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THE CONCEPT OF BUDGET TRANSPARENCY: BETWEEN DEMOCRACY AND FISCAL ILLUSION

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THE CONCEPT OF BUDGET TRANSPARENCY: BETWEEN DEMOCRACY AND FISCAL ILLUSION

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Abstract

Fiscal transparency has become a reference tool for budget practices and procedures: this explains why we often speak of budget transparency. In the present work we want to investigate the real meaning of the concept of fiscal transparency, given the massive proliferation of indexes that are claimed to measure the same budget feature, providing rating scales that can be suited to compare fiscal performance across country. We show that the concept of fiscal transparency and, consequently, the related measures, turn to be indeterminate. The critical analysis is conducted by means of a survey on the different definitions of transparency and through a correlation analysis among indices, which results are no significant or, at least, negative.
As no coherence seems to exist between different ideas and measurements of transparency, we further inquire into the origins of the diffusion of the word transparency in public finance practices and works.
Being mostly associated to fiscal illusion dynamics, in the sense of possibility of observation of government's responsive fiscal behaviour, we guess that fiscal transparency is mostly meant as adherence to "optimal fiscal rules".
However, we think that the implementation of predetermined budget targets jars with the functioning of a democratic political process, in the sense that it can't ensure the elimination of misrepresentations between electors and elected.
It follows an "economic philology" analysis, by means of which rethinking the effective implications of fiscal illusions à la Puviani on fiscal transparency.

Keywords Fiscal policy, budget transparency, budgetary institutions, political economy, public finance

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1. Introduction

In recent years, large part of OECD countries started reforms to innovate structure and process of public finance decision making. This renewal process has focused mainly on budget rules, that form the complex arrangements structure that adjusts public accounts and determines the economic address (but not only, evidently) of each country.

In details, the level playing field in the budget domain seems to coincide with the focus on the concept of transparency as a symptom of a wider renewing process that is affecting budget practices and procedures worldwide: the number of official documents published on this issue, as well as the indexes built that are used as a country rating tool, testify the role that this concept has assumed in public finance so far: "transparency has been a buzz-word among international organizations and public sector reformers" (Gavazza and Lizzeri, 2007, p.300). The present work tries to offer a contribute in that sense: more specifically, we prove that the definitions and meanings of transparency turn out to be indeterminate (opaque, fuzzy) and we seek to analyze its real meaning in democratic decision making processes.

The paper should be organized as follows: in the first part we investigate meaning, roots and the diffusion of fiscal transparency. At this point a necessary remark should be done: being multiple applications of the term transparency (politics, public finance, bureaucracy), we mostly refer to the fiscal/budget transparency, even if we consider some implications of the item in a wider perspective.

In the first part of our work we analyze and question the several definitions, approaches and correlated measures of the concept of transparency. According to the current debate, this concept is assuming so much importance inside the budget structure, to become an indicator of quality of institutions and country's credibility, as show the numerous articles on this subject and the rating scales based on the transparency levels (Hameed, 2005).

The second part concludes with some observations that we can call of "economic philology". We find that the use of transparency as an outcome-oriented instrument contrasts with the original definition of transparency (Kopits and Craig, 1998) based on asymmetry of information and, in particular, on the concept of fiscal illusion that Puviani described as the divergence between what the government promises and what the citizens effectively get (Puviani, [1903], 1973). Based on the idea of fiscal illusion (for example we recall that: "Greater transparency eases the task of attributing outcomes to the acts of particular politicians", Alt and Lassen, 2006b, p.1406), transparency deals with the complexity of fiscal objectives associated to the State budget and, consequently, its application in public finance can only be process-oriented and context based, that means not unique and well-specified in advance: (i.e. not necessary associated to the debt/deficit minimization goal). On the other hand, an extensive literature suggests that the institutional framework of budgetary processes has important effects on fiscal outcomes in the sense that better institutions, defined as those that provide more discipline in the budgeting process, reducing the margin for unproductive spending (Poterba and von Hagen, 1999), are connected with better fiscal performance, i.e. lower deficits/debt levels . One of the main findings in the literature on transparency is found in Alt and Lassen (2006b) that show that increasing transparency reduces debt accumulation and the scope for generating political budget cycles.

It is interesting to notice that the idea of fiscal transparency, as we found in political economy literature, being essentially based on the idea of optimal fiscal rule, is not evidently the result of a democratic voting but is more compatible with a dictatorship in the economic policy solutions (benevolent government à la Samuelson). Moreover, recalling what Steve wrote speaking of Pantaleoni's *Contributo alla teoria del riparto delle spese pubbliche*, these scholars seem to provide a mere ex post rationalization of the behaviour of the institutions involved in the budget formulation.
We have the impression that policymakers actually solve the problem of representative democracy, that is the legitimacy of choices, fossilizing the budget structure in exact rules and institutions, where the efficiency of the process stays for the achievement of the political and economic objectives.
In the last part we discuss the link between transparency and democracy, showing how different meanings of this concept can differently shape the relation between politicians and citizens.

2. From the classical to the new budget principles: transparency and audit

The concept of transparency is assuming so much importance inside the budget structure to become an indicator of quality of institutions and country's credibility, as show the numerous articles on this subject and the rating scales based on the transparency levels (Hameed, 2005).
In continental European countries, for a long period of time, several "classical" principles have guided budget processes and the laws associated with them that are universality, unity, specificity, and annuality. These are mainly principles associated with ex ante budget processes and relate primarily to the early stages of the budget cycle – preparation, presentation and adoption of the budget by the legislature. Given the relatively less emphasis on incorporating into law the budget principles associated with the later stages of the budget cycle – accountability, transparency, stability and performance- there has been a focus on these budget reporting requirements, that are associated particularly (but not exclusively) with ex post budget processes[2].
The term fiscal transparency is commonly used to denote the total disclosure of fiscal information in a timely and systematic way[3]. It is described 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 … 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.*" (Kopits and Craig, 1998).

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[2] See, for example, the recent Italian *Libro verde sulla spesa pubblica. Spendere meglio: alcune prime indicazioni* document published by the Italian Ministry of Finance.

[3] It seem necessary to underline the difference between this feature of transparency, more linked to the idea of general and complete communication/information and the accountability aspect: the second feature seems to be considered less important than the first one.

Audit is associated to transparency and refers to the performance evaluation on the basis of criteria defined in advance. Following OECD definition (OECD Budget Practices and Procedures survey), *"An audit is an expert examination of legal and financial compliance or performance. Audits can either be carried out to satisfy the requirements of management (internal audit), or carried out by an external audit entity or any other independent auditor to meet statutory obligations (external audit)"*. Auditing involves the performance principle, associated to efficiency and effectiveness, and supports the publication of expected results.

The distinction between transparency and audit is not straightforward and often, especially in the implementation stage, both are applied in the same institutions under the general label of accountability, that refers to the attribution of fiscal responsibility; identification of causes of shortfalls, and processes to correct behaviours to bring them in closer conformance with standards. The term itself is complex, covering many aspects including: the need to increase transparency; the move from accounting to accountability; the distinction between internal and external accountability; the importance of the political interface; the use of accountability information; the interaction of accountability systems with other systems to affect programme results and so on. Following Posner (2006, p.71), multi-layered definition of accountability can be solved through the distinction between formal, based on audit and management control, and informal accountability systems that define the implicit standards for performance and the expectations for implementation.

It is interesting to note that "In the world of budgeting, there have been efforts to increasingly link accountability concepts and institutions with budgeting" (Posner, 2006, p.72). For example, the budget reform of countries such as Australia and New Zealand toward accrual systems has been inspired by the perception that there was a gap between formal budget decisions and accounting statements and reports prepared by financial managers. Moreover, according to Rogoff (1990), transparency and accountability are important, not only for the tasks of competent economic authorities, but also to reduce their incentives to be fiscally irresponsible and thus be able to control their budget deficits.

On our opinion, the adoption of new accounting frameworks throughout OECD countries is the field on which is played the game between democracy and rules, that is between public choices and institutions.

Performance budgeting is effectively an instrument to institutionalize the budget auditing and testifies the central role that this accounting system has assumed in the political debate in general and in the budget process in particular.

The recent diffusion of the transparency principle inside the budget process is justified with the aim of guarantee the goodness of fiscal policies and translate in the adoption of accounting systems and operating procedures that reflect best practices. Transparency in the structure and in the institutional function, as well as in the accounting system, become a necessary condition to assure the functioning of fiscal rules. Transparency, as Kopits underlines, "serves to contain or reduce quasi-fiscal activities through covert subsidies at below-cost pricing or government guarantees- often used as a substitute for explicit budgetary operations" (2001, p. 15).

However, a problem of fiscal policy seems to arise that is the use of rules and responsibility orders of universal application that could not fit the needs of continuing evolution systems, with different institutional contexts, objectives and evident tradeoffs. The solution to this problem varies in a large interval that goes from the creation of more coercive frameworks to setting up an external rating agency of budget system laws to which regulations on internal control and audit in such countries are issued.

