FISCAL TRANSPARENCY: CONCEPTS, MEASUREMENT AND UK PRACTICE

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Greater fiscal transparency is seen by its advocates as a means of improving economic governance arrangements in ways which, by promoting fiscal stability, will in turn improve the functioning of the government sector and facilitate improvements in the economic environment for the private sector. 'Fiscal transparency' is much acclaimed by policy-makers, not only in the UK Treasury but also by the IMF and OECD. Fiscal transparency can have substance or can just be voguish incantation. This article explores the meaning of fiscal transparency, by examining its structure and evaluating criteria for assessing the degree of fiscal transparency attached to particular sets of circumstances. It explores the link between transparency and accountability, developing the distinction between event and process transparency. Consideration is given to the trade-off between the value of sunlight (to employ an analogy) and the danger of over-exposure. The performance of the United Kingdom against emerging international best practice is examined, with regard to both public expenditure and taxation. By international standards, UK fiscal transparency is high. Nevertheless, there is a major gap between UK rhetoric and practice, indicating a divergence between nominal and effective transparency. This is evidenced by: frequent changes in public expenditure definitions; the non-publication of important analyses; the location of certain liabilities 'off-balance sheet'; and a lack of candour about tax policy.

INTRODUCTION

The end of the 1990s saw a remarkable surge of public policy interest in 'fiscal transparency', an objective urged by both UK and international policy-makers. The UK Treasury's (1998a) statutory *Code for Fiscal Stability* emphasizes fiscal transparency by making it the first of five principles of fiscal policy management (the others are stability, responsibility, fairness and efficiency). Transparency is given pre-eminence in the International Monetary Fund's (IMF) *Code of Good Practices on Fiscal Transparency* (International Monetary Fund 1998, 1999a, 2001). Whereas the IMF's initiative might be viewed as establishing minimum standards for all governments, the OECD's (1999, 2001) is seeking to establish more demanding standards for its own members.

The more general context is one in which the sustainability of public finances across the world is attracting much academic and policy attention (Perotti *et al.* 1998), as are the interactions between the polity and the

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macroeconomy (Alesina and Rosenthal 1995). This is in part a consequence of fears that macroeconomic instability will rapidly spread through the globalized economy: 'Globalization has increased the vulnerability of domestic and international financial systems to potential shocks, including to shifts in market sentiments and to contagion effects from policy weakness in other countries' (*IMF Survey* 1998, p. 113). Another factor has been European monetary and economic integration (Hughes Hallett *et al*. 1999), with fears that lax fiscal policy in one Euroland economy would impose heavy costs upon the others. At the same time, discussion of how governments 'cheat' on fiscal numbers has become commonplace, particularly with regard to creative accounting in order to meet the Maastricht Treaty requirements (Forte 2001).

One factor behind UK developments on fiscal transparency has been earlier misreadings of the sensitivity of the public finances to the macroeconomic cycle (Treasury 1997a; Kilpatrick 2001), though there remains controversy as to whether past UK failures should be attributed to inadequate data or theory, rather than to ministerial misjudgement. Government rhetoric about fiscal transparency has been greeted with intensified attacks on the opaqueness of public spending and taxation numbers. For example, in the UK, the Conservative Opposition has regularly attacked 'stealth taxes' and 'institutionalized leaking' (BBC News Online 1999). Moreover, there was much adverse comment about the 'spun' numbers from the first Comprehensive Spending Review (CSR) (Treasury 1998c), notably the £40 billion figure for increased spending. The much-criticized device adopted in presenting the results of CSR 1998, which determined public expenditure increases for three years, worked in the following way. Assume expenditure increases by £x in year 1, £y in year 2 and £z in year 3. The total increases were announced as £(3x+2y+z). This was proclaimed as a brilliant wheeze, both by ministers and by media commentators. Later, it became fashionable for ministers to confess that this had been a misjudgement, on the grounds that it stoked up expectations of much faster improvements in public services than could be delivered.

Highly respected economic commentators such as the Institute for Fiscal Studies (IFS) and the *Financial Times* have frequently used harsh words to criticize alleged misrepresentations by the Labour Government. Hostile critics contend that the commitment to fiscal transparency by the present Chancellor of the Exchequer (Gordon Brown) is at best insincere (the numbers are as impenetrable as ever) and at worst a cover for a hidden agenda involving increases in the 'burden' of public expenditure and taxation.

The purpose of this article is to explore the meaning of fiscal transparency, by examining its structure and assessing criteria for measuring the degree of fiscal transparency attached to particular sets of fiscal arrangements. The article examines the hypothesized link between transparency and effectiveness, and explores their relationship to accountability. These issues are illustrated by examining the experience of the United Kingdom. The intention is to enhance understanding of mechanisms for fiscal transparency, and their benefits and costs.

Transparency is explicitly opposed to opaqueness, but it is also implicitly opposed to privacy and confidentiality; these relationships will be analysed later in the article. Although this article focuses on fiscal transparency, that should properly be regarded as one dimension of wider claims about transparency. 'Fiscal' is used here in its broadest sense, referring to both macro and micro dimensions of the expenditure and revenue sides of the public budget, and extending, where appropriate, to policy substitutes (for example, quasi-fiscal activities).

The next section of this article examines the concept of fiscal transparency, providing an analytical framework within which policy developments can be examined. The following two sections, respectively, address the issue of how transparency and effectiveness might be measured, and make a provisional assessment of UK performance against good practice on fiscal transparency. The penultimate section (Synthesis and Assessment) broadens the discussion, examining trade-offs among values, the role of information brokers, the influence of political culture, and the relationships between transparency, accountability and surveillance. The final section provides some concluding observations.

ANALYTICAL FRAMEWORK

US Supreme Court Justice Louis Brandeis (1856–1941) famously remarked: 'sunlight is the most powerful of all disinfectants' (Freund 1972). Contemporary concerns about 'transparency' are linked to those about integrity in public and business life (Montefiore and Vines 1999). Hood (2001) divided the antecedents of transparency into two streams of thought: the rule-of-law stream, following Jeremy Bentham who made 'transparent management or publicity' one of his central and recurring principles of public management; and the principal-agent stream within institutional economics, which has been used to argue for greater disclosure as a recipe for better corporate governance, particularly, though not exclusively, in the private sector. The contemporary relevance of transparency is summarized by Hood (2001, pp. 700–1):

> Transparency is . . . a key element in econocratic doctrines for public policy to minimize transaction costs in the economy and in visions of open executive government as a necessary entailment of democracy and legality. Transparency is central to contemporary discussions of both democratic governance and public service reform, since open access to information and elimination of secrecy is taken to be a condition for the prevention of corruption and promoting public accountability.

Hood stressed that there can be 'limits to transparency', as when it undermines the 'social functions of ignorance in upholding institutions', or obstructs the formation of political coalitions around particular measures in circumstances where there is irreconcilable conflict on goals.

Transparency sounds like a fiscal virtue, though its sudden elevation to prime virtue should not necessarily be taken at face value. A working definition of fiscal transparency has been provided by Kopits and Craig (1998, p. 1), both economists working in the Fiscal Affairs Department of the IMF:

> Fiscal transparency is defined in this paper as openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities – whether undertaken inside or outside the government sector – so that the electorate and financial markets can accurately assess the government's financial position and the true costs and benefits of government activities, including their present and future economic and social implications.

The issue of how to define effectiveness is postponed until the next section, where the nuances of meaning, and differences in perspectives, can be examined. Provisionally, it can be thought of as the degree of success in achieving policy objectives.

Figure 1 presents in a stylized way contrasting views on the optimal level of fiscal transparency. At this juncture, it is assumed that the same relationships hold in all countries between transparency (T) and effectiveness (E). However, as the later discussion emphasizes, cultural factors are likely to affect the height and slope of the graphed relationships. Line AA' represents the pessimists' position. Effectiveness is moderately high when there is zero

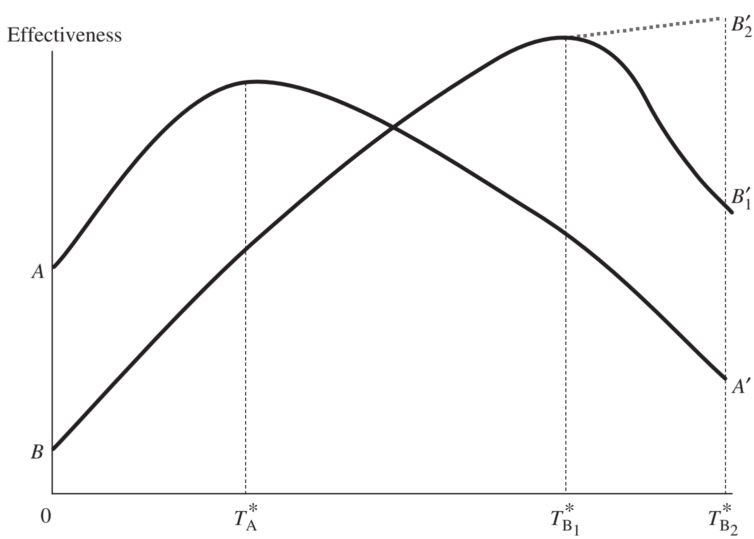


FIGURE 1 *Contrasting views on optimal levels of transparency*

transparency, but an increase in transparency from this level initially brings substantial gains. However, beyond the optimal level OT^*_A, further increases in transparency reduce effectiveness, so much that, beyond a certain point, effectiveness is lower than with zero transparency ($A > A'$). Behind this view is a belief that, while some transparency is needed to deter fraud and corruption by insiders (Tanzi 1998), 'too much' transparency produces 'over-exposure', leading to losses in effectiveness through high levels of transaction costs and excessive politicization.

