MARKET DISTORTIONS AND GOVERNMENT TRANSPARENCY

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Abstract
This paper investigates how government transparency depends on economic distortions. We first consider an abstract class of economies, in which a benevolent policy maker is privately informed about the exogenous state of the economy and contemplates whether to release this information. Our key result is that distortions limit communication: even if transparency is ex-ante Pareto superior to opaqueness, it is not an equilibrium whenever distortions are sufficiently high. We next confirm this broad insight in two applied contexts, in which monopoly power and income taxes are the specific sources of distortions. (JEL: D82, E61)