It is evident that the discretion and independency level of this external audit agency, governmental or private one, is essential in determining the ways and forms of the process. Accountability reports and actors can frame performance and management issues for the public agenda that are difficult for decision makers to ignore. As Posner suggests: "multiple actors in competitive policymaking environments can inspire a "race to the top" among other actors which can serve to ratchet up attention and resources devoted to accountability reforms and enhancements. Multiple accountability actors within the Congress, the executive and even the public serve to trigger a mutually reinforcing process in this model" (Posner, 2006, p. 79). Accountability forms control is essential not only in terms of resources appropriation but also, and especially, in terms of rules management. This explains why, beside the great attention to the performance budgeting there is also a great focus on democracy levels.

The question that could arise is if the growing importance of accounting and fiscal reporting systems varies according to the nature and structure of the institutions involved and, most of all, according to the reaction level of bureaucracy to the accountability information.

In fact, an higher transparency is a way of creating what Powell e Whitten (1993), define "*clarity of responsibility*", given that it facilitates the task of attributing outcomes to the acts of particular individuals, increasing the visibility of an action which has both liked and disliked consequences. In other words, transparency can reduce the asymmetry of information that comes from non observable actions and makes observers more able to distinguish effort from opportunistic behaviour or stochastic factors. The democracy level seems to reflect in the transparency level: "Fiscal transparency allows voters, interest groups, and competing political parties to observe—or infer with better precision—causes and consequences of a government's fiscal policy, either directly or through the media" (Alt e Lassen, 2006, p. 531).

In this paragraph we have shown how the concept of transparency has assumed a predominant role inside the budget process and we have just anticipated how the idea of transparency is shaped by the information issue. In the following paragraph we try to define the concept of transparency, looking for a clear and unique meaning of it. We conclude that this term turns out to be opaque and very subjective, depending on the methodology used to measure it.

3. How and how much transparent? Definition, factors related and measurement of transparency

3.1 Definition of transparency

Even if it is a well-known and used term, definition of transparency is not so straightforward: not only there is a problem of the different definition between expenditure side and revenue side, but also between transparency and process transparency. For example, Kopits and Craig (1998) distinguished three dimensions of good practice: institutional transparency; accounting transparency; and the transparency of indicators and projections.

Institutional transparency regards the issue of providing effective monitoring and governance to a government, which acts as an "agent" in undertaking the planning and execution of budgets, in a way that best benefits the general public, who are the "principal." As a specific means to realize this, Kopits and Craig (1998) propose that a government set forth fiscal targets and policy priorities, explain them in budget documents, ensure transparency in executing the budget, and disclose the results of performance assessment and financial audit. At the same time, they also call for the establishment of an independent monitoring body that has wide investigative authority over government activities.

Accounting transparency is about the quality of budget documents, in the sense of information disclosure to the public. By natural necessity, however, budget documents of a national government are extremely complicated also because politicians and bureaucrats may intentionally use "ambiguity" to hide lax fiscal expenditures in the pursuit of personal interests. A typical trick is to make central government deficits appear smaller than they actually are through complicated transfers of funds between general accounts for financing central government activities and those of other fiscal entities[4]. Therefore, with regard to "accounting transparency," it is important to provide comprehensive information, including budget breakdowns for each entity as well as on inter-entity fund transfers, in a way that is true to the reality. As to the scope of government disclosure based on financial accounting standards, Kopits and Craig (1998) cite the adoption of accrual accounting (instead of cash accounting), adequate assessment of government assets and liabilities (thus of net assets), and the inclusion of breakdowns by economic entity and function, as well as revenue breakdowns.

Finally, regarding the methods for assessing the relevance of budget size, there is "transparency of indicators and projections" that is the capacity of government in presenting comprehensive, accessible and realistic figures by eliminating intentional optimism when providing macroeconomic projections and forecasting the fiscal impact of each government policy. Kopits and Craig (1998) recommend this not only for direct indicators of fiscal conditions - such as those concerning fiscal balance, gross and net government liabilities - but also that indirect indicators - such as estimates of analytical indicators concerning structural and/or cyclical fiscal balance, fiscal sustainability (the level of primary balance at which government debt ratio can be stabilized), and net accrued liabilities - be disclosed to the public. Also, in order to ensure transparency in short-, mid- and long-term fiscal projections, they say that such projections must be based on realistic suppositions and that a distinct line must be drawn between baseline scenarios (in the case of no changes in government policy) and scenarios in which policy changes are incorporated.

According to Heald (2003, p. 745) , 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. If we look at table 1, it is evident that the idea of transparency in the budget process is strictly linked to information disclosure and fiscal responsibility assignment.

Tab. 1 ***Definitions of transparency***

[4] For instance, off-budget entities such as local governments and public corporations

Definition	Source
…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 … 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	Kopits and Craig, 1998, p.1
A transparent budget process is one that provides clear information on all aspects of government fiscal policy. Budgets that include numerous special accounts and that fail to consolidate all fiscal activity into a single 'bottom line' measure are not transparent. Budgets that are easily available to the public and to participants in the policymaking process, and that do present consolidated information, are transparent	Poterba and von Hagen, 1999, pp. 3–4
should lead to better informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices	*IMF Survey* 1998, p.122
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, 2001, pp. 700–1
…should encompass such attributes as access, comprehensiveness, relevance, quality, and reliability	Vishwanath and Kaufmann, 2001, p. 42

openness by governments about their fiscal positions and intentions	Petrie, 2003, p.3
Greater transparency eases the task of attributing outcomes to the acts of particular politicians. It makes observers more able to distinguish effort from opportunistic behavior or stochastic factors	Alt and Lassen, 2006b, p.1406
Our budget process transparency measure contains items reflecting the amount, relevance, accessibility, and comprehensibility of timely information that becomes available to voters. We model transparency as the probability that voters observe the true level of deficits before the election	Alt and Lassen, 2006a, p. 532

However, even if the different definitions are quite similar: “transparency has been a buzz-word among international organizations and public sector reformers” (Gavazza and Lizzeri, 2007, p.300) because it is used to synthesize and generalize complex phenomena. This explains why the single definition can’t effectively comprehend all the issued related to the concept of transparency, even if is commonly used.
However, we can try to unveil the different visions of the State policy that these definitions suggest[5].
Transparency is mostly considered as a matter of quality for public policy and administration: it can be considered as an instrument to exercise “voice”, on which the legitimacy of democratic government heavily depends (Hirschman 1970) against policymakers and bureaucrats:
“The call for more transparency is voiced today, by politicians and pundits alike, as a solution to almost any failure of the political system. Proponents of transparency emphasize its benefits such as enhanced accountability, enhanced predictability, and the provision of expert information to the economy” (Levy, 2007, p. 306).
The biggest difference between private-sector governance and government governance is the absence of an "exit" option in the latter (Stiglitz, 1999, 2001). The fact that neither voters as "shareholders" nor taxpayers as "customers," receiving public goods and services, have an option to "exit" from the incumbent government is very important when thinking about government transparency[6].
The focus on transparency is also related to the massive information campaign that in recent years has characterized politics and political choices (“*spectacularization of politics”*), that suggests a possible relationship between transparency of politics political outcomes, in the sense that more transparency would lead to better outcomes[7]. For

[5] Clearly we are referring to Musgrave and Buchanan (1997).
[6] Stiglitz, J. (1999), "On liberty, the right to know and public discourse: The role of transparency in public life", mimeo. Stiglitz, J. (2001), "Transparency in government", in The right to tell: The role of mass media in economic development, World Bank.
[7] Prat (2005, p. 862): “The idea is that transparency improves accountability, which in turn aligns the interests of the agent with the interest of the principal”.

example, Mattozzi and Merlo (2007) analyze the relationship between the transparency of politics and the quality of politicians, and focus on the recruitment of politicians by political parties. However, they find that "an increase in the transparency of politics reduces the average quality of the politicians a party recruits in equilibrium" (Mattozzi and Merlo, 2007, p.311).

As a matter of fact, there is a recent literature that studies the effects of transparency in a variety of political institutions, for example, elections, committees, legislatures, and bureaucracies (see e.g. Andrea Prat, 2005; Ernesto Dal Bo 2006; Alessandro Gavazza and Alessandro Lizzeri 2006; Gilat Levy 2007). Like the results obtained in Mattozzi and Merlo, this literature finds that increasing transparency does not necessarily lead to better outcomes.

Part of the literature focus on the information problem and on the trade off between positive (to deter fraud and corruption by insiders (Tanzi 1998) and negative transparency (that is when it becomes overexposure[8]). Several authors examine the effects of transparency in the context of imperfect information models based on fiscal illusion (Von Hagen and Harden, 1995; see Milesi-Ferretti, 2004) while others using the probabilistic voting model of Lindbeck and Weibull (1987), investigate the effect of transparency on competition among different groups of voters (Gavazza and Lizzeri, 2005, 2008) who value electoral promises, as transfers with effect on government debt. Debrun and Kumar (2007) describe the "smokescreen" hypothesis that relates to the relationship between fiscal institutions and transparency of fiscal accounts: "It has been argued that when it becomes too costly to stick to fiscal rules, rather than abandon the rules explicitly, given the attendant costs, governments have an incentive to cheat by stealth through creative accounting…This overtime undermines credibility of the public sector, with corrosive effects on trust and accountability in the public domain" (Debrun and Kumar, 2007, p. 484). As features of non-transparent financial reporting, Alesina and Perotti (1996) identify optimistic predictions on key economic variables, optimistic forecasts of the effects of new policies, creative and strategic use of what is kept on or off budget, strategic use of budget projections, and strategic use of multi-year budgeting.