Line BB'_1 represents a more optimistic view of the effects of transparency on effectiveness; effectiveness at zero transparency is much lower, and gains from increasing transparency persist for much longer. There is still an optimum level of transparency ($T^*_{B_1}$), beyond which effectiveness falls. Nevertheless, $B'_1 > B$ for all relevant values of T. In essence, what the first two views differ on are (a) the initial values of E when $T = 0$, and (b) the range of T over which effectiveness is an increasing function of transparency.

The third view considers that there can never be too much transparency. Beyond $T^*_{B_1}$, there are only modest further gains in E, but there is no maximum, beyond which effectiveness falls. On this ultra-optimist view, the positive effects of 'casting sunlight' always dominate the negative effects of over-exposure.

The level of transparency may change over time. Figure 2 plots a hypothesized time path for transparency. Over the period t_0t_1, there is a slow but gradual trend increase in transparency. Then, from t_1t_2, the increase is steeper. Beyond t_2, there are two paths for the transparency function. 'Nominal' transparency (T^N) increases while effective transparency (T^E) declines.

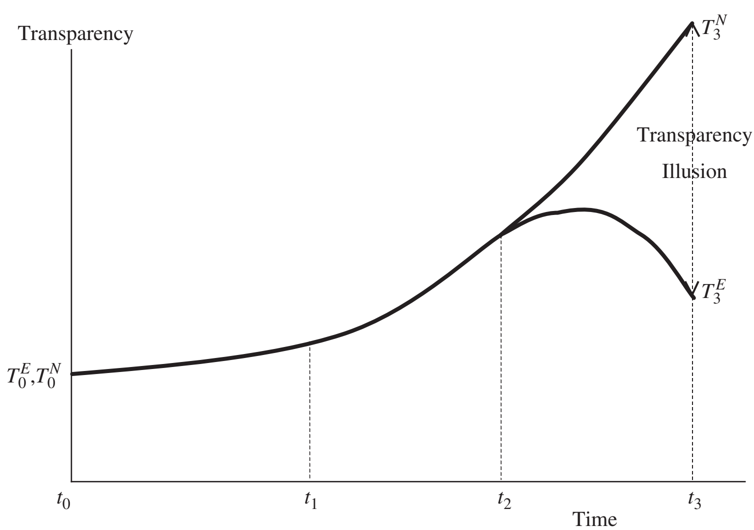


FIGURE 2 *Nominal versus effective transparency*

The mechanisms at work might be as follows. A government puts great stress on transparency as a fiscal virtue, yet repeatedly changes definitions in ways which render data non-comparable and also pursues aggressive media management (for example, spinning favourable but misleading fiscal numbers). This creates a transparency illusion, represented at t_3 in Figure 2 by the vertical distance $T_3^E T_3^N$. Whatever the technical merits of particular system and definitional changes, external knowledge of how public finances operate is eroded by repeated changes. This situation might be attributable to either policy error (repeated changes are pathological) or a deliberate ploy (repeated changes disadvantage opposition parties and afford more scope for sleights of hand). The latter might alternatively be viewed as 'coping strategies' (Thain and Wright 1990) geared to the achievement of fiscal policy objectives in difficult contexts ('doing good by stealth'), or alternatively as malign (more evidence of the predatory instincts of government).

The relationship between transparency and effectiveness may change through time. For example, there may have been recent shifts in the transparency-effectiveness relationship. Figure 3 plots BB_1' (optimist view), as shown in Figure 1, above, without replicating BB_2' (ultra-optimist view). A new line, $BB_3'\,B_1'$, portrays a change in the shape of the transparency function. In order to narrow the issues, $BB_3'B_1'$ is identical to BB_1' beyond the optimal level of transparency (T^*). Below that level, the shapes diverge markedly, with there being none of the 'easy gains' from modest increases in fiscal transparency. There is an important question of whether the expected benefits (for example, lower costs of capital to the public sector) depend on

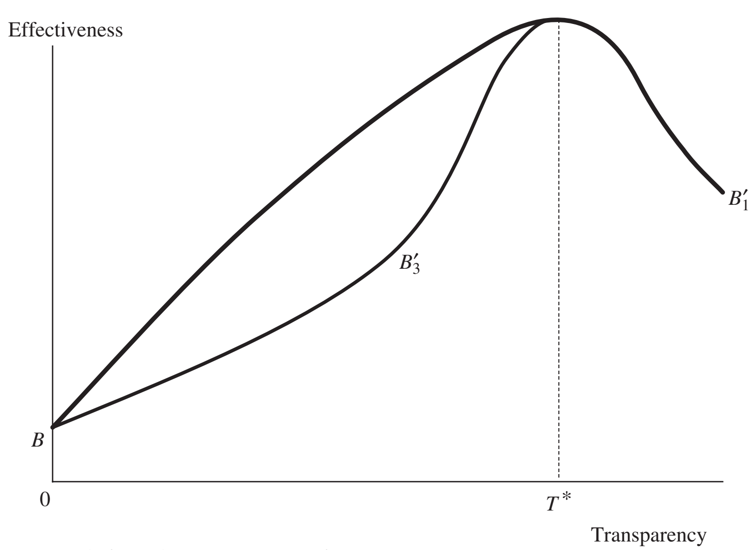


FIGURE 3 *A shift in the transparency function*

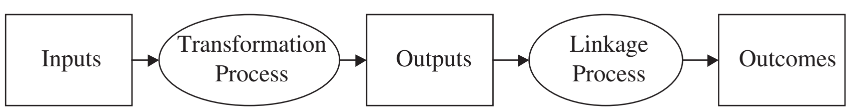
the absolute or relative levels of fiscal transparency. In a generally non-transparent world, a country might rapidly improve its relative performance. However, rapid changes in the level of fiscal transparency in some countries may make laggards of others.

This analytical framework will prove helpful in probing contemporary UK developments. The trade-off between the value of 'sunlight' and the danger of 'over-exposure' is explored further in the penultimate section (Synthesis and Assessment), as is the relationship between transparency and accountability. Next, however, follows a discussion as to how the variables *T* (transparency) and *E* (effectiveness) might be measured.

THE MEASUREMENT OF TRANSPARENCY AND EFFECTIVENESS

Transparency

Professions of commitment to fiscal transparency are often expressed at a level of abstraction which does not make it clear what the 'objects' of transparency are. With regard to the expenditure side of the budget, Figure 4 adapts one of the standard characterizations of public service activity into inputs, outputs and outcomes, representing each by a rectangle, viewing these as *events* at which measurement can take place. Two *processes*, each represented by an ellipse, are the means by which inputs are translated into outputs (*transformation process*) and outputs translated into outcomes (*linkage process*). The commentary in Figure 4 makes uncontroversial points



Directly measurable	Reasonably well-defined and understood	Measured by proxies related to activities	Poorly understood and subject to change	Uncertain in a contingent world and measurement is complex
Traditional material in budget documents. Note the possibilities of under-recording due to military conscription, requited regulatory permissions and natural resource rents.	New pressures for confidentiality, associated particularly with the Private Finance Initiative. Also, judicial review may focus on process.	Significant efforts made to set up monitoring systems tracking proxy measures of output. These have been paralleled by the growth of league tables.	The assumptive worlds of decision makers often presume clearer linkages than are supported by evidence. It is generally not possible to test linkages under controlled conditions.	Notwithstanding the rhetoric of NPM, there has been little systematic valuation, partly because this takes too long and partly because calls for evaluation have often been viewed as delaying tactics.

FIGURE 4 *The objects of fiscal transparency – expenditure*

about how it is easier to measure inputs (doctors, medicines, buildings) than outputs (healthcare services proxied by, for example, cases treated in a particular speciality), and again easier to measure healthcare outputs than health outcomes (impact on patient health). There is currently much interest in 'what works', invoking an appeal to adopt evidence-based approaches to diverse public policy areas (Davies *et al*. 2000). In cases where there can be secure measurement of events, it becomes less important for effectiveness that the processes are well understood (Ezzamel 1992). Without secure measurement of events, probing the processes becomes essential, yet remains inherently difficult.

