Preface

Five years ago, we set out to explore a question of growing importance in public life: can government legislate transparency policies that reduce risks to health, safety, and financial stability, or improve the performance of major institutions such as schools, hospitals, and banks?

We were an unlikely trio – a political scientist, an economist, and a lawyer, each busy with our own research concerning new trends in participatory democracy, workplace practices, and regulatory policy. But all of us were based, serendipitously, at the Kennedy School's Taubman Center for State and Local Government at Harvard University. We began meeting every couple of weeks to talk about an intriguing development that each of us had noted separately in our work. Faced with challenges to reduce serious risks or improve public services, legislators were no longer simply setting standards or imposing taxes. They were also creating scores of public disclosure policies.

In effect, policymakers were honing transparency – a widely shared but amorphous value – into a refined instrument of governance. This trend raised a fundamental question that no one seemed to be asking: does transparency work? Can new information – placed in the public domain and structured by government mandate – improve consumers', investors', and voters' choices and, in turn, create new incentives for manufacturers, hospitals, schools, and other organizations to bring their practices more in line with public priorities? We decided to examine that question together.

As we framed our research project, transparency policy failures with devastating consequences helped convince us that the inquiry was important. In 2001, Enron Inc., the world's largest energy trading firm, collapsed. To prosecutors, Enron's demise represented fraudulent efforts by executives to hide huge losses from investors. To many investors, it represented the loss of life savings. To us, however, the Enron debacle also signaled a failure of the nation's oldest and most trusted transparency system – the detailed federal requirements that publicly traded companies disclose their profits and losses. Enron's demise was followed quickly by the sudden collapse of other respected companies – WorldCom and Tyco, for example – incidents that underscored the flaws in financial reporting.

Over the next two years, the Bush administration's attempt to employ transparency to reduce risks of death and injury from terrorist attacks also failed. The tragedy of the terrorist attacks of September 11, 2001, was leavened by the grace and courage of citizen heroes. Firefighters rushed into the World Trade Center towers as company managers ushered their fellow workers out of the doomed buildings, saving thousands of lives. Passengers aboard United Airlines Flight 93 attacked their hijackers and sacrificed themselves to halt a terrorist attack on the nation's capital.[1] On September 11, as in many other emergencies, citizens were the first to respond.

Perhaps recognizing the importance of public awareness and mobilization, the Bush administration created a color-coded ranking system for terrorist threats early in 2002.[2] That system was designed to encourage government agencies, the private sector, and members of the public to take steps at each threat level to minimize attacks and their consequences. Instead, announced increases in the threat level created confusion, leaving millions of Americans uncertain what they should do to protect themselves. Before long, terrorism threat ranking degenerated into fodder for late-night comedians.

These and other instances of transparency gone awry drove home three important points. First, transparency policies were always limited by politics. They represented compromises forged from conflict, as people and organizations with diverging interests and values battled over how much information should be made public and in what forms. Some of the issues raised by the accounting scandals – whether and how companies should have to report on stock options and off–balance sheet entities – had been the subject of decades of intense lobbying. Thus, in public policy, there was no such thing as full disclosure – only varying degrees of partial transparency that might or might not serve the public's needs.

Second, the transparency measures we observed were fundamentally different from the more familiar right-to-know policies that dated from the 1960s in the United States and became contentious once again as George W. Bush expanded executive branch secrecy during his two terms as president. Right-to-know laws, a cornerstone of democratic governance, required general openness in federal, state, and local government in order to hold officials accountable for their actions. The transparency measures we observed,

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by contrast, required disclosure of specific factual information, usually by corporations or other private organizations. Their aims, too, were specific: to reduce needless economic losses to investors from corporate deception, to prevent deaths and injuries, to improve the quality of public services, or to fight corruption. We developed a name for this second generation of public disclosure: targeted transparency.

Third, the consequences of failed transparency could be devastating. The underreporting and misreporting of financial data by Enron and WorldCom cost thousands of workers their pension savings and millions of stockholders their investment funds. The ambiguity of the terrorist threat ranking system ultimately led many individuals and organizations to ignore it, creating the potential for a disastrous boy-who-cried-wolf scenario.

We began our inquiry into the effectiveness of targeted transparency as skeptics. We could think of many reasons from each of our disciplines to predict that new information would not in fact reduce risks. At the same time, the idea of transparency remained appealing. Who could oppose providing more information to the public? The spread of these targeted policies made it especially important to understand their strengths and drawbacks.

Over coffee, covering blackboards and papers with arrows and boxes, we explored how targeted transparency might further specific policy objectives and how obstacles might block the way. When we searched for studies by other researchers, we found almost no literature analyzing targeted transparency across a range of policy areas. There were, however, new and interesting empirical studies that explored the effectiveness of individual transparency systems in domains such as financial policy, environmental regulation, public health, and product safety. Supplementing these studies with our own research, we began to examine and compare specific transparency policies to see how they worked.