However, most work on transparency in political economics has taken place within a class of models known as political agency models, which were created by Barro (1973) and Ferejohn (1986). These models are developed in a incomplete contract framework where transparency acts as a commitment device to "tie the hands " of policymakers tempted by deviations from socially optimal choices. The main empirical conclusions of this literature are that increasing transparency reduces debt accumulation and the scope for generating political budget cycles[9].

For example, Alt and Lassen (2006a) show that access to fiscal information condition the existence of electoral cycles in public finance: in advanced democracy, significant electoral cycles, measured in terms of GDP deficit/surplus, are linked to transparency of the budget institutions as well as to the polarization level of political parties: "Higher polarization countries, everything else equal, have significantly higher deficits in election years, while higher transparency countries, again holding everything else equal, have significantly higher surpluses" (p. 541).

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[8] See Alesina and Perotti (1996)

[9] Political budget cycles (PBCs) arise when the electorate is imperfectly informed about the incumbent's competence and the incumbent has discretion over the budget (See Saporiti and Streb, 2008).

Alesina and Perotti (1996, p. 403) arose the issue that "politicians typically do not have an incentive to adopt the most transparent practices" because doing so decreases their informational advantage over markets and voters, hence some authors tried to investigate the circumstances for politicians preferences over more transparency. Alt, Lassen and Rose (2006) explore two broad sets of explanatory factors for politicians implementing more transparent budget procedures: the political setting (meant as political competition) and the fiscal environment (higher surpluses or deficits) and estimate the effect of political and economic variables on the level of the fiscal transparency index[10]. The results of empirical specifications suggest that both politics and fiscal outcomes affect the level of transparency.

However, if the theoretical literature does not find any evident and undeniable support for the link between transparency and quality of political outcomes, it could be interesting to investigate the other possible components of transparency, that could explain the massive use of this concept in public policy.

First of all, there is a link between transparency and participation. As we read on internationalbudget.org, the public site of an organization born to promote efficiency in budget policy, "To fully reap these benefits of budget transparency, participation of legislatures and civil society in government decision-making is required. Transparency and participation are mutually reinforcing and both are needed for better budgetary outcomes".

They claim that "transparency alone engenders consensus on policy and allocation decisions" and that "this consensus will be deepened if both the legislature and civil society are allowed significant inputs into the debate".

The role of transparency, if it is not to assure better political outcomes, is hence, to capture preferences.

At this regards, it seems useful to cite what is written in CAE (2007). They suggest that transparency in the mechanisms of collective decisions is the mean to reveal public preferences (in the sense of state preferences opposite to consumers' preferences, or *préférences étatiques*) and solve the conflict between multiple objectives.

At this point, it would be interesting to understand why citizens should accept to substitute their preferences with the one of the State.

A possible explanation can be found in Heald (2003). On his opinion, the great interests versus transparency can be explained in terms of two factors that are the interaction between the polity and the macroeconomic framework and the European monetary and economic integration. These factors have generated two classes of fears: "fears that macroeconomic instability will rapidly spread through the globalized economy[11]" and "fears that lax fiscal policy in one Euroland economy would impose heavy costs upon the others" (2003, p.724). 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

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[10] Key fiscal variables of interest include the deficit and debt, and general revenues, all measured in real per capita terms. Socioeconomic controls include real per capita income, income squared, population size, population squared, percent elderly, and percent school-aged (2006, p. 43).

[11] '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)

provides economic actors with a degree of predictability about fiscal activities so that they can manage their own affairs more efficiently (Heald, 2003, p.755).

Until now we have considered the possible positive visions of transparency, however, especially the idea of State preferences and the focus on the aspects related to control and monitoring, let us thinking that there is another aspect of transparency that ask for a normative approach.

Loft (1995) noted how accounting is one of the techniques of surveillance and control of individuals in a business organization (with a clear reference to the work of Michel Foucault's *Surveiller et punir*). Setting standards for a transparent behaviour of governments is also a way to control political choices, and, consequently, increasing the possibility of forecasting economic outcomes. As a matter of fact, between the benefit of transparency there is also an increased "trust in governments and commitment to policy trade-offs. It thus builds social cohesion. For instance, if the public can better understand what their governments are doing and why, they may have more confidence in government and be prepared to accept and trust difficult compromises. With a clear understanding of governments' policies and actions, international and local investors may be willing to invest more resources into a country"[12].

Moreover, given that transparency may depend in part upon perspectives adopted about the state and about the political process, a common idea of transparency can also serve as a tool to condition the political behaviour of countries, suggesting "needed reforms" subsequent to the "identification of the weaknesses and strengths of policies"[13]. However, the possibility of suggesting policies to promote transparency supposes that the concept of transparency is well defined and commonly accepted. We can accept that "Transparency, for example, contributes to macroeconomic and fiscal stability as it prevents the build-up of a crisis in secret, bringing about smaller adjustments sooner"[14] only if it is the clear statement of democratic choices inside each countries. However, if transparency asks for more political participation (consensus) through increased information, the objectives of transparency are the results of a democratic process and can differ between countries. We, then, think that a clear distinction must be made between the formal definitions of transparency that, as we can see from table 1, are quite similar in the papers cited, and the implicit objective these definition may be built upon, that is the deficit budget control, that is expression of predetermined preferences of restricted epistemic communities and not of a democratic process of community preferences revealing.

From the literature considered, it is clear that the concept of transparency can assume a double meaning:

1) Formal transparency, that comes from official document and academic papers
2) Implicit transparency, that is the implicit objective associated to transparency, (e.g.) minimization of budget deficit. We can observe that normally the degree of transparency is considered as a parameter determined outside of the model, before the economic and political choices of interest are taken.

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12 www.transparencyinternational.org

13 www.transparencyinternational.org

14 www.transparencyinternational.org

3.2 Factors affecting transparency

According to the recent literature there are lots of variables affecting transparency[15].
It is assumed that corruption is negatively associated with transparency, both in theory and practice (Fozzard and Foster (2001) , Kaufmann et al. (2002) and that lack of transparency can create fertile ground for corruption (see Tanzi 1998).
Matheson and Kwon (2003), show a positive relationship with corruption risk for inadequate compliance with accounting and reporting rules, lack of accounting, as well as reporting standards and compliance. Hood (2001) and Fozzard and Foster (2001) assign an essential role to government transparency to prevent corruption and to enhance public accountability. Bernoth and Wolff (2008) show that more transparent governments benefit from a significantly lower risk premium, because creative accounting increases the cost of borrowing significantly, if it becomes known, especially if financial markets are unsure about the true extent of creative accounting: their results highlight the importance of fiscal transparency for the credibility of governments.
Other scholars suggest a positive relation between economic development and government transparency in the sense that information access is the most reliable and significant factor in order to explain economic growth (Siegle 2001)[16].
On the other hand, it is argued (Grigorescu 2003 , pp. 657 − 8) that wealthier countries (in terms of GDP per capita) are less inclined to worry about the relatively high costs involved in gathering, processing, and offering information and are therefore more likely to adopt laws on access to information (more transparency) while the reverse happens in poorer countries even if citizens may have a greater incentive to request information about government and policies given the higher dissatisfaction with government actions.
Higher fiscal transparency can also encourage increases in public sector size because increases the control of politicians, which makes public good provision more attractive to voters, increasing the size of government[17] (Lassen, 2000). Andersen and Nielsen (2008) results indicate that fiscal transparency reduces the procyclical bias in good times in OECD countries.
Finally, according to much of the literature, we should expect that the more decentralized a government is, the more transparent it is, suggesting a positive relationship between decentralization and the transparency of budget reports (Shah, 1999). Some authors observe a positive effect of fiscal centralization on the level of democracy (Manor, 1996) and on corruption (Arikan, 2004 and Fisman and Gatti, 2002).

3.3 Measurement of transparency: indexes and related best practices

[15] At this regard, an important theoretical consideration is the issue of endogeniety of fiscal transparency. Institutions drive economic conditions, but at the same time economic conditions can influence institutions. Endogeniety makes it difficult to claim causality between fiscal transparency and performance variables, but it is still useful to show correspondence between them (Hameed, 2006, p. 5) .

[16] For works on the relation between country's wealth and budgetary transparency see also Huther and Shah (1998) and Arikan (2004).

[17] It is the median voter preferences that determine the size of government. Thus, transparency decreases information asymmetry and makes the median voter incline to be in favour of greater accountability and therefore larger government.

There are several transparency measures, provided both by international institutions and developed in academic papers. The empirical research on fiscal transparency is limited, but also growing. Alesina and Perotti (1996, p. 405) note that "the results on transparency probably say more about the difficulty of measuring it than about its effect on fiscal discipline". We will discuss some of the indexes briefly but we will return on them later.

