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### Does the invisible hand need a transparent glove?

Ann FLORINI

Singapore Management University, [annflorini@smu.edu.sg](mailto:annflorini@smu.edu.sg)

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#### Citation

FLORINI, Ann, "Does the invisible hand need a transparent glove?" (2000). *Research Collection School of Social Sciences*. Paper 2092.

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**Does the Invisible Hand Need a Transparent Glove?**  
**The Politics of Transparency**

Ann M. Florini  
Carnegie Endowment for International Peace

Many thanks to several people for their helpful comments on earlier versions of this paper: Nancy Birdsall, Stephen Flynn, Virginia Haufler, David Lipton, Daniel Morrow, Sunil Sharma, Nadeem Ul Haque, and two anonymous reviewers.

Paper prepared for the Annual World Bank Conference on Development Economics, Washington, D.C., April 28-30, 1999. The findings, interpretations, and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of the World Bank, its Executive Directors, or the countries they represent.

# **Does the Invisible Hand Need a Transparent Glove?**

## **The Politics of Transparency**

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### Abstract

Transparency is on the rise, touted as the solution to such disparate problems as financial volatility, environmental degradation, money laundering, and corruption. But transparency faces much opposition, particularly from those under scrutiny. Such actors often have strong incentives to avoid providing information. To explain the growing demand for transparency and to assess its prospects for success requires attention to matters of politics – that is, power. Power is often needed to induce disclosures or restructure incentives. And the information thus revealed can shift power from the former holders of secrets to the newly informed. This paper explores the politics of transparency – why it is emerging, and what are the advantages and difficulties inherent in relying on transparency to address global issues.

## Introduction

The “invisible hand” of the market, as we all now know, depends heavily on the support of a thick “glove” of rules, norms, and institutions, including governments. But too often, the glove is opaque, obscuring flows of information essential to the efficient and equitable functioning of both markets and the national and international institutions that regulate them. Of late, demands to make both institutions and markets transparent have reached a fevered pitch. Many of the arguments on the creation of a new global financial architecture put calls for increased transparency front and center.<sup>1</sup>

The rising clamor for transparency in economic, financial, and business discussions reflects a global trend toward growing transparency across issue areas. Scholars, policymakers, and activists have called for transparency in such varied contexts as banking, auditing and accounting standards, national fiscal practices, control of drug trafficking, environment, anti-corruption efforts, multilateral development assistance, and private sector environmental and labor practices.<sup>2</sup> In politics, promoters of democracy have come to realize that elections alone cannot provide accountability unless citizens can monitor the actions of the officials they elect. In environmental issues, a whole field of pollution regulation based on public disclosure by firms is arising, one that relies on public pressure rather than government sanctions to induce firms to clean up (Tietenberg and Wheeler 1998). In arms control, the last years of the Cold War accustomed major powers to the practice of inviting highly intrusive mutual scrutiny of one another's

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<sup>1</sup> G7 Leaders' Statement 1998; Declaration of G7 Finance Ministers and Central Bank Governors 1998; Ostry 1997; Working Group 1998; Sanger 1998, Sutherland 1998. For useful cautions about the limits on the role of transparency in prevention or resolving financial crises, see Eichengreen 1999.

<sup>2</sup> On banking, see Basle Committee 1998 and Reinicke 1998. On auditing and accounting standards, see Byrnes 1998, Jones 1998, and Wippurforth 1998. On national fiscal practices, see Kopits and Craig 1998. On control of drug trafficking, see Flynn 1999. On environment, see Tietenberg and Wheeler 1998. On

military forces, a practice now broadening to include many more governments, and large swaths of the private sector as well. The chemical industry, for example, is now subject to both regularly scheduled and surprise inspections at thousands of facilities around the world, under the terms of the Chemical Weapons Convention (Florini 1997).

The demands for transparency are increasing in large part because of globalization. As the world becomes more tightly integrated, many people are affected by, and thus want to have a say in, what used to be other people's business. As trade, capital, environmental degradation, drugs, people, and ideas cross existing political boundaries in ever greater quantities, events in one place have ever greater impacts on other places. Countries under pressure to attract foreign investment demand information from their firms and government agencies. International financial institutions, which are major promoters of economic integration, are beginning to make strong recommendations for what information governments should demand from citizens and firms.

There are good reasons to believe that increased transparency would frequently be beneficial, often indispensable, and sometimes a moral imperative. Consistent transparency can smooth the operation of financial markets, and may attract the investment that fosters growth. It provides a means of detecting, and thus correcting, errors in the policies of governmental and international institutions – errors that in the era of economic integration can wreak havoc on bystanders if left uncorrected. Most important, as democratic norms spread, it is harder and harder to maintain societal consensus around decisions reached in secret by small elites. Publics have proved willing

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corruption, see Dye and Staphenurst 1998, Naim 1995 and Vogl 1998. On multilateral development banks, see Udall 1998. On private sector practices, see Haufler forthcoming.

to accept painful reforms, but only when they have been fully consulted and kept fully informed.

Despite the benefits, increasing transparency is hard to do. It often requires power to induce disclosure, either by coercion or by restructuring incentives, and the information thus revealed can shift power from the former holders of secrets to the newly informed. Even when a given government or corporation would find it in its institutional interest to be transparent, individuals within such institutions may prefer secrecy, to cover up incompetence, to protect opportunities for rent-seeking, or simply to avoid the bother of public scrutiny (Stiglitz 1998). And when a government or corporation is generating externalities by, for example, lying about its financial reserves (thus risking a financial crisis that would prove costly to others) or secretly dumping toxic substances, it has obvious incentives to try to hide the problem.

The key to bringing about transparency is to pay attention to incentives, because most of the time obtaining information about a government or corporation is infeasible without the help of that government or corporation. With rare exceptions transparency depends on the more-or-less “voluntary” provision of information by the target of the calls for transparency. The European Union is not made more transparent by citizens breaking into bureaucrats’ offices -- rather, it becomes more transparent when the bureaucrats make files accessible. National and corporate accounts become transparent only when governments and corporations publish them. Because increasing transparency generally requires institutions and individuals to release information they are accustomed to withholding, transparency will rarely come about unless pressures can be brought to bear. Because international organizations like the World Bank and the IMF pursue many

of the goals that transparency can help to meet, and because these institutions can serve as important sources of pressure to encourage transparency, it would behoove them to pay careful and systematic attention both to analyzing what good transparency can do and to considering how they can help to bring it about.

