This was the point made by Morris and Shin (2002 and others), whereby the perverse situation could arise that public information could be over-weighted in the minds of the participants and, if this information had a lot of noise (for example, GDP or inflation data that was subject to subsequent revisions), then it could be welfare-reducing. This paper sparked off a significant debate about (a) whether this was indeed true in the first place, and (b) if it were true, what a policy response to this problem may look like. For example, Svensson (2006) noted how, under reasonable assumptions, this result would not actually hold, and so this public information would still be welfare-improving. Indeed, if we broaden the debate to a global (rather than largely a developed country) viewpoint, one can see Svensson's point. In the original Morris-Shin model, when there is no private information, then the public information that is available (regardless of its precision) is welfare-improving. For many developing countries this would certainly be closer to their experience.

This model has largely been used in terms of the role of a central bank within an economy, and the effect that central bankers' information and forecasts can have on expectations, and hence volatility. For example, in a recent paper, Muto (2013) looks at how a central bank's (noisy) forecasts on productivity can destabilise private firms' own expectations, which may in turn worsen the output gap. Geraats (2002, 2009) provides a nice review of this literature, and the debate over the degree of transparency a central bank should undertake. She makes the point that those countries that have become more transparent have also enjoyed lower inflation (even in relative terms during the 'Great Moderation' of the 1990s and 2000s).

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