Von Hagen (1992) compiles a transparency index for eight European countries that includes measures of the following: whether the countries have special funds, whether budgets are submitted in a single document, an assessment of transparency by respondents, whether there is a link to national accounts and whether loans to non-governmental entities are included[18]. Guerrero et al. (2001) provide an index of budget transparency for five Latin American countries: Argentina, Brazil, Chile, Mexico, and Peru. The index measures, in a comparable form, the degree of accessibility and utility of information issued by national governments with respect to finances, revenues and expenditures.

Hameed (2005) develops an index of fiscal transparency based on the IMF's fiscal Reports on Standards and Codes (ROSC) for a broad range of countries. This index is, however, the result of assessment from different periods of time published as ROSCs. Another transparency measure for state government budget procedures is based on Alt, Lassen, and Skilling (2002). Using cross-sectional data for the 1990s from the National Association of State Budget Officers and the National Conference of State Legislatures, the authors code nine dichotomous budget procedures and create an index equal to the number of items for which each state had the more transparent procedure. Alt and Lassen (2006b) present a transparency index based on similar principles for 19 OECD countries while Alt, Lassen and Rose (2006), collected a data set, composed of survey responses to a questionnaire sent to the budget officers of all 50 American states, to construct an annual score for each year between 1972 and 2002.

Evidence of transparency is also a reference tool for advisors. For example, IBP *(*International Budget Partnership); Oxford Analytica (www.oxan.com), www.globalintegrity.org and estandardsforum.com are the most cited source of indicators of transparency in the budget process. Officially they provide technical support to civil society organizations that are undertaking budget transparency and participation studies.

The World Bank (2007) indicates the following selected sources of data for monitoring governance:

• Freedom House, (www.freedomhouse.org).
• International Country Risk Guide (www.prsgroup.com).
• Transparency International (TI), (www.transparency.org).
• Global Integrity (www.globalintegrity.org).
• The Open Budget Initiative (www.openbudgetindex.org).

The indexes are issued by private organization (mostly non profit) and are based on the compilation of survey/questionnaires by business people and on expert assessments.

The objective of these indexes is to provide a rating tool for assessing some aspects of public finances. The Open Budget Index is built on a questionnaire which declared

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[18] This index is partially updated by de Haan et al. (1999) and extended in Hallerberg et al. (2001) and updated in Hallerberg et al. (2005).

scope is “designed to assist civil society organizations with their research into budget transparency. Second the questionnaire is intended to link civil society research efforts on budget transparency, with the intention of leveraging individual efforts in each country to draw international attention to the importance of this issue” (International Budget Project, 2005, p.3).

On our opinion, the indexes of fiscal transparency issued, being based on questions on the budget process, can be likely considered as indices of budget transparency. Meant in this sense, the measurement is more circumscribed and less prone to be criticized for its excessive vagueness. However, the usefulness of the rating tool as a general index of fiscal transparency issue is strongly declared and on it we will build our reflections in the following paragraphs: “the virtue of the survey data used to construct the index is that it focuses directly on transparency and is comprehensive, covering the entire spectrum of issues related to transparency” (Alt and Lassen, 2006b)

Together with the diffusion of several indexes, International organisations that include public financial management as part of their mandates provide a third source of standard setters for budget systems and laws associated with them. Such organisations include the International Monetary Fund (IMF), the OECD and the World Bank. Any standards issued by such organisations are clearly not legally binding but can provide firm guidance to national authorities formulating budget system law. The normative impact of standards of international organisations does not depend on their legal status, but on their substance and the authoritativeness of the organisation issuing the standards.

IMF and the OECD have issued standards for “good” and “best” standards respectively (IMF, 1998, 2001 and 2007; OECD, 2002). These standards cover many aspects of budget systems and budget actors. They recommend guidelines, to be adopted voluntarily by member countries. The norms were influenced by the perceived need for greater budgetary transparency and good governance, which were themes cherished in the 1990s in Anglo-Saxon countries, perhaps in part because the executives of these countries were perceived to have too much discretionary power.

The codes of the international economic organisations do not recommend which standards should be embodied in law. The IMF Code of Good Practices on Fiscal Transparency (IMF, 2001) states that there should be a clear legal and administrative framework for fiscal management. The code is divided into four sections that are: clarity of roles and responsibilities; public availability of information; open budget preparation, execution, and reporting and assurance of integrity. The sub-sections should account for the four main items that forms the concept of transparency, according to Kopits and Craig (1998).

The OECD Best Practices for Budget Transparency (OECD, 2002) is more narrowly focused on budgetary standards designed as a “reference tool” for promoting better governance through an increase in the degree of budget transparency. The Best Practices are divided in three parts: part I lists the principal budget reports that governments should produce and their general content; part II describes specific disclosures to be contained in the reports and part III highlights practices for ensuring the quality and integrity of the reports.

OECD issues also a database (last version 2007 OECD Budget Practices and Procedures Database) that provides a unique, comprehensive and free resource that covers the entire budget cycle: preparation, approval, execution, accounting and audit, and performance information[19].

The international diffusion and transmission of international budget best practice and procedures can be considered as an example of policy change where the source of learning is essentially cross-national.

Cross-national learning has potential in that it can stimulate learning ahead of failure. The possible adoption of solutions that generate failures because they reflect de-contextualised approach, explains the difference between best practice and benchmarking from one side and the more interpretative and context-sensitive approach of lesson-drawing on the other side: there is no doubt that, at least in some institutional circles, best practice and benchmarking are by far more popular than context-sensitive lesson-drawing.

The fundamental issue in transferring policies, as shown by Rose (2001) is that contextualisation is rather low in some policy circles working on policy diffusion across countries. In the case of budget institutions the catalogue of best practice designed by the OECD and IMF and, more generally, the discussion among experts is closer to the pole of de-contextualised benchmarking than to the lesson-drawing pole: de-contextualised benchmarking designates an approach to best practice that is normative, insensitive to context and with a tendency to silence debate.

The reason of this "best practice" transfer process is well explained by Radaelli (2004) that suggests that as best practice maximises consensus, consequently, adoption of best practice maximises legitimacy for policy change. Emulation stems from the need to cope with uncertainty by imitating best practice that is perceived to be legitimate and successful. The trouble is that imitation of models does not necessarily yield efficiency, although it may well produce legitimacy. The emphasis on best practice may thus generate the diffusion of legitimacy rather than efficiency.

The presence of "catalogues" (of best practice) strengthens the role of informational clues demanded by actors coping with uncertainty.

At the roots of this imitation problem many authors basically find the emergence of the globalisation phenomenon: this is recognised as the fundamental cause of changing in the political economies of the contemporary governments, that have been obliged to reduce public expenses and to look for solutions able to guarantee long-term fiscal responsibility and sustainability and short-term macroeconomic stabilisation

Hence, the massive diffusion of documents and initiative in favour of sound government finances is sustained by several of agents of transfer like policy entrepreneurs, think tanks, knowledge institutions or pressure groups or epistemic communities that, with their resources of knowledge, channel fiscal political choices in favour of determined issues and options, with the aim of safeguarding their interests (macroeconomic – price - stability).

In this sense a crucial role has been played by IMF, OECD, INTOSAI (The International Organization of Supreme Audit Institutions) and IFAC (Public Sector Committee of the International Federation of Accountants). The process of fiscal rules imitation (policy learning) is confirmed also in a recent OECD paper OECD (2004, p. 128): "When embracing the budget-related aspects of "New Public Management", the Anglo-Saxon and northern European countries adapted budget laws or introduced new

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[19] Bastida and Benito (2007) tried to measure the degree of OECD Budget Procedures fulfilment that should account for level of transparency.

ones. In so doing, some countries looked to the leaders of the reform movements. France's 2001 Organic Budget Law was partly influenced by performance oriented budget reforms adopted in the previous decade in other OECD countries. New Zealand's budget reform "model" was imitated in several Countries… The Nordic countries, which compare budget problems and solutions in frequent regional discussions, have adapted their budget systems (including laws in two cases), being fully aware of similar reforms in neighbouring countries".

4. At the roots of transparency: an enquiry into the theoretical background

Transparency is meant to capture some characteristics of the process of collective choices. Hence, it is supposed to refer to the Public Choice school and its derived approaches. It seems interesting to recall that, at the beginning, public choice attempted to distinguish itself from the classical public finance approach.

Public finance, as described in Musgrave (1959) and Musgrave and Musgrave (1989) reflects an outcome-oriented normative approach and is aimed at showing how is it possible to analyze and describe right economic decisions in a public sector domain. On the other hand, Public Choice school is more process-centred with a more positive approach, describing what actors want to maximize their welfare in different contexts. To perform its analysis Public Choice takes into account the behaviour of politicians, bureaucrats, representatives that, contrary to the traditional hypothesis, are supposed not to perform public but their own interests.

The difference between outcome efficiency and process efficiency led to two contrasting visions of the State[20] that, respectively, acts as a social welfare maximizer (à la Samuelson) or as an obstacle to the individuals' welfare: this explains the recurrent public choice's natural idiosyncrasy towards the government.

Recently a new challenge to public choice has been launched by a group of researchers including Alberto Alesina, Torsten Persson, and Guido Tabellini, under the name of political economics[21].