### **The Meaning and Value of Transparency**

Although the term "transparency" seems ubiquitous these days, it is rarely defined with much rigor. Of whom is information being demanded? What specific information would be most useful for what purposes, and how much information is needed? Part of the looseness of the term stems from the fact that it is being used in so many different issue areas. In politics, it equates to enabling citizens to learn what governments are up to through information provided by the government. The term has been especially widespread in the discussions of the European community -- indeed, Brewer's Politics defines it as "the catch word for the openness of the operations of the European Community to the public gaze" (Safire 1998). In economics and finance, the Working Group on Transparency and Accountability of the Group of 22 defined it very broadly as "a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable" (Working Group 1998). The national security/arms control field uses a relatively narrow definition of transparency as involving the systematic provision of information on specific aspects of military activities under informal or formal international arrangements (United Nations Experts Group 1991).

These varied definitions, drawn from disparate issue areas, make clear that transparency is always closely connected to accountability. The purpose of calls for transparency is to permit citizens, markets, or governments to hold others accountable for their policies and performance. Thus, transparency can be defined as the release of information by institutions that is relevant to evaluating those institutions.

Because transparency is a tool to permit evaluation, much of its value lies in its role in overcoming the principal-agent problem – that is, the difficulties principals have in ensuring that their agents do what the principals want them to do, rather than what is in the interest of the agent. In the corporate world, firm managers are supposed to be agents of the owners, who hold stock, but without transparency owners cannot know whether the company is being well-managed, and investors have poor grounds for determining whether they should become owners. (And lack of transparency can contribute to herd behavior on the part of fund managers, if they have few signals other than the actions of other investors on which to base their judgments.) In the realm of politics, governments are the agents of their citizens, but the wave of corruption scandals seen in the 1990s indicates that too many government officials are serving private rather than public ends whenever no one is looking.

If opacity has such negative effects, increased levels of transparency would seem to serve the public interest, necessary to both good governance and well-functioning markets. It is a general principle of good governance that decision makers should be held accountable for their decisions. Otherwise, error feeds upon error, and corruption breeds unchecked.



The demands for transparency also have a moral dimension. In principal-agent situations, people have the right to know a great deal about their agents, even – or especially – when the agents are governments or international organizations and the principals are the general public. Citizens have a right to know about the economic performance of their government. Consumers and investors have a right to honest information about the products they buy and the companies they invest in. Because economies cross national borders, so do those rights.

However, it is important to be pragmatic about where it is worthwhile to push for transparency, because that push is costly and not always worth the cost. Transparency merely lets people see streams of facts. It neither enables people to *do* anything about those facts, nor conveys any understanding of their meaning. Transparency can only work well if two conditions are met: 1) the targets of the calls for transparency are able and willing to provide the requisite information; and 2) the recipients of the information are able to use it to evaluate the provider of the information according to some accepted standard of behavior.

It can be surprisingly difficult to compile economic and financial information, especially in developing countries that almost by definition are short on the human capital and institutions needed. Programs to help public sector entities learn how to compile and transmit information could usefully be expanded.

Once actors are able to be transparent, what makes them willing? What inherent incentives for transparency exist, and what carrots or sticks have to be applied to induce that “willingness”? The answer depends on whether the information will be used to deter misbehavior or signal good behavior. Shining a spotlight on miscreants can induce them

not to misbehave if they are convinced that they are likely to be caught and penalized if they do – in other words, by deterring them. The flip side of deterrence is reassurance. While deterrence is about preventing someone from failing to abide by a standard, reassurance enables an actor to prove that he or she is abiding by the standard. Such reassurance can be crucial, for stockholders deciding whether to hold or sell their shares, or for countries trying to prove that they are not about to attack their neighbors.

Obviously, the incentives for providing information differ dramatically depending on whether transparency is being used for deterrence or reassurance – that is, on whether the target wants to be held accountable. If transparency is being used to try to deter a particular behavior, one must assume that in the absence of transparency, some actors find it in their interest to misbehave. Thus, one must also assume that they will find it in their interest to stonewall or lie about their behavior. Such cases require careful attention to overcoming their incentive to deceive and to finding ways to verify the information that is released. In cases of reassurance, the incentive problem does not exist. All that is required is the provision of the institutions that make the information conveyed credible.

But for reassurance to work and for deterrence to be legitimate, providers and recipients of information have to agree on what the information means. Transparency matters because it is coupled with some form of accountability. But such accountability requires the prior existence of a shared standard of behavior. Businesses and governments object to NGO demands for transparency in large part because NGOs sometimes use the information to chastise them for failing to meet standards those firms and governments never agreed they should meet.

Such standards, in turn, depend on shared understandings of the meaning of the information conveyed by transparency. Transparency, after all, conveys facts, not knowledge about causal connections.<sup>3</sup> Recipients of information react to that information based on theories about its meaning. Transparency can only create reassurance if the providers and recipients of the information agree that the information provided in fact describes a desirable situation. The same announcement of workforce layoffs that can propel stock prices to new highs in the US, where such layoffs are seen as signs of greater efficiency, can force the resignation of corporate leaders in Japan, where layoffs are seen as threats to the social order.

Even if all these conditions are met, increasing levels of transparency can sometimes have negative effects. For those on whom the spotlight shines, transparency can threaten more than mere discomfort. It is not wise to assume that international organizations, governments, firms, financial markets, NGOs, and others necessarily want to use information solely for the public good or for mutually beneficial economic exchange. In arms control, the same information that reassures others that your military forces are not massing for attack can enable those others to locate and attack your forces. In economics, misinterpretation or deliberate misuse of information by national or corporate rivals can spark unfavorable headlines, plunges in stock prices, and capital flight. And transparency does not always redistribute power from the strong to the weak. Secrecy can be the refuge of the weak against the strong, as in the case of human rights organizations working in repressive countries.

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<sup>3</sup> The term "transparency" is sometimes itself used to refer to such knowledge-creation. In her discussion of the need for transparency as part of a potential new regime for foreign direct investment, for example, Sylvia Ostry (1997) contends that greater knowledge about the number and range of foreign investment

It is also possible to have too much transparency. Too much disclosure can produce a white noise effect, making it difficult to know what is significant or even to have the time to sort through all the data. Indeed, in a cynical view, if you really want to hide information, the best thing to do is to bury it in a flood of data. Moreover, disclosing information requires time and effort, and it can be hard to keep up with all the demands. For example, firms are increasingly being bombarded with calls for transparency on their environmental and labor practices, often paired with demands to permit third party certification of their compliance with "voluntary" corporate social responsibility standards (Haufler forthcoming).