Fiscal transparency on the expenditure side of the budget can be operationalized in terms of tracking changes in inputs, outputs and outcomes. Moving through the rectangles becomes more demanding. There will continue to be an emphasis on inputs, despite some of the stronger claims made in the New Public Management (NPM) literature. Politicians and commentators shift between inputs, outputs and outcomes in an unstructured and ill-informed, though often opportunist, way. An excellent example is the sudden commitment of Prime Minister Tony Blair that the United Kingdom will raise health spending as a proportion of GDP to the EU average (Heald and McLeod 2002, para 507; Stewart 2002), notwithstanding that the data are dubious and that such a policy objective incorporates an unjustified input-to-outcome assumption. It might be argued that he was forced into that position by the media, egged on by interest groups which take that unjustified assumption as given. Alternatively, by making announcements outside the normal public expenditure timetable, his action might be interpreted as removing control over policy from the Chancellor of the Exchequer and the Treasury (Heald and McLeod 2002, para 506).

There is scope for argument as to how far there should be transparency about the transformation and linkage processes. On some interpretations, too much transparency about them will reduce efficiency (the translation of inputs into outputs) and thus effectiveness (the translation of inputs into outcomes). More business-like government (Gray 1998) will be more protective of information of commercial value concerning the transformation process, and may use this as an argument for non-disclosure. Regarding the linkage process (outputs to outcomes), the possibility of too much transparency relates to uncertainty about process, the contingent nature of outcomes, the timeframe involved and the lack of a reliable measurement system.

Figure 5 directs attention to the possible objects of fiscal transparency on the revenue side. Here, in contrast to the expenditure side, government is less in control and more dependent upon how the economy and the society changes, in part in response to tax policies. The distinction between event transparency and process transparency becomes even more important. For example, in order to avoid dysfunctional effects in tax policy-making, certain aspects of policy formulation may have to be done in secret. The merest

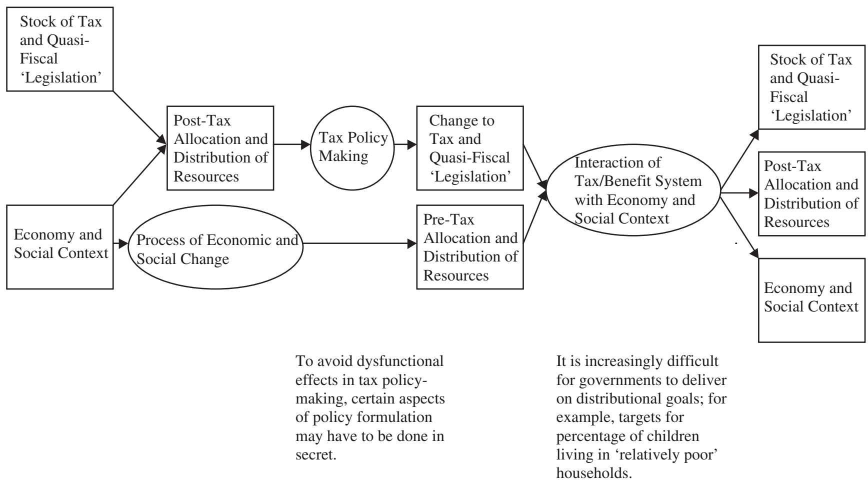


FIGURE 5 *The objects of fiscal transparency – revenue*

hint that government is reviewing a particular tax regulation may prompt anticipatory behaviour by private economic agents, sometimes producing severe economic distortions and inequitable effects. Accordingly, the practical aspiration will be a transparent tax code, in which there may be unanticipated changes preceded by confidential decision processes. It is a matter of knowing how decisions are taken and when they will be announced; the process cannot be transparent in real time, though it can be transparent in retrospect, in the sense that there is assurance that established procedures have been followed and that relevant documentation is then placed in the public domain.

The interactions between the tax/benefit system and the economy are extremely complex. Political constraints on top marginal rates and the spread of tax credit schemes have produced greater inter-penetration between the expenditure and revenue sides of the budget, especially when the focus is distributional. Governments now exercise less ability than in earlier, more regulated environments to achieve distributional goals. This is particularly the case when goals are expressed in relative terms: reducing the number of children in households below the poverty level (measured relative to average income) is more uncertain of achievement than reducing the number of children in households with an income below a certain level.

Effectiveness

The inherent problems of measuring effectiveness are accentuated by different policy actors having different conceptions of effectiveness. In reality, policy goals are often unclear, except at a level of abstraction that is too high to be operationally useful. Moreover, they are often not articulated in such a way that effectiveness can be measured. Hood's (1994) 'unmentionable' objectives may mean that certain criteria by which performance will be judged are rarely made explicit. In the welcome situation when outcomes are held to be favourable, it is not necessarily the case that government policies are optimal. If there is environmental stability, such good fortune may continue, though equally there might be a sudden rupture. Changes in outcomes do not necessarily indicate the incremental contributions, positive or negative, of individual interventions or inactions, or whether synergies exist among them. A feature of transformation processes is that they often produce unwanted outputs as well as desired outputs, just as a car produces pollution as well as journeys. Such is the difficulty of generating and interpreting robust event-focused performance data that this constitutes the most powerful argument for insisting upon a properly designed transparency about process.

Care is needed because effectiveness is being used here at a very high level to apply to public policy as a whole, whereas it is also used on the expenditure side of the budget in the economy-efficiency-effectiveness relationship. A focus on fiscal policy effectiveness would be too narrow: the macro-fiscal literature emphasizes that expenditure reductions should form a large part of downward fiscal adjustment, as those relying on the revenue side are frequently not sustained (Alesina and Perotti 1997). However, much of that literature assumes that public expenditure reductions do not lead to reductions in valued public output, whether in terms of the volume of public services or their quality.

UK PRACTICE

Performance against good practice

An appealing approach would be to score UK practice against the influential set of 'good practices' developed by the IMF (IMF Fiscal Affairs Department 2001a, 2001b). Quite apart from Chancellor of the Exchequer Gordon Brown's international advocacy of fiscal transparency, the United Kingdom, as a G-7 country, would be expected to score very highly on criteria intended to be applicable to all IMF member countries. There are three difficulties in this approach. First, a uniform scoring system implicitly attaches equal weight to each numbered point, when some are weightier than others, making further sub-division always possible. Secondly, assigning scores against checklist items is likely to lead to controversy about scoring; there is a considerable element of judgement involved in any assessment of how a particular country should be scored. An expert panel might be able to do this convincingly for pair-wise comparisons of countries. Thirdly, it should always be borne in mind that formal good practice (for example, excellent technical budgetary documents) may be undermined by informal bad practice (for example, manipulative media management).

Kopits and Craig (1998) distinguished three dimensions of good practice: institutional transparency; accounting transparency; and the transparency of indicators and projections. Good practices on *institutional transparency* refer to: overall structure and functions (including a clear demarcation of functions between public and private sectors); budget process (including public disclosure of the results of performance and financial audits); tax treatment (including an explicit statutory basis for tax liabilities); financing operations (including the disclosure of interest yield and maturity of government debt); and regulation (including estimates of regulatory costs). Good practices on *accounting transparency* refer to: coverage (including a focus on general government); recording basis (including accruals accounting); valuation and recognition (including the measurement of government assets); and classification (including the disaggregation of expenditure on an economic and functional basis). Good practices on the *transparency of indicators and projections* refer to: direct indicators (including gross and net government debt); analytical indicators (including structural or cyclically adjusted balance); short- to medium-term forecasts (including clear and realistic macroeconomic forecasts and parameters); and long-term scenarios (including separate baseline scenario and adjustment scenarios).

Developing from the work of Kopits and Craig (1998), the IMF has devised both a manual (IMF Fiscal Affairs Department 2001a) and a questionnaire on fiscal transparency (IMF Fiscal Affairs Department 2001b), which is used to prepare Reports on the Observance of Standards and Codes (ROSCs). These are prepared by IMF staff, using the questionnaire and self-evaluation report completed by the member country. Unlike Article IV consultations, ROSCs and their subsequent publication are voluntary. An IMF member country's response to a ROSC is published provided that the country assents. However, the IMF seeks to gain, from the authorities in the country concerned, agreement to each assessment; Kazakhstan is the only country that has thus far exercised this right of reply regarding fiscal transparency ROSCs. The United Kingdom was the first G-7 country for which a ROSC on fiscal transparency was published on 15 March 1999 (International Monetary Fund 1999b), and its self-evaluation report (Treasury 1998b) was published within a Treasury background paper. In this ROSC for the United Kingdom, IMF staff commented:

> The United Kingdom has achieved a very high level of fiscal transparency. The requirements of the Code [of Good Practices on Fiscal Transparency] are met in almost all respects and exceeded in many. The various provisions of the [Code for Fiscal Stability] described above have made a major contribution in this regard.

Suggestions for improvement included enhanced information on contingent liabilities and more detailed economic and functional breakdowns of public expenditure in the main budget documents.

The next two subsections briefly discuss UK experience, dealing separately with public expenditure and taxation. The focus is on fiscal transparency, not on the question of fiscal rules (Kell 2001; Kopits 2001). Overall UK performance on fiscal transparency is shown to be less than the sum of its parts. One conspicuous feature of UK experience, damaging to public understanding, is the preoccupation of governments with finding methods of circumventing political undertakings which have, perhaps unwisely, been given by politicians under pressure. Examples are the Labour Government's promises to keep to the Conservative Government's public expenditure plans in 1997–98 and 1998–99, and not to raise either the basic or higher rate of income tax in the 1997 or 2001 Parliaments. Divergence between formal and informal practices re-emphasizes the difficulty involved in international comparisons; formal practices are much easier to identify and score than informal ones.