According to Blankart and Koester (2006 p. 194-196), "the comparison of the research in political economics and public choice reveals especially three basic differences…First, choice versus conflict. The main topics within political economics are redistributive conflicts. The analytical results of political economics are therefore mostly trade-offs [while] public choice puts voluntary exchange at its core (Buchanan 1954)… Second, liberty versus efficiency: Based on the different points of reference, the two approaches derive different criteria to evaluate political decisions and political institutions. Political economics assigns central importance to efficiency considerations of political decisions within representative democracy…Public-choice scholars on the other hand argue that efficiency considerations are not sufficient. They assign the greatest importance to the value of individual liberty and its promotion as a criterion to evaluate political decisions and institutions.. ..Third, methodological determination versus methodological openness: finally political economics is built at least partly on methodological characteristics". The approach political economists adopt is "a unified approach in portraying public policy as the equilibrium outcome of an explicitly

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[20] See Musgrave and Buchanan (1998)

[21] For a critic survey see Di Majo and De Chiara (2009).

specified political process. Policy choices are not made by a hypothetical benevolent social planner, but by purposeful and rational political agents participating in a well-defined decision-making process" (Persson and Tabellini, 2002, p. 1553)

An extensive literature, as we described in the preceding paragraphs, suggests that the institutional framework of budgetary processes has important effects on fiscal outcomes in the sense that better institutions, defined as those that provide more discipline in the budgeting process, reducing the margin for unproductive spending (Poterba and von Hagen, 1999), are connected with better fiscal performance, i.e. lower deficits/debt levels[22]: in sum, it is claimed that budgetary institutions and fiscal performance are strongly correlated (Debrun and Kumar, 2007).

This literature is mainly focused on the play of fiscal rules because they are able to provide a useful policy framework if they owe some attributes that involve both the technical and institutional infrastructure, that means that they must be based on a set of "*institutional building blocks*" that coincide with the transparency standards, an arbitration authority to oversee compliance and sanctions for noncompliance (Kopits, 2001, p.9). As Alt, Lassen and Rose point out: "The insight that institutions matter for choices and outcomes is the basis for the increased focus during the past two decades on principles of good governance, of which transparency of government is a prominent part" (2006, p.31).

As we have seen, one of the main findings in the literature on transparency is found in Alt and Lassen (2006b) that show that bigger electoral cycles[23] are evident in less transparent and more polarized systems. Theoretical foundations clearly recall the political economics works that attempted to explain the appearance of political business cycles on models of imperfect information in a rational expectation framework (that is the main integration added to the former public choice approach) . Budgetary rules can nonetheless help to limit the extent of government spending and therefore the government's ability to manipulate the economy by public spending to increase reelection probabilities, neglecting the necessary adjustment costs after elections. Moreover, some scholars (Von Hagen, 1992; Alesina and Perotti 1999) argued that a massive involvement of Parliament in the budgeting process leads to worst fiscal performances: this is why they support a centralised or hierarchical decision making process with a strong role of the finance minister as the sole "guardian of budgetary rectitude and fiscal discipline" (Santiso, 2005, p.9), and able to "enforce fiscal restraints, avoid large and persistent deficits and implement fiscal adjustments more promptly" (Alesina and Perotti 1999, p. 17). Following Gleich "a commitment to aggregate fiscal target early in the budget process, a strong position of the finance minister and senior cabinet committees in the budget negotiations, and institutional arrangements that constrain the scope of the parliament and the president to increase spending and deficits above the levels proposed by the government, appear to contribute to attaining aggregate fiscal discipline" (Gleich, 2003, p. 33).

Political economics' micropolitical foundations and the preference for coercive solutions in public policy explain the rationale of the main academic works on transparency that measure it on its ability in improving fiscal performance meant as lower deficits and debt accumulation.

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[22] Budgetary Institutions are defined as the set of all the rules and regulations according to which budgets are prepared, approved and carried out (Alesina and Perotti (1999, p.14)

[23] During election years, governments at all levels often engage in a consumption binge, in which taxes are cut, transfer are raised and government spending is distorted toward projects

Instead of providing advice for budgetary institutional improvements, the transparency issue arises to discipline the conflict in public finances: fiscal transparency becomes a pre-condition for assuring fiscal sustainability and responsible governance, hence to abolish the conflict through the reduction of transaction costs (as derived from uncertainty associated to asymmetry of information). The related assessments of transparency are meant as effectiveness indexes that measure the level of fitness with international fiscal rules/best practices that facilitate the objective of sound government finances. However, if transparency must be the result of a democratic process, the only possible solution to eliminate the conflict is to let fiscal illusions working.

If we don't account for the character of the benevolent dictator, the only possible coincidence between social preferences and state preferences can be realized by means of fiscal illusions, meant as "misrepresentations of money paid or to be paid as taxes or of some use of them" (Puviani, 1973 [1903] p. 8), that, letting the government exploit the illusions of the citizens on public revenues and expenses, assure the origin and the persistence of some fiscal institutions. Given the Puviani's remarks, we think that the transparency issue, meant as the minimization of the asymmetry of information between politicians and voters, is aimed at reducing or possibly eliminating fiscal illusions. At the same time, the idea of outcome budget efficiency as the optimal fiscal rule needs the working of fiscal illusions to be unanimously accepted.

For example, as already noted, for some French economists[24], transparency is meant as a state preferences revealing mechanism, necessary to solve the conflict (CAE, 2007). Clearly the basic idea is that state preferences come from an organic vision of the state where the starting point is not the individual preferences but the national objectives: "*le point de départ n'est donc plus constitué par des préférences individuelles, mais par des objectifs nationaux*" (2007, p. 40). The impossibility of translating individual preferences in state preferences is due only to the imperfections of the political market (2007, p. 45) that can be contrasted through the use of the transparency tool that helps removing the obstacles to the preference transmission making explicit the objectives of public action. The availability of information on budgetary documents becomes an instrument of social preferences revelation and leads to fiscal transparency.

On our opinion the idea of state preferences is very closet o the idea of rationality expressed by the Italian marginalist Pantaleoni in his 1938 work "Contributo alla teoria del riparto delle spese pubbliche", as cited in Steve (1976, pp. 34-35). He says that budget formulation is a prerogative of the Parliament in a way that "the final level of utility of each single expenditure items clears, because, on the contrary, the assignment would have resulted differently". Pantaleoni does not explicit how the values system that origins the budget formulation is formed (that should represent social preferences) given that he supposes that the application of the marginalistic methods to the budget definition reflects a rational approach that precludes each other considerations from the branches of the State. However, as Steve, observes, Pantaleoni's position lack of a concrete content because it is a mere ex post rationalization of the behaviour of the bodies involved in the budget formulation. Moreover, he criticizes each tentative of formally determining the general equilibrium conditions in the fiscal activities of public

[24] Speaking of the new budget law (LOLF), they point out the similarity of the reform with the political economics approach: "Elle étend ainsi aux politiques budgétaires en particulier, et aux politiques publiques en général, la logique qui a guidé les travaux sur les règles et conditions d'utilisation des politiques macroéconomiques au plan monétaire et fiscal (Persson et Tabellini, 2000)" (2007, p. 36).

institutions because it supposes that the economic activities of these institutions is aimed at the realization of a unique and stable value system" (Steve, 1976, pp. 35-36).
Summing up, the real problem is not the way the preferences reveal but the effective representativeness in democratic systems: hence, when we refer to budget or fiscal rules, it seems more appropriate to evaluate their impact on the macroeconomic system more than justify their presence in terms of revealed preferences.
Another aspect that the literature analyzed seems to neglect is that the budgetary institutions that discipline the budget process are the result of a voluntary mechanism of choice, as the public choice school teaches us. If a problem of optimal institutions selection exists it pertains to an ex ante phase, that is the evaluation of the legitimacy of the presence of them, assessed through a complex searching process of social consensus that is more political than technical.
In the following paragraph we suggest an alternative way of assessing transparency that is not microeconomically based but that takes into account several macroeconomic aspects that, on our opinion, must be considered together with the evaluation indexes.

5. Indexes of transparency: a comparison

The analysis of the literature on fiscal transparency gives us a still fuzzy definition of it. Notwithstanding the recurring aspects that we find in the cited authors we don't figure out a clear representation of this concept to be associated to a well defined measure of it.
The several indexes described, mostly published by private organization, testify the high degrees of freedom in the calculus of transparency.
Apart from the measurement problems we don't agree with the basic idea that we find behind all the definitions described that result from considering the Government a sort of macro-institution to be disciplined through well-predetermined rules. The goodness of fiscal policy, in other word, is supposed to be measured in terms of fiscal results, that give advices on the level of fit/misfit with the objectives expressed in the rules. The issue here is that the concept of institution, on our opinion, finds some critics if applied to government, given its microeconomic roots. We think that state activities can be comprehended only if considered as a set of institutions with their own set of rules (North, 1991), but we have no confidence in excessive simplifications.
We notice that, in the definition of transparency, there is a confusion between rules and targets to reach. Transparency seems senseless without well-defined targets: conceiving the fiscal rule not as the process but as the outcome of it, determines a confusion between objectives and instruments.
On our opinion, the effective meaning of transparency is to provide an instrument to assess if the government action is consistent with the objectives pre-announced. The literature is clear in defining what a transparent government should do, that is ensuring fiscal stability and responsibility through fiscal rules that focus somewhat more closely on debt accumulation: "transparency in government operations is widely regarded as an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude. ..Fiscal transparency, in each of its three dimensions, is a necessary condition for sound economic policy." (Kopits and Craig (1998, p. 1-2). In

paragraph 3, we have just describe how this concept belongs to the new political economy literature.