If transparency is to be used successfully, it will also have to be used judiciously, with careful attention to minimizing the burden created by the demand for information and to formatting information in user-friendly ways that minimize the white noise effect.

### **Specific Applications of Transparency**

The many calls for increased transparency are being applied to different issue areas and different types of actors for different purposes. Transparency is expected to improve the efficiency and fairness of markets and corporations, and to foster the accountability and legitimacy of national governments and intergovernmental organizations. This is a heavy burden for a relatively new buzzword, raising two fundamental questions that cross issue areas and actors. First, would increased transparency do much good? Second, can transparency be made to happen, given problems with both incentives and capabilities to provide information? While several

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initiatives, currently unavailable, would itself constitute an increase in transparency - a quite different use of the term from the one employed in this paper.

books could be written on these questions, each on a different issue area, this paper will confine itself to two subjects: transparency in the global economy, and transparency in the international financial institutions themselves.

### *Transparency in the Global Economy*

Can transparency ameliorate such downsides of the globalization of financial markets as volatility, increased money laundering, and the avoidance of necessary fiscal reforms (Tanzi 1996)? Apparently, quite a few people think so. As was noted on page one, calls for transparency are nowhere louder than in the debate over the new financial architecture. Although this is hardly the first financial crisis the world has faced, transparency is being touted as never before. In part, this reflects the efforts of investors to shift the blame for their poor investment decisions (Furman and Stiglitz 1998, p. 56). But it also reflects an increase in the desire of investors to find investment opportunities across national borders, and pressures by countries well endowed with capital, particularly the U.S., to smooth their path. Demands for transparency are arising for much the same reason seen in U.S. domestic equity markets over the past century, as a result of the growth in the number of investors wanting means to assess the quality and risks of portfolio investments across a broad range of countries.<sup>4</sup>

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<sup>4</sup> In part because of its extensive experience with corporate financial disclosure, the United States is particularly prone to see transparency as a major and essential element of global financial regulation. Early in this century, large numbers of small investors proved able to put substantial political pressure on the government to protect them from deceit and insider dealings. Disclosures became mandatory after the Depression-era creation of the Securities and Exchange Commission (SEC) to oversee mandatory corporate disclosure practices. From then on, companies whose securities were listed on national securities exchanges were required to file periodic reports whose form and content was determined by the SEC (Cochrane 1984 p. 186). Demand for the disclosure of fuller, more reliable, and more comprehensible financial data has continued, driven by the growth of both small shareholders and institutional investors. America is not alone in having relatively high standards for corporate financial disclosure. Great Britain experimented with disclosure laws starting in the mid-eighteenth century (Lee and Parker 1984). America

Financial markets, more than others, depend on information to function well. For investors to know who will most productively use their capital, given the inherent incentives for charlatans to lie to get their hands on the money, they must have some basis for discriminating among the vying claimants. Mechanisms for such discrimination include personal trust, reputation, or the existence of well-functioning legal systems to prosecute fraud (Greenwald and Stiglitz 1991), and/or insurance systems to enable investors to recover some of their money when they guess wrong (Haufler 1997). Such systems do not seem to be working well in the rapidly-evolving global financial system, especially for flows like portfolio investments. Reputations, where they exist, can be unreliable, legal systems find it hard to stretch enforcement powers across national borders, and insurance systems raise as-yet-unresolved issues of moral hazard.

Would substantial increases in transparency prevent or ameliorate the kinds of crises that have afflicted so much of the world in the past few years? This appears to be the prevailing assumption, leading to demands for increased amounts of information from both firms and governments (for example, Working Group 1998). As Barry Eichengreen has noted, greater transparency could reduce the incidence of financial crises: “Better information on the economic and financial affairs of governments, banks, and corporations will strengthen market discipline (encourage lenders to ration credit to borrowers who fail to take the steps needed to maintain their financial stability) and help policymakers to identify the need for corrective action” (Eichengreen 1999, p. 10). It is certainly plausible that better information would enable investors, governments, and

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and Britain are unusual in the degree to which their firms rely on equity financing rather than bank loans. But given the degree to which equity financing is spreading, these experiences may hold some useful lessons.

international financial institutions to improve the reliability of risk assessment, leading to better investment decisions and better government policy.

Transparency by itself will not suffice, however, in part because it is never absolute, and in part because lack of information is not the only cause of financial meltdown. Scandinavia, with some of the world's most transparent systems, was not thereby protected from financial trauma a decade ago (Furman and Stiglitz 1998). Under some circumstances, transparency could even be harmful, for example leading to the closure of shaky financial institutions that otherwise might over time recover (Furman and Stiglitz 1998, p. 68).<sup>5</sup> But overall, regular and consistent transparency would promote economic efficiency and reduce the “lumpiness” of negative information that can pose such large adjustment costs.

The calls for transparency aim at two distinct targets: firms and governments. With regard to firms, levels of corporate disclosure vary greatly across countries. In recent decades, some transnational associations have attempted to develop standards of disclosure that could be followed globally. The International Accounting Standards Committee several years ago put forward rather flexible standards that have been adopted in a number of developing countries, for whom it is easier to adopt such standards than to develop their own (Jones 1998). In the 1990s, responding to pressures from institutional

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<sup>5</sup> At present, there are no good measures of transparency, making it very hard to quantify correlations between economic stability and various degrees of transparency, much less argue about causation. Although it is difficult now to disentangle the effects of varying degrees of transparency from other causes of economic inefficiencies, in a few years more data may be available. As will be detailed below, an enormous range of proposals for international standards of transparency are being proposed for all sorts of data relevant to global finance. If a number of these are adopted, and in particular if the G-22's Working Group's recommendations concerning "transparency about transparency" are followed, good data should become available about which firms and countries are relatively transparent and which are not, according to a variety of new disclosure standards. Such data should make it possible to determine what types of transparency have what types of effects.

investors for better data, the IASC has been developing a set of more rigorous standards, which it hopes will be endorsed by the International Organization for Securities Commissions (IOSCO).

But incentives to adopt and enforce the new corporate disclosure standards may be lacking. The United States, which already has rigorous standards, is reluctant to accept universal standards that are weaker than its own. Arthur Levitt, chairman of the SEC, commented in October 1998 that "we're not going to embrace any standard that isn't as good as our own. We're the best capital market in the world." Many European countries, on the other hand, have been ambivalent about the new IASC standards because they feel that their development has been dominated by the United States and Great Britain (Jones 1998).