Public expenditure

There has been rapid technical change since the authoritative study by Thain and Wright (1995): the introduction of new control aggregates (Departmental Expenditure Limits and Annually Managed Expenditure, known as DEL and AME) (Treasury 1998d); the adoption of new fiscal rules (the golden rule and the sustainable deficit rule) legislated for in the *Code for Fiscal Stability*; the downgrading of the Public Sector Borrowing Requirement (PSBR) and its replacement by Public Sector Net Borrowing; the implications of Maastricht Treaty obligations; the replacement of the annual Public Expenditure Survey by the biennial three-year-horizon Spending Review; the implementation of European System of Accounts (ESA) 1995; and the implementation of Resource Accounting and Budgeting (RAB), affecting both accounting and budgeting numbers and the macro-fiscal aggregates (Treasury 1999, 2001).

The move to accruals-based financial reporting provided an opportunity for those outside government to argue for 'independent' accounting regulation, with the establishment by the Treasury in 1996 of the Financial Reporting Advisory Board constituting a modest step in this direction. The intention of those who argued for independent accounting regulation was to lock government into existing systems of private sector regulation, with the Accounting Standards Board (ASB) providing an anchor. Of course, such anchors may themselves be far from unproblematic, both in substance and because government may, in certain respects, genuinely be different. The further step from accruals-based financial reporting to Whole of Government Accounts (WGA) may provide a mechanism for limiting government discretion over financial outturns, particularly with regard to the repositioning of activities 'just outside' definitional boundaries. Buiter (1997 p. 10) stressed that 'the need to include all off-budget agencies and units whose liabilities ultimately are the responsibility of the state should be self-evident as following any other procedure would invite endless window dressing'. Similarly, Kopits and Craig (1998) emphasized the need to track off-budget agencies and the quasi-fiscal activities of government. Nevertheless, WGA (Treasury 1998e, 2000), scheduled to be produced on a UK GAAP basis for 2005–06, will not address issues concerning the increasingly important quasi-public sector (Heald and McLeod 2002, paras 547–550).

The problem with public expenditure data in the United Kingdom is not one of volume, rather one of complexity and specific omissions: 'Even the most informed commentators have difficulties interpreting public expenditure data' (Wren-Lewis 1996, p. 128). This denies the 'ready access' which is fundamental to the Kopits and Craig (1998, p. 1) definition of fiscal transparency. Some illustrative examples are now cited. First, although the annual *Public Expenditure: Statistical Analyses (PESA)* (Treasury 2003) is an invaluable reference document, its usefulness is reduced because of frequent changes in public expenditure definitions. There have been five control aggregates since 1989–90: Old Planning Total; New Planning Total; Control Total; Total Managed Expenditure (TME) (cash); and TME (accruals). This represents five control aggregates in 15 years, with the 2003–04 change (non-cash items moved from DEL to AME) only affecting composition. For each redefinition, the Treasury has always advanced reasons it found compelling (Heald 1995; Heald and McLeod 2002), though the cumulative effect has been to overstretch its statistical capacity and to inhibit public understanding. Such changes damage the comparability of time series data, both because estimates have to be made on unsatisfactory bases and because Goodhart's Law on monetary aggregates (Goodhart 1984) also applies to fiscal aggregates (they behave differently once controlled). Even positive developments, such as RAB, hinder data comparability over time. A long-standing problem has been the unsatisfactory nature of final outturn data: the estimated outturn data published each July have not been confirmed at the same level of disaggregation until the following year's *PESA*, published more than a year after the end of the financial year. This accentuated the problem of interpreting public expenditure data when shortfall emerged as a significant issue from 1999–2000. The innovation in November 2002 of the publication of an *End of Year Fiscal Report* (Treasury 2002b) is the basis upon which improvements can be built in future. Also encouraging was the simultaneous publication of the *Long-term Public Finance Report* (Treasury 2002c), addressing issues of fiscal sustainability and intended to be published annually as part of the Pre-Budget documentation.

Second, a fundamental problem is that analyses are usually done only when they are deemed relevant to the business of the Treasury (Heald and Short 2002). This leads to serious omissions from the public domain, for example, reliable regional and sub-functional analyses.

Third, there are specific bad practices which have exceeded the tolerable level of gaming in fiscal politics. Examples are: concerns about the off-balance sheet build-up of liabilities under the Private Finance Initiative (PFI) and the extent to which decisions on projects have been driven by considerations of accounting treatment (Heald 2003); the location of activities outside the general government boundary (Jowit 2002); triple counting of increases in public expenditure announcements; and multiple announcements of the same expenditure increases. Some fudge might oil the fiscal process, which is inevitably political and often contested. However, too much fudge is likely to be extremely damaging to both fiscal transparency and effectiveness. Cynicism about fiscal numbers is deeply corrosive, especially when government practices are seen to encourage it. Multiple scorekeeping systems cause confusion and may be exploited for purposes of creative accounting. There are perverse incentives to play games, and 'cheating' can become an epidemic sponsored by diverse actors.

Some devices are promoted by governments themselves, of which the most prominent is the Treasury-promoted PFI (Broadbent and Laughlin 1999, 2001), widely regarded as off-balance sheet funding for 'public' assets. The PFI is a form of public procurement which may have substantial merits. For example, it may offer large benefits at the construction stage, if other means cannot be found to purge the contract claims culture and to prevent public sector clients from making late design changes (Heald and McLeod 2002, para 502). However, there is now an alarming gulf between what those involved say publicly and what they will say off the record. The language of contracting for services rather than for assets is now well rehearsed, though it is often insincere, particularly when the PFI is the 'only show in town'. Credibility is stretched when PFI projects are repeatedly assessed as marginally superior to the Public Sector Comparator (that is, what would be done if there were Exchequer funding), after the addition of an amount representing the value of risks transferred to the private sector. Auditors become complicit because they may be locked into opinions, given at the appraisal stage, on whether a project should be on- or off-balance sheet to the public sector client.

Furthermore, 'tight' control of public expenditure can be predicted to result in the search for mechanisms through which these restrictions can be evaded. Some of these mechanisms are promoted by external actors who resist the logic of expenditure constraint. Two reports commissioned by the Chartered Institute of Housing argued the case for establishing local housing companies as a mechanism for taking local authority borrowing for council housing outside the PSBR (Hawksworth and Wilcox 1995; Radcliffe *et al.* 1996). One of the arguments advanced is that this would put local authorities on the same basis as housing associations. All lobbies stress the exceptional nature of their case for special treatment, denying that a precedent would be set. The merits of transferring council housing to housing companies ought to be investigated, with the emphasis squarely upon Value For Money (VFM) rather than with a view to juggling transactions around boundaries. The Treasury has resisted transfers to housing companies within local authority control, but has shown that it will be indulgent about debt write-offs when the housing stock is transferred to housing associations operating under the supervision of central government (or devolved administration) quangos.

Another example is the proposal, made by the Education and Employment Committee (1997) of the House of Commons, which was designed to resolve the 'accounting difficulty' whereby student loans counted against the PSBR. Instead of the government itself borrowing, higher education institutions would borrow through a not-for-profit trust, with the 'bad debt provisions' being 'underwritten' by the Treasury.

Taxation

The United Kingdom's tax/GDP ratio is considerably below that of most other EU member states: in 2000, it ranked 12th out of 15, and the projection for 2004 is 13th (OECD 2002, 2003). Since 1991, it has also remained below the OECD unweighted average. Nevertheless, taxes have been a highly sensitive issue for the Labour Government, as it is widely believed – though not necessarily supported by the empirical evidence – that Labour lost the 1992 General Election because of its shadow Budget in which the higher National Insurance threshold (above which contributions were not made by employer or employee) was to be abolished. In office, the 1997–2001 Labour Government was much criticized for recourse to so-called 'stealth taxes', an accusation which appeared to strike a chord and inflict political damage. There has been little precision attached to the term 'stealth tax'. For example, Jamieson (2001) identified revenue from stealth taxes as including all increases in tax revenue other than from explicit changes in income tax rates. On this basis, all revenues from increased consumption taxes, as well as from the general buoyancy of tax revenues, is so labelled. Such a wide definition has no justification and diverts attention from controversial developments, including devices such as the windfall tax on public utilities and the removal of dividend tax credits from pension funds. At the same time, however, the Labour Government has been praised by those who approve of what has been achieved by stealth (Toynbee 2001), especially the 'pro-poor' redistributional impact of tax and benefit changes. In similar vein, Grieve Smith (2001) lauded Gordon Brown as a 'master of stealth'.

