The Economics of Transparency (and Privacy)

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Transparency = Panacea?

- One question worth asking a priori: is more transparency always a good thing?

- Received wisdom is “it depends”:
  - More information can be Pareto worse, i.e. worse for everyone, for example by destroying insurance possibilities.
  - But opacity can lead to bad self-confirming outcomes based purely on rumor, for example bank runs.

- Traditionally, either the “market” or the regulator has decided the information structure in specific markets.
Concerns

Three trade-offs/ concerns immediately crop up when considering releasing more information:

1. Adverse Selection/ The Lemons Problem.

2. The Public Goods Problem/ The Tragedy of the Commons.

3. Logistics.
The Lemons Problem

First observed by Akerlof: if traders are differentially informed, markets can shut down (or more realistically, be inefficient).

“The fact that you’re willing to trade with me at the price I’m offering means I’m offering too much.”

Information and certification helps mitigate this adverse selection, and restores market function.
The Public Goods Problem

- Public information is a (peculiar sort of) a public good:
  - Everyone benefits from information.
  - Each participant privately suffers the costs from revealing his private data.

- Participants have incentives to “free-ride” on information provided by everyone else, while themselves mis-reporting, under-reporting or not participating.

- In settings where regulatory data comes from voluntary or semi-voluntary submissions by participation, this may reduce the quality of the data set.
The Logistics Problems

- 2 sorts of transparency are “easy” to work with:
  1. Complete transparency.
  2. Complete opacity.

- Intermediate levels are more problematic: how does one make sure that one does not inadvertently release more information than intended?

- Particularly important if dealing with trade-sensitive information.
Why not just release aggregate statistics?

Two examples:

1. Don’t know what else people know: Releasing the average salary of everyone in this room might reveal a lot of information about the few academics since someone else released the average salary of central bankers.

2. Awareness: If a regulator releases a summary statistic that says “only 10% of banks are undertaking trade $x$,” this might reveal to the other 90% that $x$ is viable/ exists/...
A lot of modern research on “robust” methods to guarantee privacy.

Differential Privacy: toolbox to release a summary statistic of a database which guarantees how much an outsider can learn about a particular entry, regardless what else he knows.

Ongoing field of research, lots of “possibility” results, i.e., it is possible to release nontrivial information while assuring constituents of nontrivial privacy.

So if a regulator collects data and releases a differentially private summary statistic, she can simultaneously alleviate both adverse selection and public goods problems.
And One More Problem

- As a parting shot, note that “private” releases are necessarily coarse and/or noisy.

- Can our existing policy apparatus adapt to work with noisy information? What if we get a bad draw?

- Despite the inherent issues, people like (faux-)precise predictions.
  - “Ranges are for cattle, give me a number”—Lyndon Johnson.