The evidence we developed turned us from skeptics into pragmatists. Certainly, some targeted transparency policies were costly failures. But others were clearly effective. What made the difference between success and failure?

With foundation funding as well as support from the Kennedy School's Taubman Center, its Environment and Natural Resources Program, and what is now the Ash Institute for Democratic Governance and Innovation, we organized the Transparency Policy Project to explore that question. We examined a carefully chosen array of fifteen targeted transparency systems in the United States to determine their purposes, politics, effects, and effectiveness. We also examined three international transparency policies to see whether targeted transparency could further nations' shared aims.

As our research progressed, we tested the emerging ideas in papers, seminars, and articles. We found that diverse transparency policies shared common roots, characteristics, and challenges, and therefore represented a single policy innovation.[3] We also found that the dynamics of targeted transparency were of central importance; that transparency systems were more likely to grow weaker than to improve over time; and that the systems that grew stronger featured strong groups representing information users, offered benefits to at least some information disclosers, and provided comprehensible content.[4]

Finally, we created a framework for analyzing the effectiveness of targeted transparency policies. We constructed a stylized "action cycle" to describe the steps from information disclosure to risk reduction in order to see at what point policies failed. At each step, we found that the linchpin of effective transparency was the connection between information and action. Targeted policies were effective only when they provided facts that people wanted in times, places, and ways that enabled them to act. That is, effective policies were those that succeeded in embedding new information in users' and disclosers' existing decision-making routines.[5] That meant that the starting point for any transparency policy was an understanding of the priorities and capacities of diverse audiences who might use the new information. Effective policies did not simply increase information. They increased knowledge that informed choice.

We presented our ideas to audiences at the Kennedy School, the Brookings Institution, the American Enterprise Institute, Georgetown University, the Association for Public Policy Analysis and Management, Boston University, and the American Political Science Association, among other venues, and received valuable feedback. In three occasional papers for the Ash Institute for Democratic Governance and Innovation, we set forth our emerging ideas. We also introduced our ideas to broader audiences in articles for the *Financial Times*, *Environment*, *Issues in Science and Technology*, the *Atlantic Monthly*, the *Journal of Policy Analysis and Management*, and other publications.

This book is an effort to bring together what we have learned in order to offer the first systematic account of the political economy of targeted transparency systems. Because targeted transparency has been applied to such a diverse range of problems, we have based our conclusions on a rich variety of cases. Like biologists collecting and comparing specimens of flora and fauna to derive common classifications, we have examined individual policies to gain insights into the common elements of their operation and consequences.

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Our multidisciplinary approach recognizes that transparency policies arise from real-world compromises rather than from pristine public policy analyses, and that the resulting incentive systems are dynamic, evolving under pressure from the shifting economic and political interests of affected parties. We provide an analytical structure for understanding how such policies work and what makes the difference between success and failure.

We speak to three audiences. First, we hope to inform the work of scholars in many disciplines. Targeted transparency is of interest to economists, political scientists, regulatory analysts, cognitive psychologists, specialists in business administration, information technology analysts, and many others.

Second, we hope to provide useful insights that provoke debate among those engaged in framing and responding to targeted transparency policies. These groups include not only policymakers but also business executives, consumer groups, and advocacy organizations.

Finally, we hope to alert interested citizens to both the promise and the perils of targeted transparency. Ultimately, the effectiveness of transparency policies depends on the needs and capacities of ordinary citizens. The provision of information doesn't automatically enable people to make more informed choices. That requires an alert and engaged public that understands the dynamics of transparency and is ready to participate energetically in using new information and in shaping more effective policies.

This book could not have been completed without the contributions of many at the Kennedy School of Government. First among these is Alan Altshuler, who, as director of the Taubman Center for State and Local Government, supported our work from the beginning. Alan offered insightful comments at every stage and created that rare environment that fosters truly interdisciplinary work. The Taubman Center provided a fortuitous home for our project. State and local governments proved to be true laboratories of democracy in the development of targeted transparency policies. Many of the most innovative policies we studied began as state or local mandates – among them, school performance reporting, nutritional labeling, patient safety reporting, restaurant hygiene grades, workplace chemicals reporting, and sex offender community notification. Wherever policies originated, nearly all succeeded or failed because of their impact (or lack of it) on the choices of people going about their everyday lives in their communities.

We also owe a great deal to Henry Lee, director of the school's Environment and Natural Resources Program, for his early and enthusiastic interest and for keeping the research project afloat at key moments. Gowher Rizvi,

director of the Roy and Lila Ash Institute for Democratic Governance and Innovation, offered not only financial support and a venue for publication of three of our papers but also invaluable personal encouragement.

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Several individuals assisted us in finalizing the manuscript. Karl Weber took on the formidable task of editing our chapter drafts to make the book comprehensible to those in many disciplines. Terri Gallego-O'Rourke gave us the benefit of her legal expertise, attention to detail, and indefatigable good humor in completing the fact-checking and sourcing of the manuscript. Martha Nichols provided important feedback on a very early draft.

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