A second issue concerns the conduct of tax policy-making. Figure 5, above, illustrates the complex issues of what should be transparent and when there should be confidentiality before announcements. Kenneth Clarke (Conservative Chancellor of the Exchequer, 1993–97) denounced the 'institutionalized leaking' of the 1999 Budget (Clarke 2001). Writing in July 2001 about the 9 March Budget, Keegan (2001) commented that it had secured extraordinarily favourable media coverage, but that – four months later – 'it was clear that most people had already forgotten what was in the Budget'. In 2002, official tax policy announcements were made in the run-up to the 17 April Budget, despite there having been a November Pre-Budget. Crooks (2002) commented that the 'softening-up barrage delivered by the government over the past few months will have been spectacularly futile if taxes do not go up on April 17'. In the week before the Budget, planted stories in newspapers indicated first that National Insurance contributions would be increased, and then that these would take effect only in 2003–04. Although increasingly like income tax (Clark 2002), National Insurance contributions were not covered by the pre-Election undertaking. The surprise held back for the Budget speech was the precise form of the increase, particularly that employers' contributions would also increase.

Options on National Insurance contributions were analysed before the 2002 Budget by Clark (2002). That Budget (Treasury 2002a) introduced a supplementary contribution of 1 per cent for employers, employees and the self-employed. The effect, from 2003–04, is to increase the employee's contribution rate from 10 per cent to 11 per cent and the employer's contribution rate from 11.8 per cent to 12.8 per cent, on incomes above £89 per week but below the upper earnings limit (£595 per week), at which point they each fall to 1 per cent. Quite apart from the lack of transparency, there are concerns about equity (investment income and pensions are not subject to National Insurance contributions) and about microeconomic efficiency (the effects of these changes are difficult to predict).

The notion of budget secrecy was brought into ridicule. However, those who spun the Budget would assess their performance as masterful: a tax-raising Budget registered in the polls as the most popular Budget for 25 years (Groom 2002). In part, this is because the implications and the *final* incidence of increases in employers' National Insurance contributions are not understood by many of those polled. This method of revenue raising would not have been chosen had the Government not previously made promises which were either untenable or had consequences with which it was unwilling to live. This episode displayed the incestuous relationships between media and government. Serious external contributions to tax policy-making, such as the IFS's Green Budget (Dilnot *et al*. 2002), are drowned out by the cacophony of spin and excitability.

Third, there are several technical issues of scoring. In particular, various tax credits result in reduced tax revenues and do not score as increased expenditure. This has been a distinctive feature of policy in connection with family support and has now extended to business support, such as Research & Development tax credits. Moreover, the 'Red Book' (the main Budget document) has, under the present Government, changed from primarily a technical document into an uncomfortable mix of technical document and campaigning vehicle for Treasury initiatives across a wide range of economic and social policy. Writing about the June 2003 publication of the Treasury's assessment of the conditions for euro entry, the economic journalist William Keegan (2003) noted:

> While propaganda and dubious value judgements are seldom absent from government documents these days, the [euro] *Assessment* reads less like the kind of party political broadcast that large sections of the annual Budget Report have become under New Labour.

SYNTHESIS AND ASSESSMENT

Table 1 pulls together the arguments for and against fiscal transparency in a format that throws light on why there is plausibility in the shift of the transparency function, as postulated in Figure 3, above. In Table 1, arguments for fiscal transparency, labelled F_1, F_2, F_3 and F_4 are set out in the first column. Successive columns set out the factors that brought each argument on to the policy agenda; further elaboration of the argument; *caveats*; and counter-arguments. The same structure is repeated for arguments against fiscal transparency, namely A_1, A_2 and A_3. Contemporary arguments are primarily couched in terms of market reactions and interest group capture. However, F_4 emphasizes that fiscal transparency provides voters with a basis on which to judge government performance, which is necessary for holding governments accountable at periodic elections. This format demonstrates the contingent nature of the instrumental arguments for and against transparency; much depends upon implicit assumptions as to how the economy and the political process operate. Moreover, there is likely to be a considerable degree of path dependence.

This evaluation is less clear-cut than might be desired by promoters of fiscal transparency initiatives. It is important at this juncture to emphasize that this article should not be interpreted as a coded attack on these initiatives, particularly those of the IMF in difficult environments (Craig and Allan 2002). Doubt is not being cast on the potential usefulness of efforts to improve fiscal transparency, especially those starting from very low bases. The intention here is to be realistic about context and process. Enthusiasm, in the absence of a proper framework of analysis, may be counter-productive and the source of eventual disillusionment.

This section now examines potential trade-offs among competing values. It then examines the role of information brokers, who necessarily play a significant role in the processing of government financial information. Attention then turns to the role of political culture in shaping the extent of fiscal transparency, most notably any divergence between nominal and effective levels, as depicted in Figure 2, above. Finally, it examines the emergence of external surveillance over the public finances of independent states.

Trade-offs among values

Contrary to first impressions created by a wide range of policy actors professing commitment to fiscal transparency, this is a complex topic. It is difficult to voice opposition to transparency, just as it is to set oneself against accountability; this is the arena of persuasive language:

> One of the reasons why 'transparency' so often appears in arguments about better government is that the word combines the rhetorical advantages of ambiguity and positive associations (for who, apart from those with guilty secrets to hide or dubious interests to protect, could possibly be against 'transparency'?). (Hood 2001, p. 703)

Transparency is the word currently in vogue (Keegan 2003), though it was used by neither Likierman and Creasey (1985) nor Rutherford (1983, 1992) in their analyses. Synonyms for transparency include clarity, candour,

TABLE 1 *Arguments for and against fiscal transparency*

Arguments for	**Factors bringing this on policy agenda**	**Further elaboration**	**Caveats**	**Counter-arguments**
F_1 **Effectiveness**: 'Fiscal transparency – including, for example, open procurement policies – not only facilitates the achievement of the basic macroeconomic policy objectives, but also increases the productivity of public expenditure' (Kopits and Craig 1998, p. 2).	Globalization and the risk of contagion from capital markets' collapse; the broader transparency agenda includes the regulation of capital markets.	Particularly within the context of European monetary integration, the cost of imprudent fiscal policies would partly be exported to other countries (hence the EU Stability and Growth Pact), thereby encouraging external surveillance. New Zealand is an example of reform stimulated by macroeconomic shocks.	**Transactions costs**: 'Fiscal transparency can also impose costs. Obviously, up-front costs are incurred in creating the technical capacity and institutions to establish a centralized information system, develop reliable forecasting tools, implement appropriate accounting techniques, and simplify regulatory practices or make their cost visible. Moreover, there are recurrent, albeit often declining, costs in maintaining these practices and disseminating the generated information. The costs of transforming a culture of secrecy into one of transparency may be at least equally large' (Kopits and Craig 1998, p. 3).	If such costs were high enough, the caveats should be re-classified as an argument against (see A_2).

Confidentiality before a public announcement: Transparency may be overridden in order to avoid actions by some groups inimical to the general welfare or which erode the effectiveness of a specific policy instrument. Paralleling well-known cases in exchange rate and monetary policy, 'premature announcement of the introduction of a subsidy or tax incentive may also weaken its intended effect and result in a windfall gain for some agents and an unnecessary budgetary cost' (Kopits and Craig 1998, p. 3).

Bundling of policy announcements: 'Generally speaking, once the decision is reached on a given measure, it should be publicly announced unless this is a component of a broader policy package' (Kopits and Craig 1998, p. 3).

TABLE 1 (*Continued*)

Arguments for	**Factors bringing this on policy agenda**	**Further elaboration**	**Caveats**	**Counter-arguments**
F_2 External discipline on governments: 'Transparency allows the market to evaluate, and impose discipline on, government policy and increases the political risk of unsustainable policies' (Kopits and Craig 1998, p. 13).	Globalization and the risk of contagion.	Expectation of lower cost of capital, as credit rating improves, and better access to capital markets.	' . . . the timing of public disclosure as to the formulation of government decisions may require some judgement . . . deliberations within each branch of government on specific features and timing of the measures being considered may have to be closed to the public to avoid undue influence from more powerful and active lobby groups' (Kopits and Craig 1998, p. 3).	If the greatest threat is perceived to come not from budget-maximizing bureaucrats and ministers but from rent-seeking interest groups, this *caveat* may become a fully-fledged argument against (see A_1).
F_3 Reduction of corruption: Only 'casting sunlight' offers hope to reduce endemic corruption in many countries.	Increasing international awareness that corruption is a fundamental obstacle to good government and economic growth in many countries, particularly, but not exclusively, those in Africa and the former Soviet Union.			
F_4 Enhancing accountability	This is an older agenda, documented by Likierman and Creasey (1985), arguing for a rights-based entitlement of citizens to government financial information. This has been given added force by international sponsorship.			