Summing up, higher transparency implies efforts for fiscal sustainability and a better governance agenda. It supposes an action-oriented intentional activity in the sense of publicizing sound government finances, both to citizens and to international partners, and consequently can be considered as an index of effectiveness of the governments ability to reach objectives of fiscal sustainability.

We consider that the definition of transparency, as appears in official documents, is a reference tool for describing formal transparency: aim of this section is to compare indexes that could shows this level of formal transparency for countries selected.

We have considered six main indices of fiscal transparency[25]: starting from the countries considered in Alt and Lassen (2006b), we selected other indices that aim at measuring fiscal transparency[26]. Finally, we compare ten European countries (Belgium; Denmark; Finland; France; Germany; Ireland; Italy; Netherlands; Sweden; UK) under the following indices of fiscal transparency[27]: *Fiscal transparency index* (Alt and Lassen); *OECD Best Practices for Budget Transparency overall fulfilment* (Bastida and Benito); *Fiscal transparency* (eStandardsForum); *Audit* (Bernoth and Wolff); *Absence of creative accounting* (Debrun and Kumar).

Alt and Lassen's index is a self-reported measures of fiscal transparency for 19 countries taken from a 1999 OECD questionnaire sent to all Budget Directors of OECD member countries and is built basically on four broad criteria: *More information, other things equal, in fewer documents*; *Independent verification; Non-arbitrary language* and *More justification:* the index is built on the number of positive survey responses (Alt and Lassen, 2006b, pp. 1413-1415).

Aim of Bastida and Benito's paper is to explore transparency in government budgets in terms of OBP fulfilment (2007, p. 668). Using the OECD/World Bank Budgeting Database (OWD) they match OWD questionnaire items with OECD Best Practices for Budget Transparency (OBP) sections, to assess to what extent OBP has been actually fulfilled by each country[28].

The Fiscal Policy Transparency index published on eStandardsForum website is based on Reports on the Observance of Standards and Codes (ROSC), that value compliance of a country with the IMF's Code of Good Practices on Fiscal Transparency as well as on other reports such as the Studies on National Integrity Systems by Transparency International, as well as the annual Article IV consultations of the IMF with its members.

Bernoth and Wolff's*"Audit*" captures the degree to which fiscal book keeping is being audited and the extent to which the information of this auditing becomes public knowledge. This index is based on a OECD/World Bank survey of budget practice and

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[25] There are other indices which attempt to quantify fiscal transparency are by Oxford Analytica and International Budget Project (IBP), and Global Integrity. but these are available for a limited number of countries and constructed differently, Moreover, other indices (Hameed, and Hallerberg et. al) are cited but not numerically downloadable. Previously, Von Hagen (1992) had created a transparency index for eight European countries

[26] We drop countries that were not present in the other classifications considered

[27] See appendix for indices description

[28] OBP sections were split into 40 dummy variables. Each one of these variables took the value ' 0 ' when the country did not comply with each corresponding best practice and ' 1 ' when the country did (2007, pp. 674-679).

is computed as the simple sum of some selected responses regarding accounting, control and monitoring systems area (Bernoth and Wolff, 2006, pp. 33-36).

Finally, Debrun and Kumar' index is based on the concept of creative accounting: referring to von Hagen and Wolff (2006), they suggest that a positive correlation between the fiscal balance and stock flow adjustments would suggest that countries deliberately use accounting tricks to improve the budget balance, whereas a negative correlation would signal similar efforts to improve public debt numbers. Overall, a departure from zero-correlation feeds the suspicion of creative accounting (2007, p. 500). Absence of creative accounting is, then, defined as 1 minus the median coefficient of correlation (in absolute value, 15-year rolling correlation) between stock-flow adjustments and the overall budget balance in percentage of GDP over 2004-1990 (2007, p. 509).
All these indexes are then built on different idea of transparency: this leads to a clear vagueness of the definition of fiscal transparency. This indeterminateness is testified by the values of correlation among indexes.

Tab. 2 ***Correlation among Fiscal Transparency Indexes***

		Fiscal transparency index (Alt and Lassen)	**OECD Best Practices for Budget Transparency overall fulfilment (Bastida and Benito)**	**Fiscal transparency (eStandards Forum**	**Audit (Bernoth and Wolff)**	**Absence of creative accounting (Debrun and Kumar)**
Fiscal transparency index (Alt and Lassen)	Pearson correlation	1	.316	.560	-.195	.344
	Sig. (2-code)	.	.374	.092	.590	.330
OECD Best Practices for Budget Transparency overall fulfilment (Bastida and Benito)	Pearson correlation	.316	1	-.435	.348	.082
	Sig. (2-code)	.374	.	.210	.325	.822
Fiscal transparency (eStandards Forum)	Pearson correlation	.560	-.435	1	-.211	.231
	Sig. (2-code)	.092	.210	.	.558	.521
Audit (Bernoth and Wolff)	Pearson correlation	-.195	.348	-.211	1	-.668*
	Sig. (2-code)	.590	.325	.558	.	.035
Absence of creative accounting (Debrun and Kumar)	Pearson correlation	.344	.082	.231	-.668*	1
	Sig. (2-code)	.330	.822	.521	.035	.
Number of observations		10	10	10	10	10

* significant at 5% (2-code)

If we look at the correlations between indices we notice that they are not significant[29]: a slight negative correlation exists only between *Absence of creative accounting* and *Audit.* All other correlations, although not significant, show great variability.
If we look at the rating scale, we notice that the position of each country varies depending on the index considered.
United Kingdom is the most transparent country in Alt and Lassen's index, while Finland has the first position according to Bastida and Benito. EStandardsForum assigns the highest scores to United Kindom, Netherlands and France, while Audit is maximum in Sweden. Finally, Debrun and Kumar assign the highest score to Netherlands.

It is interesting to interpret level of transparency also according to the type of government. Finally, there are some papers (Wehner, 2005, 2006; Lienert 2005) – that discuss the budgetary powers of legislatures under different forms of government[30]: we decide to plot our indices against government's typologies to look for similarities between countries' classification. Assuming the definitions adopted by Wehner (presidential; semi-presidential; parliamentary Republic; parliamentary Monarchy and Westminster), we plotted the average value[31] for each index, according to the type of government[32].

Fig. 1 ***Fiscal transparency (Alt and Lassen) and type of governments***

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[29] To compare indices, we transformed them in percentage values, if not present.

[30] Lienert, for example, examines the nexus between the separation of powers and the legislature's budgetary authority in selected countries with different forms of government. The overriding objective is to discern whether the legislature's budgetary powers are linked to the degree of separation of powers (Lienert, 2005, p. 3).

[31] Except for UK, the only Westminster country.

[32] The following graphs have been drawn from Lienert (2005). See table A2 in the appendix for country classification.