Even if improved transparency standards for firms are adopted, it is by no means certain that the standards will actually lead to greater transparency. As the G-22 Working Group acknowledged, the big problem lies with behavior, not laws: "poor disclosure practices stem from inadequate compliance with and enforcement of existing standards" (Working Group 1998, p. vi). Poor countries may find the proposed standards too rigorous and complex. If firms already fail to comply, why should creating more disclosure standards matter?

The hope appears to be that once a standardized format is available so that investors can compare firms across countries, market forces will impel compliance by channeling investment to the more transparent companies. Indeed, some research indicates that firms are finding that transparency attracts investment (Mavrillac and Fiorillo 1997). The Basle Committee on Banking Supervision, in its discussion of



enhancing bank transparency, similarly argues that the market provides incentives for banks to be perceived as conducting their business in an efficient and prudent manner. In the terms of this paper, it is in the interest of well-run banks to provide reassurance through greater transparency. For other banks, however, transparency's most important effect would be deterrence: "To the extent a bank's management knows its activities and risk exposures will be transparent...investment decisions and other business decisions [by market participants] can provide a strong incentive for bank management to improve risk management practices and internal controls" (Basle Committee 1998, p. 6). But such deterrence depends heavily on a credible threat that banks will be unable to avoid such public disclosure – a threat that many governments may be unable to enforce.

It is also widely argued that *countries* need to become transparent to attract investment, and that such transparency requires governments to provide timely and complete information about macroeconomic developments and policies. The variety of emerging standards for transparency on a range of governmental economic and financial data is truly impressive (IMF, nd). In March 1996, the IMF unveiled its Special Data Dissemination Standard, for countries having or seeking access to international capital markets (IMF 1996). The Special Standard specifies what economic performance and policy data should be made available to the public, how often, how widely, and by what processes. (For other countries, the IMF has created the General Data Dissemination Standard.) Since September 1996, the IMF has maintained an electronic Dissemination Standard Bulletin Board, providing for anyone who cares to log on information on the more than 40 countries that have subscribed to the Special Data Dissemination Standard, in many cases with hyperlinks to data available on national Internet data sites

(<http://dsbb.imf.org>). In April 1998, the Interim Committee adopted a Code of Good Practices on Fiscal Transparency, and the IMF is developing a Manual on Fiscal Transparency (IMF “Manual” 1998). Other efforts at creating global disclosure standards for governments include the accounting standards for the public sector put forward by the International Federation of Accountants and the international standards for government auditing set by the International Organization of Supreme Audit Institutions.

But such disclosures, intended to enable countries to attract foreign investment, would have domestic political effects as well. Indeed, as the G-22 Working Group argues, because one of the primary responsibilities of national governments is to maintain macroeconomic stability, the accountability of national authorities requires the provision of such information (Working Group 1998 p. vii). In other words, citizens need to know how the economy is doing and what the government is doing about it so that they can, if necessary, demand changes in those policies - or in the officials.

Governmental incentives *not* to be transparent could hardly be more evident. And when it comes to macroeconomic policies, governments have all sorts of ways to muddle the picture. As one recent IMF paper argued, the complexity of the budgets of modern economies is partly artificial, created to help politicians hide taxes, overemphasize the benefits of spending, and hide government liabilities (Alesina and Perotti 1996). It outlines several ways governments can and do obfuscate the budget:

- through overly optimistic projections of growth and tax revenues, which then result in “unexpected” deficits;
- through keeping some items off budget;
- through inflating the baseline in budgetary projections, making future budgetary

increases appear smaller than they actually are; and

- through multi-year budgeting that postpones all hard decisions to out-years, which somehow keep getting postponed.

With all these and other tools of opacity at their disposal, all the current and proposed standards for governmental disclosure clearly face enormous obstacles.

Both carrots and sticks could help to overcome the existing incentives for continued opacity by both government and firms. To strengthen the carrot of increased investment flows, the international financial institutions could help to make compliance with transparency requirements an easy signal for investors to read. Here, such proposals as that of the Working Group to have the IMF issue country-specific Transparency Reports that summarize the degree to which a national economy meets internationally recognized disclosure standards could offer a very useful example.<sup>6</sup> If enough countries and firms do abide by such standards and their compliance is widely reported, mere compliance with the transparency requirement may serve as a significant seal of approval – even if the underlying data aren't all that impressive. On the "sticks" side, the international financial institutions could make compliance with disclosure standards a condition of loans.

Up to this point, this discussion of the value of and incentives for transparency in the global financial system has left out one very important actor. All these calls for transparency are aimed at making life easier for investors. Yet some of the investors that

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<sup>6</sup> Such a certification of compliance with transparency standards sidesteps the problems the IMF has with releasing too much information about the economies of its member countries. These problems are caused by the dual nature of the IMF's mandate: It both provides advice to individual governments and serves as a certifier of good economic practices by those same governments. If the Fund releases information about specific countries, those governments have every incentive to conceal bad news from the IMF, making it difficult for the Fund to provide well-informed advice.

have wreaked the greatest havoc, such as hedge funds, themselves are among the least transparent of actors. Even though their decisions can make or break national economies, they are largely unaccountable. Standard assumptions about the working of financial markets hold this opacity to be a virtue rather than a drawback. Financial firms have strong incentives to object to any disclosures that could lead to a competitive disadvantage. Hedge funds, for example, do not want to disclose to others what their positions are in various markets because those positions may be taken as signals by other investors. Anonymity for investors is important for the liquidity of financial markets (Eichengreen et al, 1998). Yet is it reasonable to expect high standards of transparency from everyone in the international financial system except the investors?

*The Dark Side of the Global Economy:* Up to this point, we have been assuming good intentions on the part of economic actors, though not good performance. But illegal activities, such as money laundering or governmental corruption, can also threaten the stability and efficiency of the global financial architecture. Illicit activities are inherently very difficult to measure, but both money laundering and corruption appear to be large problems. All estimates of money laundering start in the hundreds of billions of dollars – on a par with mid-size national economies and many of the largest global industries (Flynn 1999). As for corruption, a rapidly growing literature demonstrates the high economic and political costs of this pervasive problem (Mauro 1997; Rose-Ackerman 1997).

When self-interested behavior veers into outright criminality, does transparency still have a role to play? Because these activities are generally illegal, if transparency can be made to work, there seems little doubt that it would change behavior. If evidence of

such activities can be gathered, the guilty can be held accountable through criminal prosecution. And in the case of corruption, even when criminal prosecutions do not occur, revelations of corruption can force the tainted from office. But it is equally clear that criminals and corrupt officials have overwhelming incentives to resist disclosure of information about their activities. As a result, those calling for transparency must target a very broad range of actors and activities, hoping to eliminate the shadows in which the unsavory lurk, but necessarily spotlighting the innocent as well.