Arguments Against **A_1** Protection of public finances from predatory interest groups.		Benevolent governments may have difficulty defending trend fiscal surpluses (in preparation for the impact of population ageing) and cyclical surpluses (so that public finances can be kept in balance over the cycle). Possibility of blame transfer.		It is doubtful whether secrecy motivated by this concern will achieve the intended objectives, even if it were now sustainable in democratic polities (see F_4).
A_2 The transaction costs involved in 'good practice' are too large when the opportunity cost of scarce public expenditure and fiscal policy capabilities are considered.	The internationalization of public sector reform, as represented by the spread of New Public Management ideas, has provoked debate about transferability.		This is more constructively viewed as a warning that policy transfer should not be unreflecting imitation; for example, accruals accounting should be well down the agenda in those developing countries which have low capabilities.	
A_3 Codes such as those on fiscal transparency are examples of leading industrialized countries using their control of international institutions to impose standards on developing countries to which they fail to conform themselves.	Critics of international organizations such as the World Bank or the IMF have argued that their policies are adopted coercively in inappropriate environments.			It is possible to be sensitive to concerns about double standards, yet still believe that the arguments in favour of fiscal transparency are the strongest.

intelligibility, lucidity, explicitness, accuracy and precision. However, transparency is rapidly developing its own specific meaning, more clearly differentiating it from its synonyms. Antonyms for transparency include opaqueness (opacity), obscurity, ambiguity, fudge, vagueness and imprecision. Alternatively, the converse of transparency might be expressed as 'lack of transparency' or 'absence of transparency'.

Vishwanath and Kaufmann (2001, p. 42) contended that transparency 'should encompass such attributes as access, comprehensiveness, relevance, quality, and reliability'. They counterposed transparency and its opposites in stark terms (p. 44, italics added):

> Lack of transparency can be costly both politically and economically. It is politically debilitating because it dilutes the ability of the democratic system to judge and correct government policy by cloaking the activities of special interests and because it creates rents by giving those with information something to trade. The economic costs of secrecy are staggering, affecting not only aggregate output but also the distribution of benefits and risks. The most significant cost is that of corruption, which adversely affects investment and economic growth.
>
> Although arguments against transparency may be justified *in a few instances* on the grounds of privacy and confidentiality, those who hold this position need to counter not only the instrumental benefits of transparency but also powerful arguments about the rights of citizens to know. More *dubious exceptions* to transparency are those advanced on the grounds of national security, stability, tactical negotiations, or deference to public unity. Such exceptions may be warranted in certain narrow circumstances, but reductions in transparency should be limited, and the limits exposed to public debate. Particular scrutiny should be directed at invocations of confidentiality, market stability, or national security.

This unqualified support for transparency may, in part, derive from these World Bank authors' primary focus on financial regulation in developing countries. With regard to fiscal transparency, the tone in which 'limits' are dismissed is misjudged. Similarly, Stiglitz (1999) underestimated the government's need for decision space. Indeed, the greater the inter-penetration of public and private sectors, the greater this will become, both in terms of negotiating periods and of avoiding situations which will increase procurement costs (for example, by increasing the transaction costs of private firms contracting with government). The event-process distinction of Figures 4 and 5, above, is useful in clarifying proper limits to transparency. In particular, the transformation process may need some protection (for example, from premature disclosure of bargaining positions) so that event transparency can be delivered.

There may also be conflicts with effectiveness. Media intensity may result in transparency about certain aspects of process damaging government performance. This may occur in contexts where only 'bad news' – such as 'failure' or 'cheating' – is considered newsworthy. For example, league tables may demoralize, rather than motivate, moderate or low performers, or lead to the falsification of records, especially in a highly politicized environment where every public organization is expected to perform 'above average'. If every step is in the public glare, either in real time or retrospectively, this will affect the decision-making process. For example, the quality of the policy-making process will suffer if, because civil servants expect that interest groups will subsequently gain access to written advice, they become reluctant to commit policy advice to paper, giving it verbally instead. Moreover, alternative options may not be properly assessed, nor the internal challenge function properly exercised, if it is known that such material will subsequently be used to embarrass ministers defending the agreed policy.

There is a duality about fiscal transparency. It is both a value, which can be pursued as an objective, and also an instrument to be developed in support of accountability. There can be trade-offs with other values: for example, transparency may inhibit long-term contractual commitments which might in particular cases be a means of improving effectiveness. However, situations arise in which some losses of effectiveness have to be seen as the cost of protection against extremely adverse outcomes. Laffont and Tirole (1993, pp. 619–20) analyse the trade-off between long-term commitments and keeping options open. Transparency provides safeguards against incompetence or malevolence and allows future governments to correct mistaken policies.

There will be circumstances in which transparency may be in conflict with other values, for example, with those of privacy and confidentiality:

> There are two different conceptions of the public-private distinction in liberalism: the state-civil society distinction and the social-personal distinction. In the first, civil society is private in the sense that it is not governed by the public power of the state. In the second . . . , the personal is private in that it represents a sphere of intimacy to which one might retreat in face of the pressures to conform within society. This creates a tripartite, rather than dual, division of social relations: the state, civil society, and the personal. . . . Confusingly, civil society is cast as private when opposed to the state, and public when opposed to the personal. (Squires 2001)

The claims of confidentiality may in some cases be permanent. Certain information provided by citizens and businesses to public authorities, for example, in relation to financial, medical or statistical information, may be regarded as permanently confidential and never to be published at a disaggregated level in a way which would reveal identities. A separate point is that it has long been recognized that there are contexts within which transparency can facilitate coercion, for example, as a vehicle for pressures to conform or submit. This led in the United Kingdom to the institution in 1872 of secret ballots for Westminster Parliamentary elections, and to the statutory extension of secret ballots to all trade union elections and votes on strike decisions in 1984.

In some contexts, however, confidentiality will be a matter of timing, as in the case of obligations to avoid premature disclosure of, for example: market-sensitive information on mergers and takeovers; contractual negotiations in relation to procurement; information pertaining to individuals before they themselves know it; ministerial decisions before announcements to Parliament; or Select Committee reports before they are published. There will be confidentiality during sensitive periods, even when the final decision will be in the public domain, and there will be periods during which certain questions cannot be answered without damaging the government's negotiating position. If this point is lost sight of, there will be damage to both event transparency and effectiveness. For example, those involved in decision making will modify their procedures in ways that not only inhibit premature disclosure but also impede accurate reporting of events, with likely damage to effectiveness.

In a media-intensive age, there is a blurring of what is in the public interest and what interests the public and therefore sells newspapers. Paradoxically, government documents that will attract minimal media attention when published can become major stories if they are leaked or spun in advance. In an entirely different context, namely that of tabloid revelations of adultery by a professional footballer, the Court of Appeal held:

> In many of these situations it would be overstating the position to say that there is a public interest in the information being published. It would be more accurate to say that the public have an understandable and so a legitimate interest in being told the information. If this is the situation then it can be appropriately taken into account by a court when deciding on which side of the line a case falls. The courts must not ignore the fact that if newspapers do not publish information which the public are interested in, there will be fewer newspapers published, which will not be in the public interest. (A v B & C [2002])

This judgement was handed down by the Lord Chief Justice of England and Wales (Lord Harry Woolf). UK media coverage of politics is fixated with personalities (for example, the alleged conflicts between Prime Minister Tony Blair and Chancellor of the Exchequer Gordon Brown) and the desire to inspect the bowel movements of government (for example, leaks and spin dominate, to the neglect of coverage of policy). Much media coverage revolves around the personalization, trivialization and denigration of politics.

Role of information brokers

Likierman and Creasey (1985, p. 33), in the article which provided the intellectual foundation for influential policy proposals (Likierman and Vass

1984), derived a rights-based citizen entitlement to government financial information:

> Adequate published government financial information is an important contribution to the effective and efficient allocation of society's resources and the process of accountability. (Likierman and Creasey 1985, p. 33)

It is made explicit that this right is not unconditional and may be in conflict with other rights:

> Stamp (1980) in his analysis of the private sector is clear that 'The central issue . . . is striking the right balance between accountability and the right to privacy'. . . . a distinction needs to be made between those who seek information in order to use it to destabilise a society and those who seek to find information as interested citizens. Despite the frequent assertions of Ministers and officials to the contrary, not all those who seek information can be dismissed as potential enemies of the state, any more than a statement of the need for information confers a right which transcends all other rights. (Likierman and Creasey 1985, p. 40)

However, token compliance is clearly not acceptable:

> information which is not known to be available, which is so obscure that it cannot be understood or which is unreasonably expensive cannot be said to be as freely available as information which is known, relatively easily understood and within the means of its citizens. A distinction also needs to be made between what is published and what is asked for, since the latter presupposes 'inside' knowledge of the information. (Likierman and Creasey 1985, p. 38)

A well-recognized problem is the relative scarcity of direct users of government financial information (Lapsley 1992). 'Information brokers' is a better description of the role of those whom Rutherford (1992) described as 'intermediate users' of government financial reports and similar documents. Governments are understandably ambivalent about the activities of information brokers, viewing them both as a useful channel for information dissemination and as a threat in that they may dispute official accounts of government performance. A remarkable achievement of the IFS is that it has acquired such a public reputation for independence that successive UK governments, however furious in private, regularly commend its independence and the high quality of its published analysis, albeit sometimes through gritted teeth.

Information brokers invoke entitlements to information which may be costly or embarrassing for governments to provide. Some information brokering is likely to be dismissed as the activity of the 'usual suspects'. There is a genuine problem in delineating what is legitimate and what is illegitimate, even without recourse to the far-fetched notion that the release of budgetary information would destabilize the state. Likierman and Creasey (1985, p. 40) noted that 'it would be strange to accept that all the whims of an individual should be granted'; the problem is in distinguishing the whimsical from the insightful, and in establishing who draws that line.