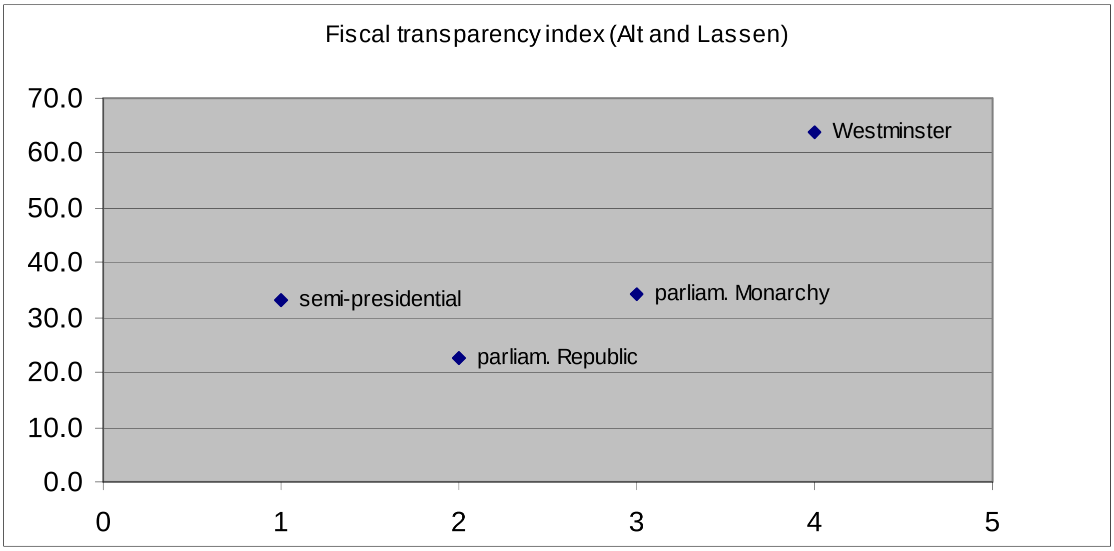


Fig. 2 ***Fiscal transparency (Bastida and Benito) and type of government***

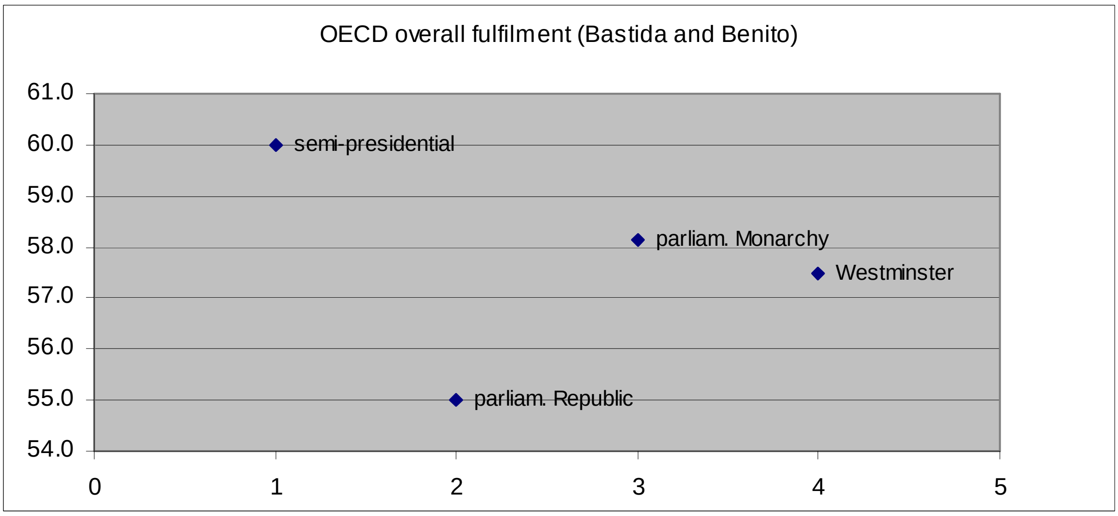


Fig. 3 ***Fiscal transparency (eStandardsForum) and type of government***

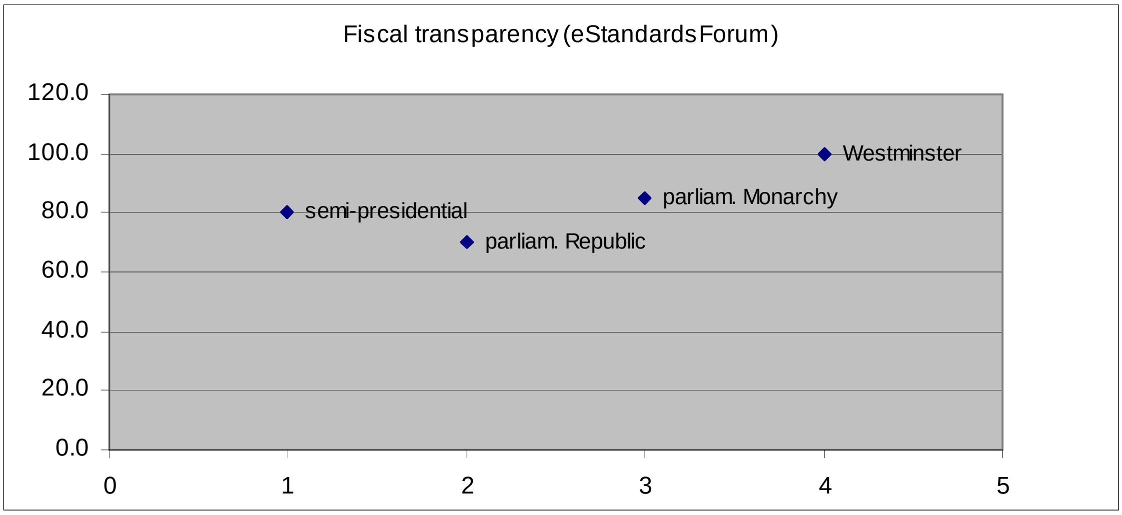


Fig. 4 ***Fiscal transparency (Bernoth and Wolff) and type of government***

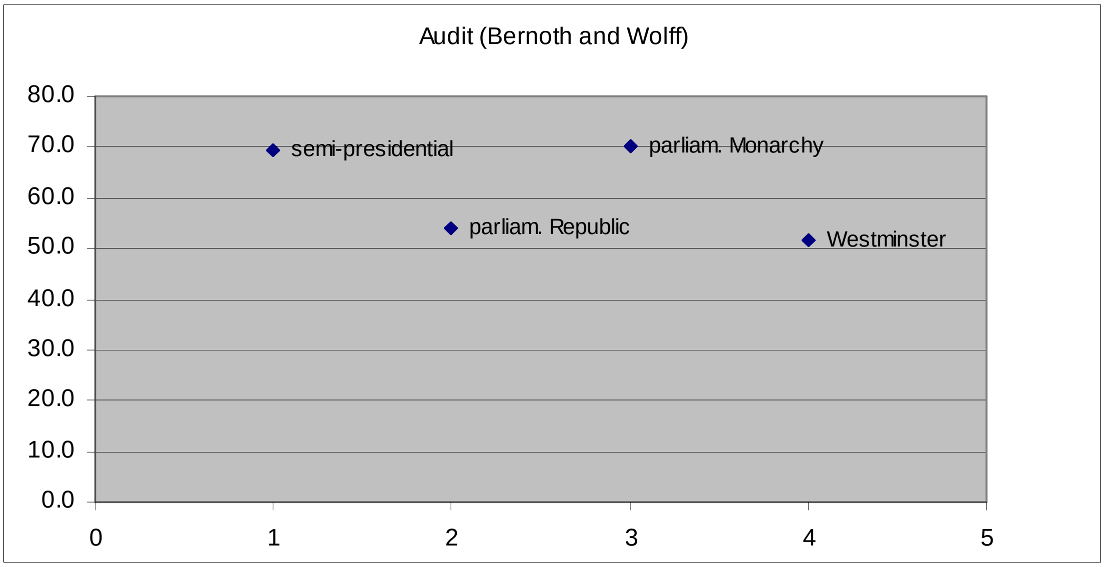
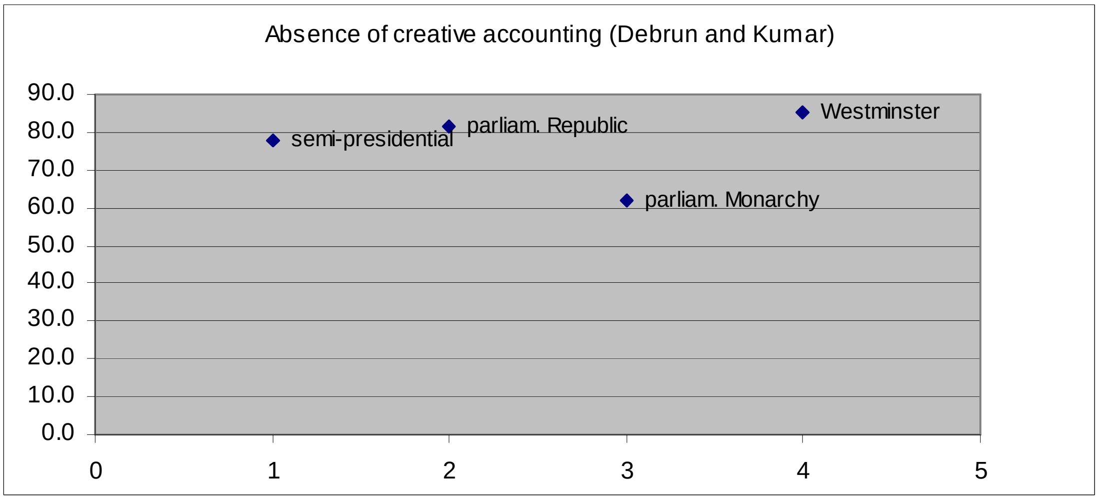


Fig. 5 ***Fiscal transparency (Debrun and Kumar) and type of government***



We found again dissimilarity between indices in the countries' government position. The only remarkable observation to be done is about the relationship between separation of powers and effects on fiscal transparency: the values of all indices for Parliamentary Republic are the lowest in comparison to the other types of government. This is always true except for the *Absence of creative accounting* score: we may explain this particularity in terms of the type of index.

While all other indices are mainly built on expert's assessment responses, Debrun and Kumar's absence of creative accounting is defined as 1 minus the median coefficient of correlation between stock-flow adjustments and the overall budget balance: this means that it is built on quantitative data and not on qualitative surveys.

In the previous chapter we have seen that an excessive fiscal role exercised by the Parliament is not positively evaluated by political economy scholars, that conclude that a strong central budget authority in the executive—and strong constraints on the legislature's budget amendment powers—is necessary for disciplining legislatures and maintaining sustainable fiscal positions.

