Greenspan's book will likely disappoint those looking for a more robust and detailed engagement with his many critics on the finer points of the conduct of monetary policy. The book's main value lies in bringing a free-market perspective on global economic developments and public policy issues before a wider audience.

Reviewed by
Stephen Kirchner

Full Disclosure: The Promise and Perils of Transparency
by Archon Fung, Mary Graham, and David Weil
Cambridge University Press
New York, 2007
$34.95, 282pp
ISBN 9780521876179

Over seventy years ago, Friedrich Hayek put information at the heart of the economic problem. While his point was that markets are superior to central planning, economists such as Kenneth Arrow in the 1960s, and George Akerlof and Joseph Stiglitz a decade or so later, focused on how markets could mishandle information. This occurs particularly where one party conceals important information from another, as producers often do from consumers and managers from shareholders.

There is now a vast literature on the 'economics of information.' Yet beyond demonstrating the potential worth of regulating to require better disclosure in various situations, economists have shown little interest in exploring exactly what such policies should look like.

Thus the authors of *Full Disclosure* began their task with a startling discovery. 'When we searched for studies by other researchers,' they observe, 'we found almost no literature analyzing targeted transparency [the authors' term for specific disclosure regulation] across a range of policy areas' (xiii).

The authors—a political scientist, an economist, and a lawyer—survey eighteen 'targeted transparency' policy episodes, identifying successes, failures, and the policy lessons to be drawn from them. It is always worth checking one's intuitions against the evidence, even though one might have guessed the two commonsensical principles that emerge:

One. Targeted transparency must be user centred. Successful policies focus on information users' needs and interests. They should also be focused on the capacities and inclinations of disclosing organisations. They should seek to embed new information in the decision-making routines of users, and to embed user responses into the decision-making of disclosers.

Two. The policies must be politically sustainable. This sustainability is a function of the respective powers of users and disclosers, particularly at the time when a regulation is introduced (typically at some time of perceived crisis). Powerful, well-organised users help establish transparency regimes, just as powerful well-organised disclosers have the best chance of resisting them. Also, to be sustainable, a regulation should generate good information about its own efficacy, and it should be updated and improved as that information emerges (11).

In the authors' analysis, the paradigm of a successful disclosure regulation is Los Angeles' hygiene regime, which requires restaurants to display their hygiene grading as a simple *A*, *B*, or *C*. With such pre-digested information so prominently out in the marketplace, virtue delivered its own reward—or more to the point, vice delivered its own punishment. The public's unsurprising distaste for bad hygiene kicked off a vigorous race to the top.

Regulations identifying SUVs' on-road stability also struck an important blow for safety: less-stable SUVs suffered a sharp fall in demand and carmakers responded by improving product safety. The authors also show how such disclosure regimes can fail because of their complexity, as in the case of pollution reporting.

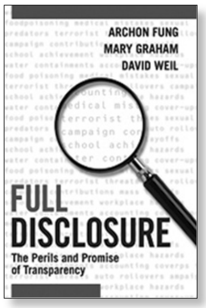
Though I recommend this as a valuable book in an all-too-neglected area of policy, it does have some significant shortcomings.

On the readability front, the book's structure creates needless repetition. The appendix gives each of the eighteen case studies an outline of two to four pages, but relevant aspects of each case study have already been dealt with in the chapters, and they are also summarised—often more than once—in lengthy multi-page tables. Table 4.6 alone—'A Summary of Effectiveness Research in Eight Selected Transparency Policies'—is fourteen pages long.

The book's theoretical bedrock is the commonsensical idea that more information is better, with some informal regard being had for the idea that simplicity and ease of reporting for disclosers is important. This is not rooted in a rigorous economic framework, which would be more meticulous in toting up costs and benefits. The authors present improvements in Los Angeles restaurant hygiene as a clear success for disclosure, without putting any effort into considering whether they might have cost more than they were worth. I agree, though, with their implicit assumption that it seems unlikely.

Given the book's aims as a pioneering compendium for policymakers and analysts, I have no quibble with its strategy, though some more deliberate focus on costs, even if it was informal, might have reassured the purists. But although the informal framework has drawbacks, it also has benefits, most notably its provision for informal hypotheses about where the new fashion for transparency might beneficially be taken. Unfortunately, the authors don't venture very far, if at all, beyond the precedents set by the case studies.

I've argued for a more systematic approach to transparency policy, and proposed policies that might help facilitate the emergence of better information about the quality of service offered by—for instance—hospitals, schools, investment advisors, and even real estate agents. As the Los Angeles restaurant hygiene regulation illustrates, a healthier information flow can often set market forces loose, greatly improving on the results of 'command and control' regulation. Why don't we require that firms' premiums for workers' compensation be provided to prospective employees to enable them to judge those firms' occupational health and safety records? We could go even further by trying to set up a standard against which firms could report the results of the job satisfaction surveys most conduct in their workplaces.[1]



The main reason the book does not consider these kinds of proposals is that they've not been implemented. Well, not yet, anyway, and not in America. But since we're at the beginning of this process, I would have liked to see at least a few chapters where the authors spread their wings to explore ways that 'targeted transparency' could improve our policy armoury, not least by lessening the need for the more prescriptive and intrusive regulation we have now.

Even if the market doesn't fully inform its customers, in principle the best performers should have an interest in accurately reporting their own performance. At this point we run into something well known from the literature on the 'economics of information,' even if it appeared more compellingly as Gresham's Law centuries before Hayek or even Adam Smith got going.

Bad money drives out good, or, as Akerlof has put it, the presence of hard-to-detect 'lemons' can ruin what would otherwise be perfectly good markets. To provide useful comparisons, information must be standardised. Standards are a public good. But firms that perform relatively poorly have an interest in actively frustrating standardisation. If they report at all, they need not lie—though some might—they need only cherry-pick the information they disclose, omitting what is unflattering.

While the emergence of a standard requires collective action, it need not necessarily be the result of government regulation. Governments and other social leaders might agitate for the best firms to develop an auditable standard against which to voluntarily report. That would often place pressure on other firms to report similarly, helping nurture the adoption of the standard and driving the kind of product improvements that occurred in Los Angeles' restaurants.

Like much writing on such matters, this book focuses on 'targeted transparency' as the sovereign act of some regulating authority—typically a government. It would be wiser to see such action as a subset of the many ways markets can become better informed. Suasion and collective action by market leaders might have received more attention here, alongside government regulation. Such action might enable us to learn more lessons like those in this book, but with more experimentation and reference to market needs and possibilities along the way, and with less risk of government failure.

Reviewed by Nicholas Gruen

[1] Nicholas Gruen, 'Economic Reform—Renovating the Agenda: With an Example from the Market for Information,' *Australian Journal of Public Administration* 61:2 (June 2002), 90–105.

Confucian Political Ethics
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ISBN 9780691130057

For much of the twentieth century, Confucianism was considered 'out of date,' irrelevant to the modern political realities facing the Chinese nation-state or the world at large. Through Mao Zedong's Cultural Revolution, every attempt was made to delete any memory of the Confucian philosophy from mainstream intellectual and everyday life. The Confucian tradition was condemned as elitist, backward, and feudalistic. Most importantly, East and West alike saw it as antithetical to modernity.

In recent years, the emerging economic and political dominance of East Asian nations that hold a shared Confucian heritage has largely reversed this attitude. The economic success of countries such as Japan, South Korea, and Taiwan has been largely attributed to the value that the Confucian tradition places on self-improvement, family loyalty, education, and the social good.