The growing complexity of government information, particularly that published on 'events', will lead to even greater reliance on information brokers. The problem of information overload is becoming even more pronounced, and the cost of digesting and processing information is extremely high. As with public consultation processes, potential user groups can be overwhelmed by the volume of material; deliberate use of overload to wear out potential critics is an obvious technique available to information providers. There is also overload within government, as the central machinery, notably Downing Street, seeks to control UK central government departments and agencies, and to avoid situations where, held responsible for everything by the media, it is caught off-guard.

Information brokers are unlikely to be neutral players, in the sense that they are pursuing their own agendas, whether in support of interest groups, spending lobbies, academic careers or some particular vision of the public interest. Something motivates them, as otherwise the supply of information brokering would not occur because the output is a public good and there is no direct public funding. Nevertheless, information brokering is indispensable to the exercise of 'voice', on which the legitimacy of democratic government heavily depends (Hirschman 1970).

Influence of political culture

On the formal dimensions of fiscal transparency, the United Kingdom has a highly creditable record. However, this good performance is marred by the nature of the relationship between government and media. A deep-rooted problem is that the contemporary UK political culture demands instant and certain answers to all questions, including those where such answers are not feasible. Contemporary examples include the demand that particular activities or products be declared 'absolutely safe' or 'risk-free'. Perceptions of divided loyalties, to ministers and to the public, have undermined public confidence in scientific expertise, especially that employed or funded by government. Officials may be suspected of being 'economical with the truth', or making statements on behalf of ministers which cannot be scientifically supported. The damage which policy failures such as Bovine Spongiform Encephalopathy (BSE) and foot-and-mouth disease have done to the reputation of UK government scientists should be taken as a warning by government accountants, economists and statisticians. Their expertise is regularly presented as manipulable at political convenience: an example is Adams and Daneshkhu's (2002) discussion of how Treasury insiders allegedly view the Chancellor of the Exchequer's five tests for Euro membership (Treasury 1997b).

The underlying problem extends well beyond fiscal transparency. Stiglitz (1999, p. 11) noted the opportunities for rent-seeking created by secrecy:

> lack of information, like any form of artificially created scarcity, gives rise to rents. The adverse consequences of rent seeking have long been of concern. There is an unhealthy dynamic: the public official has an incentive to create secrets, which earns him rents. The existence of secrets [gives] rise to a press determined to ferret out the secrets. One of the ways in which public officials reap the rents is to disclose 'secrets' to those members of the press that treat them well. Thus, not only is the public deprived of timely information – which I have argued is theirs by right – but government officials use their control of information to distort information in their favor. It is not just the puff pieces of which public officials are so fond. Rather, it is the very characterization of events and circumstances. Woe be to the reporter who breaks the implicit contract! Ostracism – being cut off from the source of news – is the consequence; and even a liberal minded editor has no choice but to reassign the reporter.

The underlying problem has been eloquently characterized by Garton Ash (2001):

> If I had to name a single quality that makes [George] Orwell still essential reading in the 21st century it would be his insight into the use and abuse of language . . . the central Orwellian argument [is] that the corruption of language is an essential part of oppressive or exploitative politics. . . . The extreme, totalitarian version that he satirised as Newspeak is less often encountered these days. . . . But the obsession of democratically elected governments, especially in Britain and America, with media management and 'spin' is today one of the main obstacles to understanding what is done in our name. There are also distortions that come from within the press, radio and television themselves, partly because of hidden ideological bias but increasingly because of fierce commercial competition and the relentless need to 'entertain'.

The last sentence, by placing government spinning in the context of media intensity and the abusive relationship between government and media, is a telling reminder that the problem is not solely the fault of government. Governments are entitled to present their policies in the best possible light, as their opponents will be doing exactly the opposite. What is unacceptable is being deliberately misleading.

A transparency illusion, as in Figure 2, above, will emerge in such contexts. As Walker (2000) noted, there is nothing new in 'briefing' by UK governments:

> most leaks are not disclosures by those contractually bound to maintain confidences, especially civil servants and officials. As for ministers, only some of them swear the privy councillor's oath enjoining silence and it never did have much moral weight. Leaking, said former Labour prime minister Jim Callaghan in one of politics' greatest aphorisms, is what you do; briefing is what I do.

What is new is the degree of systematic media management by the Labour Government, in part a response to the vicious and hysterical tone of media attacks on Neil Kinnock (Labour Leader of the Opposition, 1983–92) and John Major (Conservative Prime Minister, 1990–97).

The Labour Government has sought to manage the media agenda so intensively that it has become counter-productive. Bad practices have dented public confidence in government information, whether financial or statistical. Standard devices include publishing crucial documents in late July, just before Parliament goes on summer recess. Such devices are not new, though now much more openly and ruthlessly deployed. This has been the fate of the 1998, 2000 and 2002 Spending Reviews, whose timing, though convenient to the Government, would never be tolerated if Parliament had a serious financial role. Such is only advocated by opposition parties, as in the Report of the Commission to Strengthen Parliament, appointed by the then Leader of the Conservative Opposition in July 1999 (Norton 2000), but is unlikely to be implemented by a majority government. Neither is the suggestion by Michael Howard, Shadow Chancellor of the Exchequer, to establish a body in the mould of the US Congressional Budget Office, so that 'all the Treasury decisions could be authoritatively challenged by an objective agency accountable to Parliament' (Howard 2002).

Accountability and surveillance

There is now unprecedented monitoring of the events and processes depicted in Figures 4 (expenditure) and 5 (revenue). The explosion of audit and inspection, as part of the NPM agenda, has attracted much attention in the literature (Power 1997). On the microeconomic level, there has been a strong assertion of hierarchies, characterized by a chain of principal-agent relationships, with the Treasury at the apex. In practice, the Treasury seeks to balance its roles as guardian of the public purse and as the political instrument of powerful ministers (Atkinson and Elliott 1999; Stephens 2001). The claim is that fiscal transparency contributes towards greater effectiveness, for which policy-makers and politicians are then held accountable. Nevertheless, the imposition of transparency from above can be one aspect of the strengthening of top-down control, thereby restricting the decision space of 'subordinate' organizations. Consequently, as well as stimulating certain dimensions of performance, transparency may be associated with losses on other dimensions of performance. The net effect will always be an empirical matter. These more highly centralized arrangements are variously portrayed as exhibiting robust health or fragility, while there is currently unprecedented dispute about whether public services are improving or deteriorating. There is also discussion as to whether over-reliance on hierarchical notions of accountability, enforced partly through transparency, may damage trust (O'Neil 2002) and encourage blame deflection.

On the macroeconomic level, the claim is that greater transparency builds credibility which improves effectiveness, for which policy-makers and politicians are then held accountable. UK macroeconomic performance under the policy framework established in 1997 has been much praised, though there are conflicting views about whether Chancellor of the Exchequer Gordon Brown is skilful or lucky, or both. A surprising aspect has been how the National Audit Office (NAO) has allowed itself to be locked into Treasury macro-policy judgements. It has been able to bask in reflected glory, though rendering itself vulnerable to blame transfer if events were to falsify the assumptions it had audited. In Budget 2002, the Treasury (2002a) increased the forecast GDP trend growth rate used in fiscal projections from 2.25 per cent to 2.5 per cent, thereby making the large increases in public expenditure more affordable. These new assumptions were approved by the National Audit Office (2002), but subsequently became controversial. The crucial point is that the NAO can only audit those assumptions that are referred to it, at timings chosen by the Treasury (Heald and McLeod 2002, para 505).

In addition to the growth of top-down monitoring within particular polities, there has been a rapid extension of external surveillance over the activities of sovereign governments, notably by various international and supranational organizations. This increase in external surveillance has moved the focus of accountability, hitherto mainly oriented towards domestic political institutions. There are also a growing number of private organizations scoring countries on, for example, corruption and competitiveness, sometimes from implicitly ideological premises. There are international standardization projects over large areas of public policy and economic regulation (Abbott and Snidal 2001). Specifically relevant to fiscal transparency have been budget process studies, which have, *inter alia*, emphasized the importance of strong finance ministries with sufficient political resources to enforce expenditure control over spending ministries (von Hagen and Harden 1994, 1995).

Examples of external fiscal monitoring include the IMF's Article IV consultations and Ecofin's Stability and Growth Pact reviews, which have joined the less threatening OECD country economic surveys. After a long history of secretive conditionality at a detailed level, the IMF has converted to the benefits of transparency (IMF Fiscal Affairs Department 2001a, 2001b; International Monetary Fund 2001). The Asian financial crisis of 1998 (Working Group of G-22 1998) appears to have had a marked influence on IMF thinking. John Odling-Smee's comment about the IMF's painful experiences in the former Soviet bloc indicates another factor:

> There is a long tradition of misleading the central ministries in Moscow; and the local governments have sometimes regarded agreements they had with people from outside the country, including the IMF, as having similar characteristics. (*IMF Survey* 2000, pp. 291–2)

The surveillance of fiscal transparency is expected to contribute to good governance and accountability. The term 'surveillance' is used positively, with none of the sinister connotations often attached to it. High expectations have been invested in the benefits said to derive from fiscal transparency:

> [the Code would] serve as a guide for member countries to increase fiscal transparency and thereby enhance the accountability and credibility of fiscal policy as a key feature of good governance.
>
> The importance of *greater availability and transparency of information* regarding data and policies. If persistent deficiencies in disclosing relevant data to the IMF impede surveillance, the conclusion of the Article IV consultations should be delayed. (*IMF Survey* 1998, p. 113)
>
> The Code will facilitate surveillance of economic policies by country authorities, financial markets, and international institutions. (International Monetary Fund 1998, p. 122)

Article IV consultations began in 1947, but these only became public documents in 1997.