Many of the proposed solutions to money laundering take just such an approach. In 1989 at their Paris Summit meeting, the G-7 established the Financial Action Task Force, headquartered at the OECD, to examine measures to combat money laundering.<sup>7</sup> Of the forty Recommendations the FATF issued in 1990 (revised in 1996), some half-dozen relate directly to a form of transparency. These add up to a "know-your-customer" requirement for banks and other financial institutions. According to these recommendations, financial institutions should identify their customers accurately, determine what activities are normal for those customers, pay special attention to large and/or unusual transactions or patterns of transactions, and report to the competent authorities any suspicions that funds stem from criminal activities (Recommendations 10-12, 14-15). Similarly, the Core Principles for Effective Banking Supervision issued by the Basle Committee in September 1997, argue that banks should "have adequate policies, practices and procedures in place, including strict "know-your-customer" rules,

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<sup>7</sup> The FATF has 26 member governments (mostly OECD countries, plus China), and two member regional organizations (The European Commission and the Gulf Cooperation Council). Delegations to the FATF draw from many fields and government agencies, including ministries of finance, justice, interior and external affairs, financial regulatory authorities, and law enforcement agencies (Financial Action Task Force 1998, p. 6). Originally scheduled to last until 1999, the FATF has now been extended until 2004.

that promote high ethical and professional standards in the financial sector and prevent the bank being used, intentionally or unintentionally, by criminal elements". Most FATF members have implemented requirements for mandatory reporting of suspicious transactions (Financial Action Task Force 1998, p. 73).

It is not clear, however, that transparency will significantly constrain money laundering unless it is pressed much farther. In most cases the reporting obligation extends only to financial institutions, and even when it applies more broadly, almost all reports are made by financial institutions, particularly banks (Financial Action Task Force 1998, p. 74). Not surprisingly, money launderers have shifted to using non-bank financial institutions and non-financial businesses (Financial Action Task Force 1998, p. 74). Such transparency measures as reporting requirements may be hard pressed to keep up with the shifting patterns of money laundering activities.

The limitations of reporting requirements have spurred calls for even greater uses of transparency. One analysis calls for 1) restructuring the interbank payment system so that wire transfers document the originator and beneficiary of the transaction, and 2) regular publication of an "Accessories to Transovereign Crime Report" spotlighting "governments, business institutions, or individuals who routinely fail to abide by regional and international crime control conventions" (Flynn 1999, p. 119-120).

But just as the backlash against globalization is triggering calls for transparency, transparency has the potential to spur its own backlash, even from those engaged in purely legitimate activity. When in December 1998 the U.S. government published a proposed regulation establishing uniform and mandatory know-your-customer banking procedures as part of the U.S. anti-money laundering effort, it unleashed a firestorm of

wholly unexpected public protest. The American Banker's Association protested that the rules did not apply to other financial institutions such as broker dealers, insurance agencies, and securities dealers (Maier 1999). But the overwhelming response objected to the invasion of individual privacy in the absence of prior probable cause to believe that everyone being monitored was engaged in illicit activity. One member of the U.S. Congress has dubbed the proposal the "Spy on Your Neighbor" rule and has sponsored a bill to kill the proposal should it be adopted (Maier 1999).

It would appear that in the case of money laundering, the incentives to provide information have to include incentives for the law-abiding to allow themselves to be monitored. Such monitoring runs counter to deeply-embedded suspicions of authority in some countries. In others, where objections have not yet been heard, problems may yet arise if the information is misused. If transparency is to play a significant role in controlling illegal flows of capital, a major public education program is required to convince the public of the need, and careful attention will have to be paid to safeguards to protect against the misuse and abuse of personal financial information.

*Corruption:* Corruption – the abuse of public office for private gain – would seem to be a problem tailor-made for the transparency solution. It is not only illegal in most places to take bribes, it is also, for most public officials, highly embarrassing to be caught. In the 1990s, publics in all parts of the world, from Italy to Brazil to Pakistan to Zaire, have made it clear that revelations of corruption carry heavy penalties (Economist 1999). In the first half of the 1990s, government ministers in India, Japan, Argentina, Britain, and Switzerland were forced to resign due to corruption charges (Naim 1995, p. 246). Shining the spotlight on corruption may not always topple governments or put

politicians behind bars, but it has done so often enough that the prospect of transparency is likely to have a significant deterrent effect. It does not always work – the campaign finance system in the US, for example, seems impervious to any degree of revelation – but by and large transparency makes a difference against corruption.

The incentives against transparency in this field are obvious. Few corrupt officials confess. They get caught. However, although those officials have every incentive to keep their dealings opaque, others in those societies have incentives to increase the transparency of governmental processes. Honest officials welcome and promote transparency – some prominent figures in Transparency International, the international NGO that has led the global campaign against corruption, have been active in politics, although Transparency International itself maintains a nonpartisan stance

Demands for greater transparency to deal with corruption generally arise in two forms: from a newly empowered media in much of the world that has discovered the profit potential of corruption scandals (Naim 1995, page 257); and from an international community of donors and NGOs fed up with the diversion of development funds into private coffers. The latter have come up with some innovative techniques for spotlighting corruption that get around the obvious disincentives to transparency.

Transparency International's annual corruption perceptions index, which ranks countries on how corrupt they are perceived to be according to surveys of businesspeople, political analysts, and the public, put both corruption and TI on the map. This highly visible information often becomes headline news and the subject of parliamentary debates.

Transparency International is now planning a second index to spotlight the supply side of



international corruption, with a poll on which countries are home to the corporations most likely to offer bribes.<sup>8</sup>

In short, increasing transparency will be key to the future success of economic integration. Only with transparency will it be possible to deter corruption, crack down on money laundering, and foster efficiency in the allocation of investments across companies and countries. Moreover, economic integration will have little legitimacy among the public as long as it remains a mysterious, unaccountable process.

But increasing transparency will be no easy task. Transparency comes up against obstacles ranging from the legitimate privacy concerns of individuals to the desire of rent seekers to hide their ill gotten gains. Transparency also runs counter to entrenched beliefs in many parts of the world that governments need not be accountable on an on-going basis to their citizenry. Similar beliefs prevail among much of the world's economic policy elite, who argue that they should not be publicly accountable.

Overcoming these obstacles to transparency should form a major part of the future agenda of the World Bank and the IMF. But are they themselves sufficiently transparent to credibly lead the campaign for transparency?