This can explain why almost all fiscal indices show lowest values for parliamentary republic where the legislative traditionally has an high amendment power.

However, the level playing field between democracy and transparency is, on our opinion, the role assigned to the Parliament inside the budget process.

While all best practices suggest that a more active parliamentary role is beneficial for transparency[33], some works relate transparency to fiscal discipline that ask for more hierarchical procedures that attribute strong prerogatives and powers to the treasury minister in the budget-preparation process within the executive branch (Alesina and Perotti (1996).

A more incisive role of legislative branch in the budget process can be considered as a benefit in the sense of an higher transparency meant as more democratic choices and not

[33] For example, in OECD Best Practices for Budget Transparency we read that "The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than 3 months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year" (p. 4) and "Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary" (p.9). Similar observations can be found as well in IMF Good Practices on Fiscal Transparency and G8 Fighting Corruption and Improving Transparency.

only as a cost, due to a possible lack of fiscal responsibility. In this sense we agree with Schick's observation: "as the legislatures enhance their budget role, one of the challenger facing budget architects will be to balance the impulse for independence with the need to be fiscally responsible. The future of legislative-governmental relations will be strongly influenced by the manner in which this balance is maintained" (Schick, 2003, p.14).

6. Conclusions

In the present paper we have observed major characteristics of fiscal transparency, as one of the feature of a wider renewing process that has affected budget practices and procedures so far.
Moreover, we observed how there is no congruence between the different measurement of transparency. This means that the meaning of transparency is indeterminate and this reduces its possibility of application in terms of public finance.
We think that our critical study on the idea of budget transparency deserves final reflections that concern two fundamental issues at stake, that are

1) The link between fiscal transparency, constitution, budget law
2) The relation between vote and transparency through the concept of fiscal illusion.

Analyzing the literature on this item, it seems evident that, in the ideas expressed by some scholars, there is a trade-off between democracy, meant as a form of government in which highest is the power held by citizens through their representative institutions and fiscal transparency that, strictly related to budgetary performance, is consistent with a discipline-enhancing effect of institutions.
Given all these implications we think that transparency is a problem of constitutional economics, e.g. it is critically linked to the interaction between rules and political choices. This because the public budget and its composition must find adjustments and refinements before the discussion on the budget documents starts, discussion that must be carried out in a well-determined framework that is the Constitution.
The anchorage to Constitution has not only the meaning of relate transparency to unanimity (Buchanan and Tullock, 1962) but is necessary to contrast a phenomenon that we observed in national public finances so far, that is the homologation of the fiscal rules, consequence of competition among governments fostered by globalization.
However, the harmonization of the discipline of the budget process can contradict the effects of constitutions, undermining the socio-political pact with between citizens and rulemakers that sustain it.
On the contrary, the idea of optimal fiscal rule that is associated to transparency in public finance, to operate worldwide, must be simple and easy to enforce: this means that it must avoid multiple corrections/amendments that are necessary tools when policymakers deal with a complex institutional structure that reflects the complexity of the budget decision process. The implication of this double complexity is that instruments and objectives must be chosen depending from the forces at stake inside the democratic process.
Excessive simplification through synthetic definitions of fiscal transparency serves to discipline excessive fiscal diversification and to limit budget possibilities.
Reducing transparency as mostly a matter of information may transform it in a powerful tool aimed at concealing the perception of differences in fiscal choices through the

communication control. In this sense constitution must preserve the sovereignty of each state in deciding how much assign and where allocate resources for the community.
Hence, from one side budget democracy is more a problem of legal and institutional guarantees that shape transparency more as a process than as an outcome-oriented issue.
Citizens' evaluation of public policy is conditioned by the process of fiscal illusion that troubles the exercise of their sovereignty. Hence, fiscal transparency can be conceived as a useful tool for cutting off the "veil of ignorance" between government and citizens and unveil the effective policymakers' behaviour.
We find a literature that treats transparency as a commitment problem and signalling tool, that plays a crucial role in case of policymakers deviations from sound fiscal policies. In addition, fiscal institutions can help reduce the asymmetry of information between policymakers and voters through the institutional arrangements, meant as fiscally binding rules. As Debrun and Kumar reveal, referring to an extensive literature on the causes of persistent fiscal indiscipline "One key conclusion is that institutional arrangements ranging from legally binding fiscal rules to enhanced transparency and procedural provisions can play a role in helping contain the widely observed penchant of policymakers for excessive deficits (2007, p. 479).
However, there is a contradiction behind the rationale of political economy's papers about fiscal transparency: the concept of fiscal illusion, as Puviani taught us, does not discuss the behaviour of governments per se. The idea of an optimal fiscal rule is senseless because tries to establish performance results as a benchmark that should act as a signal for voters, becoming a cost for policymakers in case of deviations from sound policies. However, it is clear that is not performance that explains voting but is voting that decide of the government's subsequent performance, that means that democracy acts at the demand level and not a predetermined supply level.
If this happens, given the presence of other constraints that act at the international level (e.g. the Maastricht Treaty rules), we can model a phenomenon of supply-induced demand that contains in itself the working of fiscal illusions that are necessary to make the citizens accept the budget allocations.
Moreover, as Salmon and Wolfelsperger point out, it can happen that "that information provided about the means used by government will generally not be "consumed" by citizens: because they have no means to judge, they will tend to be inattentive to the means employed by the government and also to the question of whether these means are the most appropriate to produce the outcomes they are concerned with. In election, this will lead them to discount electoral platforms and to give precedence to an assessment of the performance of the incumbent team. In other words, they will tend to vote retrospectively…as a consequence of lifelong specialisation, they do not possess the processing equipment which is a necessary complement to the information (that is, without which this is useless). This points to a form of rational ignorance which is not the result, as usual, of each voter having a negligible influence on outcomes, but of the nature of the information available, which is such that it cannot be used." (Salmon and Wolfelsperger, 2007, p. 15)
Another interesting implication that they raise is that "obfuscating the goal or the need itself may be a more promising strategy and one which may in the end be accepted by citizens" (Salmon and Wolfelsperger, 2007, p. 16).
The preference for opacity, that contradicts the strict preference for transparency by voters as supposed in most of the literature observed, is a possibility that, on our opinion, questions the "fiscal illusion" rationale for budget transparency.

Summing up, we think that literature on fiscal transparency must rethink the relations between asymmetry of information, meant as fiscal illusion, and democratic political processes, given the complexity of budget choices and objectives that asks for a multi-layered response.

The problem of transparency can't only turn to be, for example, a question of budget cycles or common pool problems minimization, neither a justification of budget balance: it concerns the mechanisms that the functioning of public choices and their effects on the community: in other words, fiscal transparency is senseless if we don't' specify the characteristics of the pact between citizens and politicians, that must reflect the preferences of the elected and not a pre-determined, even if warmly supported, fiscal behaviour.

Appendix

Table A1 ***Alternative measures of Fiscal Transparency***

Name	Description	Source	Url
Fiscal transparency index (Alt and Lassen)	Aggregate indicator relying on survey responses: ranging from an index value of 0 (Japan) to an index value of 11 (New Zealand) out of a maximum index value of 11	Alt and Lassen, 2006	
OECD Best Practices for Budget Transparency overall fulfilment (Bastida and Benito)	Based on OECD/World Bank Budget Practices and Procedures Database. They try to assess the level of fulfilment with OECD Best Practices for Budget Transparency (OBP). OBP sections were split into 40 dummy variables. Each one of these variables took the value ‘ 0 ’ when the country did not comply with each corresponding best practice and ‘ 1 ’ when the country did. They build an aggregate index "summax40" that shows degree of OBP fulfilment, ranging theoretically from 0 ‘country does not meet any OBP recommendation’ to 40 ‘country meets all OBP recommendations	Bastida and Benito, 2007	
Fiscal transparency (eStandardsForum)	Based on expert's assessment against compliance of a country with the IMF's Code of Good Practices on Fiscal Transparency. A percentage score is determined, based on the average score across all the standards. A country's scores may range from a maximum of 100 (full compliance in all categories) to a minimum of 0 (no assessment available for any of the standards).	eStandards Forum	http://www.estandardsforum.com/jhtml/standards/FiscalTransparency/
Audit (Bernoth and Wolff)	Audit is based on a OECD/World Bank survey of budget practice. To each question, the authors assigned a value between zero and four, where four indicates the response most conducive to fiscal ”transparency”. The index is computed as the simple sum of the responses to all individual questions.	Bernoth and Wolff, 2006	
Absence of creative accounting (Debrun and Kumar)	Defined as 1 minus the median coefficient of correlation (in absolute value, 15-year rolling correlation) between stock-flow adjustments and the overall budget balance in percentage of GDP over 2004-1990	Debrun and Kumar, 2007	

Tab. A2 *Type of government’s country classification*

Country	Type of government
Belgium	Parliamentary Monarchy
Denmark	Parliamentary Monarchy
Finland	Semipresidential
France	Semipresidential
Germany	Parliamentary Republic
Ireland	Semipresidential
Italy	Parliamentary Republic
Netherlands	Parliamentary Monarchy
Sweden	Parliamentary Monarchy
UK	Westminister
Source: Wehner (2005)	

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