The contestable nature of judgements about effectiveness means that those conducting appraisals inevitably exercise considerable discretion. This generates the concern that the powerful are likely to get better treatment than the less powerful, thereby raising both equity and credibility issues. The tough conditions relating to the implementation of the EU 'acquis' for new entrants (SIGMA 1998) contrast with implementation failures of existing member states. It is widely believed that the Republic of Ireland received harsher treatment in 2001 from Ecofin than did Germany, with regard to the EU Stability and Growth Pact. The UK Treasury's practice of spinning has extended to leaking drafts of reports on the UK economy prepared by international bodies, in cases where it seems advantageous. The UK Government has developed a reputation for being aggressive in demanding rewrites of such reports; even 'top-of-class' marks do not suffice.

Governments play complex blame transfer games with international bodies such as the EU and IMF, just as departments do with the Treasury: they are useful 'bad guys' for decisions which are not welcome to interest groups. In some cases, policy will change directly because of 'higher-level' requirements. In other cases, there is now a scapegoat for a decision which would have been desired, but perhaps not otherwise feasible. The fiscal consolidation of EU members before the launch of the Euro is a case in point. Blame transfer is a standard device in fiscal politics and does not, of itself, cause any surprise. However, excessive use of this device might erode the authority of, for example, the EU, with consequences for domestic elections and EU referenda. As Kay (2002) observed: 'Legitimacy is the answer to the question: "What gives them the right to do that?"'. The terminology of 'surveillance', with the implication of 'disciplining', is a reminder that financial information is used for purposes of control. Drawing upon the work of Michel Foucault, Loft (1995) explored the development of 'disciplinary technology', noting how accounting is one of the techniques of surveillance and control of individuals in a business organization. The migration of disciplinary technology to the international sphere raises delicate issues of legitimacy, even when the objectives of fiscal sustainability and sound economic performance are commendable.

CONCLUSION

This article concludes with a number of observations. Firstly, the attitude taken towards fiscal transparency may depend in part upon perspectives adopted about the state and about the political process. The conflicting 'fiscal visions of the state' held by James Buchanan and Richard Musgrave were graphically highlighted at a 1997 Munich conference at which both spoke extensively. The resulting book (Buchanan and Musgrave 1999) prompts the thought that the attitude a commentator takes to fiscal transparency may be influenced by the fiscal vision to which that commentator adheres. The enemy of fiscal rectitude may be thought to be external to a contingently benevolent state, or the Leviathan state can itself be viewed as the enemy. For those influenced by the public choice literature, suspicious of budget-maximizing bureaucrats and rent-seeking politicians conspiring against taxpayers, 'casting sunlight' will expose waste and profligacy and may lead to their curtailment. Similarly, showing that government is 'bankrupt' and that policies are fiscally unsustainable may be one step closer to the retrenchment of 'unproductive' activities.

Both New Zealand public management reformers (New Zealand Treasury 1987) and the advocates of generational accounting started from premises that public commitments were too large (Kotlikoff 1993). Such techniques would not have acquired such currency when they did had they been expected to promote larger rather than smaller government. The example of New Zealand illustrates that it may be easier to reach agreement on levels of fiscal transparency (very high) than on effectiveness. In the absence of agreement about counterfactuals, the mixed evidence on effectiveness in New Zealand is variously attributed to a lack of persistence with 'fiscally responsible' policies (Hemming and Kell 2001) and to those original policies having been misconceived (Newberry 2002).

Those with a more favourable interpretation of the motivations of public decision makers may see government, and particularly the finance ministry, as a bulwark against expenditure and tax lobbies. Some limitations on fiscal transparency might be defended on the grounds that these protect long-term interests, for example, guarding against populist pressures to spend budget surpluses accumulated to meet the social security costs of an ageing population. One of the enduring myths is that democratic legislatures control the expenditure of their respective Executives; in reality, fiscal constraint has to be exercised by the Executive over the mutually incompatible expenditure-increasing and tax-cutting desires of the legislature. A related point has been made by Horst Köhler, IMF Managing Director:

> Köhler also expressed sympathy for the widely expressed complaint that parliamentarians were often asked to pass budgets with little hard data on which to base decisions. He urged legislatures to press executive branches to adopt the IMF's Code of Good Practices [on] Fiscal Transparency. Transparency is vital for good policymaking, he said, but so, too, is responsible legislating. Parliamentarians need to consider the wider and longer-term economic implications when they vote to increase spending. (Bhatia 2003, p. 89)

How varying degrees of transparency impact is not likely to be uniform or straightforward, especially when it is a case of governing under pressure. The present emphasis on fiscal transparency is, in part, a result of the erosion of trust and a loss of confidence in the exercise of the stewardship function of government. However, the relationship between transparency and trust is complex, and some writers have argued that excessive reliance on transparency may erode trust (O'Neil 2002).

Assessing how new information will be interpreted and used is not straightforward. There is a contemporary example from UK private sector financial reporting. The new pensions accounting standard *FRS17*, published by the Accounting Standards Board (2000), is a commendable effort to improve the transparency of the financial condition of occupational pension schemes. However, accidents of timing, most importantly *FRS17* appearing after the collapse of a long bull market during which many employers had taken holidays from pension contributions, have led to this new accounting standard being blamed for the closure (or closure to new members) of some occupational pension schemes. The obvious point is that financial reporting practices may significantly affect the economic interests of particular groups, and this will be (imperfectly) anticipated.

Audiences are therefore an important part of the context of financial reporting, most particularly in the case of governments because of the scarcity of direct users and the limited supply of information broking. Information asymmetries are a function not only of how much information is provided, but also of how processable that information is. Relevance therefore depends on the audience; it is what the audience receives, rather than what is put in front of it, that is important. Governments are in charge of the gathering and dissemination of budgetary information, and the degree of insulation from the political process that can be achieved for much statistical information cannot realistically be replicated. There is a role for government as stage manager, ensuring that the furniture (in this case relevant information) is available to all actors. However, ministers and oppositions want to retain or achieve governmental power, and will understandably use information selectively in order to put across their cases. Accordingly, governments have stronger incentives to use information to gain a political advantage than to ensure that all is presented in an even-handed way. Fortunately, a well-functioning adversarial process may force information into the public domain, and information that has previously been revealed becomes difficult to suppress in future. A problem for those who want to strengthen the furniture on the political stage is that the theatre generally attracts more widespread attention than the substance.

This article has emphasized the distinction between event transparency and process transparency. Democratic politics inevitably generate concerns about process, but obsession with process can become malign. As much emphasis as possible should be placed upon event transparency and upon ensuring that systems for process transparency are properly designed and not disruptive. Spinning and leaking, whose practical effect is to obstruct, rather than to promote, effective fiscal transparency, should be resisted. Fiscal transparency is to be valued for intrinsic reasons, connected to legitimacy, and also on the instrumental grounds that it is capable of stimulating improved government performance. A part of the instrumental argument for fiscal transparency is that it can help to shift the focus of attention from inputs to outcomes. Another part is that it increases the credibility of macroeconomic policy, and provides economic actors with a degree of predictability about fiscal activities so that they can manage their own affairs more efficiently.

Nevertheless, it is important not to be unworldly about democratic budgetary politics. The difficulty is that, having conceded that some level of fiscal fudge may smooth decision-making processes, it then becomes difficult to establish anything other than an impressionistic basis on which to assess whether fiscal fudge has exceeded tolerable levels. Hood's (1994) 'unmentionables' are usually not far from the surface. Although justifications offered for policy overlap with explanations of why that policy is adopted, there are often objectives that are deliberately not made explicit. Those who profess commitment to fiscal transparency may in practice operate in a hall of mirrors: using informal mechanisms (for example, spinning misleading numbers); taking advantage of the virtual absence of direct users of government financial information and the relative scarcity of information brokers; and exploiting the transient nature of the media agenda to divert attention from unfavourable numbers. Substance may diverge dramatically from form, potentially undermining good features of formal performance on fiscal transparency.

The note of caution running through this article should not be taken to imply that the new emphasis on fiscal transparency is anything but welcome. Rather, there is insistence in this article upon the need to take account of context, and to examine the forms of fiscal transparency that will improve effectiveness and enhance accountability. It is not enough to suddenly decide that fiscal transparency is a good idea and to forget the reasons why confidentiality and secrecy used to be asserted with equal vigour.

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