### *International Financial Institutions as Targets of Transparency*

For their first several decades, both the World Bank and the IMF were highly secretive institutions, answering (though sometimes with less than complete candidness)

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<sup>8</sup> Along with the pressures generated by the media and civil society spotlights, the World Bank has put heavy emphasis on anti-corruption efforts. It created an Anti-Corruption Knowledge Center in April 1998 that works to mainstream anti-corruption activities into country assistance strategies, economic sector work, and Bank operations. The Bank's Economic Development Institute has a Governance and Anti-corruption Program that works with both client countries and other donors. With serious attention to

only to their member governments and providing little information to the public. Since the early 1980s, no international organization has faced more vociferous demands to open up than the World Bank. Starting in the early 1980s, a wide range of non-governmental organizations began pressuring the Bank to become far more forthcoming about its plans and policies, arguing that “if development bank project planning and design were open and transparent...fewer disastrous projects would be approved and a greater opportunity to promote development alternatives would exist” (Udall 1998, p. 391). Three different transnational civil society networks - on poverty, environment, and structural adjustment - have coalesced around opposition to World Bank projects and procedures (Nelson 1996). Of late, the IMF has begun to experience similar demands.

The proponents of World Bank transparency are right. In the days when the Bank remained cloaked in secrecy, too often government officials in both borrowing and donor countries were less concerned with the quality of the projects being funded than with other considerations, such as the political imperatives of channeling funds to particular governments or the opportunities for personal enrichment or political power. Although at least some of the actors now demanding transparency from the Bank undoubtedly have their own agendas, to the degree that the Bank truly becomes transparent, all agendas will have to be contested openly.

These pressures for transparency have had an impact in part because the argument resonated so effectively with U.S. policymakers. Most important, members of Congress proved willing to hold funding for the Bank hostage to the establishment of new Bank disclosure policies (Udall 1998, p. 402-403). Under the disclosure policy established a

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corruption conditioning the decisions of such major sources of funds as the World Bank, countries face significantly enhanced incentives to root out corruption.

decade ago and revised in 1993, the Bank releases a Project Information Document on every project. Also available are final staff appraisal reports, environmental impact statements, and other documents.

But whether meaningful transparency can be made to happen, or is already being made to happen, is less clear. As is virtually always the case, policies from above to promote transparency within an institution provide only a starting point. Whether Project Information Documents actually contain information that make it possible for outsiders to comment meaningfully on projects in the early stages of planning will depend on the incentives World Bank staff face. If staffers are rewarded primarily for moving money – getting large projects through the pipeline quickly – they will have every incentive to make those documents as bland and meaningless as possible, so as to avoid giving grounds for objections to the projects. If, however, Bank staff are held accountable for the ultimate success of projects, they will have every incentive to permit widespread participation in the planning and preparation of projects so as to be able to anticipate problems and ensure that stakeholders in the borrowing countries support rather than oppose those projects. In short, the disclosure policy by itself means little. It can be just another bureaucratic hurdle, or it can be a useful and welcome tool.

Beyond this question of the utility of transparency as a means of helping the Bank to do its job better lies a moral issue. The Bank is not an end in itself. It exists to provide certain services. It was constituted by national governments, but its avowed goal is to help the world's poor. In other words, the Bank is an agent, but it arguably answers to two quite different principals: those affected by the projects it helps to finance, and the governments of its member states. Governments are in turn supposed to be agents for

their citizens. When, as has been known to happen, governments use Bank funds in ways that are not in the interests of their citizens, and when those citizens are complaining loudly and clearly to the Bank about those uses, should the Bank withhold information from affected citizens on the grounds that only their governments – the supposed agents of those citizens – are entitled to see that information?

The IMF is now beginning to face similar demands that it provide information about its plans, policies, decision-making procedures, and the effectiveness of its programs. As one non-governmental organization has argued, it is not enough for the IMF to provide information only to its member governments because institutions like the IMF “can directly affect the welfare of large groups of the world’s population” (Center of Concern 1998, p. 5), some of whom are not well represented or well served by the governments with whom the IMF negotiates. Without such public assessment, the IMF may be hard pressed to bolster its legitimacy around the world, and without that legitimacy, it will be difficult for the IMF to sustain its work. As the IMF has found through bitter experience, programs secretly arrived at in consultation with government officials only, and imposed without adequate involvement by and explanation to the public, are likely to prove less than effective.

The IMF has already begun to increase efforts to inform publics directly about the nature of and rationale for IMF programs, rather than relying on governments to inform citizens. Yet for the most part, the IMF leaves it up to governments to decide whether information is to be publicly released. The IMF could easily push much harder, making publication of many of its documents a condition of lending. And certainly, the IMF

should not hide behind the façade of market sensitivity as a rationale for keeping its own Executive Board minutes secret for thirty years.

### **The Future of Transparency**

How important a role transparency plays in future efforts to manage global problems – indeed, whether some global problems can be managed – will depend on two things: whether the demand for transparency continues to grow, and whether a culture of transparency can be cultivated, to help counterbalance incentives for continued opacity.

For several reasons, the calls for transparency seen to date are probably only the beginning of a tidal wave of such demands. Part of the reason, as discussed above, is globalization – as people become more interdependent, they need to know more about each other. But transparency is growing for other reasons as well: 1) technology; 2) democratization and the development of civil society at both the national and global levels; and 3) the role of the United States as the world's leading power.

*Technology:* Thanks to the information revolution, some of the costs of being transparent have plummeted. This revolution encompasses technologies that produce, process, and convey information, including microelectronics, computers, telecommunications, and optical electronics. While information technology services of various kinds have been around for decades, if not centuries, what is new is the scope of the technologies and the convergence among them. Not only are surveillance systems, broadcasting systems, data processors, and telecommunications technologies all becoming vastly and rapidly cheaper and more capable, but they are increasingly able to interact.

This is the essence of the digital revolution. Information is being reduced to the same basic form in all these systems: bits that can travel from one technology to another. And because the technologies interact, progress in one stimulates developments in the others. Data collection systems, including everything from supermarket checkout scanners to satellite-based remote sensors, gather vast quantities of raw data. Computers turn those enormous data streams into usable information. Telecommunications systems are becoming cheap and ubiquitous enough that a significant share of the world's population now has access to that usable information, and can send it to others.

