Law and Economic Analysis on the Relationship of Transparency and Voluntary Redistribution of Wealth: Pursuing both Efficiency and Equity at once

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Abstract

Charitable works can be analyzed as public goods or externalities. Eradication of extreme poverty and hunger, basic science research, and support for art and religion are public goods. These have non-excludability and non-rivalry, which are the defining characteristics of public goods, making philanthropist's honor spread over more beneficiaries. And to achieve universal primary education is an externality because educations for the unlearned peolpe benefits both themselves and society at large. And in this knowledge and information era education is more and more important, thus society has to support the students who desire to escape from poverty helping them to receive high-technology educations which raise the productivity of high value-added industries of the 21st century. The philanthropic help for young students who are trying to learn are displaying one of the most valuable benefits of a social sense of *noblesse oblige*. Enlarging these kinds of public goods and externalities is a good way to improve the efficiency as well as equity.

The more transparent is a society, the more charitable works are appeared. In the transparent society the good behavior of the philanthropist is easily known to the public, so the philanthropy is more praised by the people than in the opaque society. It functions as strong motivation to do the charitable works, because image marketing is more and more important in this mass media era. Therefore we can encourage the individual charitable works giving them the incentives to do charity by way of publicizing and complementing philanthropists' charitable deeds. For example, in advanced countries, enterprises have contributed over many years, constantly and consistently owing to the system which encourages them economically through advertisements of their generosity by way of mass media.

To foster the voluntary sharing redistribution of wealth we can reduce the opportunity cost for charitable works as a result of the relative decrease of the marginal utility of money by way of making society transparent and enlarging the capacity of people to get information. Organizations have the problem of agency cost. The moral hazard of agency intensifies in conditions of asymmetric information. The problem of agency occurs when principals do not provide strict supervision, and this creates a space where agency behaves freely. The greater is the space, the more can the agency use it for his own benefit. Thus the utility of money is greater in a more corrupted society, indeed where the agencies have relative freedom than in a more transparent society. Transparent opening up of information enable the principals to look over the actions of agencies and prevent moral hazard conveniently. Consequently in a transparent society bribery is easily regulated, and the rich are persuaded to do charitable works to the poor rather than to put money to use in bribery. Therefore the more transparent and cleaner is a nation, the more voluntary redistribution of wealth is realized.

. Introduction

To make the pie bigger or to distribute the pie is the matter which continuously arises in modern democratic market economies with the development of capitalism. But the clear answer is elusive. According to the administration, if they are going to distribute the pie, people say "This is not the time to distribute. If we choose the policy of redistribution, such a move could reduce national competitivity and the economy could be depressed." And if they are going to emphasize the opposite policy, that of economic development, the voices of complaints will become too loud to ignore. The former give initiative to equity, and the latter underscores efficiency. If the problem is such, the problem is how to catch the two rabbits of efficiency and equity at the same time.

G. Calabresi said that the legal system or principle should be efficient and should try to increase the efficiency of resource distribution, but after designing the systems for the efficiency, they should be tested by the feeling of justice, after the creation of the system it must be testified whether it is in accordance with our sense of justice. He insisted that the last veto or constraint should be given to justice.[1] Richard Posner makes a similar assertion. He said that in many cases justice is efficient. But when it comes to judging justice there are a lot of other things to consider besides efficiency. Therefore what offends our sense of justice is prohibited for illegal regardless of how efficient it is.[2] The question is how we can develop a method which optimizes the strength of the market and make people contented.

Ⅱ. Public Goods

The government's policy for redistribution of wealth can adversely affect the economic activity of a country's business elite. Therefore, in the era of global competition, each government should reduce their redistribution of wealth and enhance their private sector-based charitable enterprises. Because private individuals can judge their charity situations, they are better able to know how, when, and where to help the needy in a way that is most suitable for each individual according to changing circumstances.