Put it all together and the result is a lot of information flowing around the world. Some of it is wholly new: three decades ago no one could monitor consumers' buying habits or gather global data on land-use patterns. Some used to be available only to small groups, such as the highly classified data flowing from superpower spy satellites. Although the information revolution needs to be put in historical context – it began, in a sense, 500 years ago with the printing press, and every development since then from the telegraph to the telephone has been greeted with predictions of imminent global transformation – the current technological convergence really does seem to represent something quantitatively and qualitatively new.

It would be hard to exaggerate the pace of this revolution:

✦ This year, three private companies plan to launch commercial remote-sensing satellites capable of detecting objects as small as one meter – nearly as good as spy satellites. Once all the planned commercial and governmental systems reach orbit over the next few years, anyone with a few hundred dollars

will be able to purchase detailed satellite imagery of any spot on the planet (Center for Global Security and Cooperation 1999).

✦ On the ground, both governments and citizens are making extensive use of surveillance cameras (Brin 1998). Soon, cameras too small to be seen from any distance will be widely available (Florini 1998).

✦ Computing power has abided by Moore's Law, doubling about every 18 months, for more than 25 years, and shows no signs of slowing its relentless advance.

✦ Telecommunications is connecting more and more people and allowing them to share larger quantities of information. Several companies are launching constellations of satellites that will permit wireless "roaming" anywhere on the planet (Evans 1998). One system, Iridium, is already operational. Iridium transmits only voice, but others will transmit data and even video.

While no one of these technologies is guaranteed market success, the pattern is clear: the quantity and scope of data being transmitted, the capacity to manipulate the data, and the number of people connected are all skyrocketing. All this technology does more than reduce the direct costs of transparency, creating a shift along the demand curve. It also facilitates global integration and, by decentralizing information, empowers civil society, thus contributing to the outward shift of the demand curve.

*Democracy and Civil Society:*<sup>9</sup> The spread of democratic ideals and democratic forms of government has contributed greatly to demands for transparency. Newly empowered citizens want to know what their newly-elected officials are doing. Newly

elected officials have greater incentives than their unelected predecessors to keep their constituents informed, or at least to stay in contact with them.

But those officials also have incentives to maintain secrecy, to avoid controversy over policies or to hide incompetence and/or corruption. Government officials everywhere try to avoid scrutiny, even honest officials in well-established democracies. The holding of regular, free and fair elections does not always bring with it governmental willingness to report on governmental activities. Despite many promises and the release of a pro-transparency White Paper by the current government, Britain has yet to promulgate a freedom of information act allowing public access to information about the doings of the government. The European Union is similarly struggling with transparency. Under its Amsterdam treaty, all citizens and legal persons in the European Union acquired a right of access to documents of the European Parliament, the European council, and the European commission, a fairly significant change in the way the European Union has operated. Transparency is as popular a catch phrase in the European Union as it is in the World Bank and the IMF, frequently mentioned by EU officials in speeches and scattered throughout European Union documents. But practice lags well behind promise.

Thus, even more significant to the future of transparency than the spread of electoral systems is the rise of civil society: organized groups who in many cases sustain the pressure for transparency, playing a crucial role as monitors. Non-governmental organizations are not only monitoring governments and firms within given countries but are increasingly linking themselves into transnational networks that collectively can

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<sup>9</sup> This paper follows the Anglo American tradition of viewing civil society as a Third Sector distinct from both governments and profit-seeking firms, rather than the continental European tradition that conflates for-



impose powerful demands for information (Florini forthcoming). In virtually every international issue area imaginable, such non-governmental actors, particularly in the form of NGOs, are becoming more numerous and more effective in their demands for greater transparency from governments, international organizations, and the private sector. Networks of such groups have pounded away relentlessly at the World Bank for many years now, and are showing increasing interest in the IMF (Center of Concern 1998; Florini forthcoming; Fox and Brown 1998; Scholte 1998, 1999). As described above, it was Transparency International, an international NGO established in 1993, that took the lead in creating new and heavy pressures on governments and corporations to open up many of their internal processes to scrutiny. As civil society grows more vigorous around the world, facilitated by information technology, democratization, and not least the growing funding it is receiving from governments, international organizations, and foundations, its demands for transparency will escalate. (Interestingly, civil society itself has been largely exempt from the spotlight, although critiques of the unaccountability of NGOs indicate that such pressures are beginning to arise (Simmons 1998).)

*The U.S. Role:* At a time when the need for new tools to manage global integration is so obvious, the world's leading power happens to be one whose ideology, values, and experiences lead it to favor transparency (Lee and Parker 1984; Stiglitz 1999). It is not only in the economic area that the U.S. has leaned toward standards of high transparency. Starting in the 1950s, for example, the United States argued vociferously that the advent of nuclear weapons gave their possessors new responsibilities to provide information about their military capabilities and intentions – a

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profit firms with all other non-governmental actors as part of civil society.

perspective the Soviet Union came to share in the Gorbachev period (Florini 1996). In the 1980s, the U.S. became the first country to pass a law mandating that companies that emit certain quantities of certain toxic chemicals report publicly on those emissions as a way of shaming companies into reducing their emissions without having to impose regulatory limits, a precedent now being imitated around the world (Emergency Planning - Community Right to Know Act of 1986, 42 U.S.C. sec. 11001-11050, [www.oecd.org/ehs/prtr/index.htm](http://www.oecd.org/ehs/prtr/index.htm)).

This is not to claim that the United States is a paragon of unselfish transparency. That environmental law passed Congress by a single vote. U.S. demands for military information from the Soviet Union combined U.S. security interests with an opportunity to score propaganda points against a relentlessly secretive adversary. Certainly, the U.S. has plenty of less-than-stellar experience with less-than-forthcoming securities dealers (Reinicke 1998, pp. 93-97). And there are strong signs that the U.S. government's propensity to impose transparency on others may be running headlong into American suspicion of government and demands for protection of privacy, as was evident in the discussion on money laundering. But overall, the presumption in American governance favors transparency on the part of corporations and governments. Now, Americans naturally tend to apply that perspective to international problems as well.

One could think of these factors in supply-demand terms. If demand for information has a normal downward slope, there is effective demand for more information as the price falls. Technology is creating that fall in price, leading to a shift along the demand curve. But the other factors are at least as important in explaining the

rise of transparency. They represent a shift outward of the demand curve, as new reasons for wanting information emerge.<sup>10</sup>

None of these factors seems likely to diminish anytime soon. The information revolution is accelerating everywhere, albeit unevenly. Civil society is both growing and becoming more demanding in virtually all regions of the world. The U.S. role as the world's dominant power seems assured for years, if not decades, to come. Calls for transparency will outlast the current financial crisis, and if anything are likely to grow.

### *Fostering a Culture of Transparency*

Nonetheless, it will not be easy to overcome the incentives that corporations, governments, financial institutions, and inter-governmental organizations all have to withhold or distort information. To do so will require sustained effort toward entrenching a norm favoring transparency among these many actors. The idea of fostering a culture of transparency may sound vague, even idealistic, but it actually is a quite concrete call for changing not only the incentives people face but how they think about those incentives. There is powerful historical evidence that even highly resistant actors can be induced over time to change their views of transparency.

One of the reasons the Cold War ended peacefully is that a norm of transparency came to prevail in the relationship between NATO and the Warsaw Pact (Florini 1996). According to this norm, countries expect to provide information on their military capabilities and plans, even, perhaps especially, to their adversaries, to prove their benign intentions. By the time the Soviet Union ceased to exist, East and West had enmeshed themselves in a web of treaties requiring highly intrusive inspections of one another's

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<sup>10</sup> My thanks to Daniel Morrow for suggesting this analogy.

most sensitive military installations. Allowing such openness conflicts sharply with millennia of military strategy, because that information is just as useful for targeting as it is for reassuring. Yet somehow, a norm of transparency was fostered even in this least likely of settings.

This was no accident. It was the result of decades of consistent effort. For three decades, the United States did everything in its power to promote the novel idea that the only reason the Soviet Union would insist on secrecy about its military capabilities was that it was hiding nefarious plans. This demand for transparency was purely self-interested, of course – the U.S. was desperately trying to get whatever information it could on the first adversary in nearly two centuries able to threaten it within its own borders. Since the US was a far more open society than the USSR, at best the proposals for intrusive arms control inspections and mutual overflights could even the balance of information between the two, and at a minimum calling for transparency would score propaganda points. But it worked. After decades of adamant Soviet rejection of such proposals, to everyone's great surprise in the mid-1980s the USSR, under new leadership, suddenly starting accepting them and even outbidding the US on the degree of transparency proposed. The USSR simply changed its mind about transparency, deciding that the reassurance value outweighed the risks.

If a culture of transparency can be fostered in so unlikely a setting, can the same be done among the much wider range of actors involved in the global economy, and within governments throughout the world? Achieving such an ambitious goal will require consistent effort over a long period of time, often in the face of what appears to be adamant resistance. One step is to change the immediate costs and benefits of

transparency for governments and corporations by making the targets accountable for being transparent. In other words, there must be rewards for transparency and penalties attached to opacity. So far, it is not clear to what degree markets will reward transparency or penalize opacity. To make it easier for them to do so, the IMF and the World Bank should maintain transparency registries, as discussed above. The international financial institutions can also make transparency a condition for receiving loans, but the stick of conditionality is a blunt instrument that tends to raise the hackles of the countries to whom it is applied, making it a less than ideal means for changing minds (Phillips 1999). Persuasion may work better, especially to the degree that the World Bank and the IMF make themselves fully transparent institutions, providing important demonstrations through their own behavior that transparency, despite its discomforts, is a highly effective means of improving the legitimacy and functioning of an institution.

But a culture of transparency will not come about solely as the result of hectoring (or even conditionality) applied by the international financial institutions. If it ever is to come to seem normal for corporations and governments to reveal the kinds of information discussed in this paper, and if the information revealed is to do any good, it will be necessary to develop indigenous constituencies for transparency. Experience in several issue areas, from the history of the Bank itself as a target of calls for transparency, to the environmental field, to the realm of domestic politics, suggests that civil society is crucial to the creation of systems of transparency-based governance. This includes policy research institutes able to serve both as reviewers of existing policies and as founts of policy innovation (Stone 1996). It also includes the more familiar non-governmental advocacy organizations. NGOs can be annoying, but their very relentlessness and single-

mindedness make them invaluable allies. They demand information – and keep demanding it. By keeping the pressure on, they can make the costs of opacity higher than the costs of transparency.

Such constituencies for transparency are emerging already in the form of the media, policy research institutes, and civil society organizations in many parts of the world. But too often these are poorly funded and widely scattered organizations trying to operate in settings where both human capital and social capital are sorely lacking. Moreover, only a handful are themselves as transparent as they call on governments, corporations, and inter-governmental organizations to be, threatening their own legitimacy in the long run. The World Bank’s substantial program of support for the development of human capital and social capital should explicitly be aimed at creating domestic constituencies that can *effectively* demand transparency within their own societies.

## **Conclusion**

Transparency plays many beneficial roles in both markets and governance, roles that merit greater attention by the World Bank and the IMF. It appears to increase the efficiency with which markets operate and may reduce the likelihood of financial crises, although the evidence here is surprisingly thin and further research is required. On governance, transparency is logically necessary for accountability. Such accountability is the political equivalent of the efficiency generated by competition between firms. Since political authorities are monopolies, “competition” occurs between ideas rather than organizations. Transparency makes such open competition of arguments and policies

possible.

Achieving such transparency is no easy task. It requires thinking beyond the disclosure standards that are being so widely discussed to questions of the incentives facing corporations and governments. Although the international financial institutions can do some good directly, by modeling the advantages of transparency through their own behavior and conceivably by applying conditionality under some circumstances, the crux of the problem will be the development of widespread national as well as international constituencies for transparency. Such constituencies exist in embryonic form, but because most lack meaningful resources, they will need help to develop.

As the World Bank transforms itself from a provider of financial capital to a Knowledge Bank, and as the IMF struggles to come up with effective approaches to managing the global financial system, one of the most useful contributions these institutions could make would be to promote the norm of transparency. Such promotion would start with a renewed push to ensure that the World Bank and the IMF themselves are operating in a highly transparent manner. It would also involve quite conscious planning for incorporating the norm of transparency systematically into Bank and Fund programs.

The World Bank and the IMF have every right – indeed, an obligation – to promote transparency wherever and however they can. Their role as agents for both their member governments and all those affected by their programs oblige them to make information on their own processes and policies accessible to all concerned. Their roles as central players in the management of the global economy oblige them to promote the

use of tools, like transparency, that can contribute to global governance in the absence of global government.

Such governance must be transparent because, as many governments and international organizations have found to their dismay in recent years, secretive decision-making by small elites can no longer be sustained. Contrary to the claims often made by central bankers, government officials, and even some in the World Bank and the IMF that decision making on technical or complex subjects is best left to the experts, without informed participation by all those affected, policy decisions will fail to take into account important information and interests and will lack the legitimacy that only public voice can bring. Decision makers should not try to sneak even good public policy past the public.



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