Today, many elements of government are privatized or slated for privatization in order to adopt competitive practices and improve rigid, bureaucratic organizations. I think

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[1] Guido Calabresi, *The Costs of Accidents: A Legal and Economic Analysis*, Yale University Press, 1970, pp. 24-26

[2] Richard A. Posner, *Economic Analysis of Law*, 4th ed., Little, Brown Co., 1992, p.27

that the function of redistribution of wealth can also be privatized if we can give the workers of philanthropy incentives to do charitable works by way of praising them, improving their image, and giving them subsidies. As a matter of fact, fighting poverty is a kind of public good, so it is not produced in sufficient quantities in the free market. But nowadays many companies are realizing the importance of image marketing which is not measured by price in the market, so if we publicize the information of their charitable works, we can help to produce a larger quantity of this public good.

There are some fields in which government support is undesirable. National strategy and policy think tanks are poor candidates for government support because these organizations could compromise their ability to criticize the government freely. Government support for universities is not good because if that happened the government would start to interfere in university policies for political reasons, in ways like selecting students and hiring professors, etc. Neither can governments sponsor religious groups because of the separation of religion and state. And there are other fields in which philanthropists can complement government efforts to help the poor, for example the aid given to victims of natural disasters, scholarships, and basic science research and so on.

1. Fighting Poverty

The fair distribution of wealth is a kind of public good in the aspect of the benefit of this good can be enjoyed by everyone.[3] Suppose everyone wants to live in a society without poverty. Although such a social desire is so strong and widespread, fighting poverty is a public good which the market cannot provide enough of. Fighting poverty is too enormous in scale to be solved by individuals. And the government can hardly push people to do philanthropies to fight poverty because those who do not do those charitable work can "free-ride" on the generosity of others.[4]

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[3] This kind of opinion was first voiced by Professor L. Thurow of MIT. Other scholars who share the view that people do charitable donation for the public goods of redistribution of wealth include Warr, P., "Pareto Optimal Redistribution and Private Charity", *Journal of Public Economics*, 1982, 19, pp.131-138; Bregstrom, T., L. Bloome, H. Varian, "On Private Provision of Public Goods", *Journal of Public Economics*, 1986 29, 25-49; Roberts, R., "A Positive Model of Private Charity and Wealth Transfers", *Journal of Political Economy*, 1984, 70, pp.584-599; Andreoni, J., "Impure Altruism and Donations to Public Goods: a Theory of Warm-glow Giving?", *Economic Journal*, 1990, 100, pp.464-477.

[4] N. Gregory Mankiw, *Principles of Economics (Third Edition) ISE*, p.228, 2004, Thomson South-Western

The public sector does not always have to provide public goods. If the private sector's volunteer-providing mechanism is more efficient than the government, then the government need not concern with this issue by itself.[5] Property problems are so enormous in scale, so the government needs the private sector's help. The problem of non-excludability of public goods is that the producer of public goods can hardly receive the reward from the beneficiaries because non-excludability means the producer of public goods cannot identify the beneficiary whom he must charge. In the case of philanthropies, the producer of charitable ventures can be rewarded with the adulation of the press, mass media, and internet netizens. The more non-excludable the charity is, the more praise the producer can receive.

As for the matter of free-riding, if the information of who gives philanthropies to whom is known by the mass media and is on internet, then the real producer of charitable works can be identified and the free-rider can be shamed. Of course the free-rider can also benefit from living in a society without poverty, but they cannot receive the applause of the public

The public goods of poverty rescue should be produced to meet the diverse needs of the demanders. In this aspect, private sectors rather than public sectors can produce more proper philanthropies more exactly. The public sectors function with the characteristic of bureaucracy, so we can hardly expect them to take a careful look at the demanders' needs in the situation where they do not have any incentives like the ones the private sector has. Government distribution of public goods is probably standardized for the convenience of the administration.[6] There are different kinds of needy people and every moment new needy people are created by unexpected accidents. Therefore private sectors' philanthropies can fill the gap in government poverty-relief services. The people who do charitable works want to help more needy and more terrible people, so the efficient distribution of charitable works can be accomplished by the transparency of society via mass media, the press, and internet news.

2. Basic Research

Creating knowledge is also a public good. A great mathematician discovers a mathematic theorem and that theorem will be printed in student textbooks and will eventually enter the general knowledge pool and everyone can use that knowledge for free. So the companies which pursue profit creation will not invest in the creation of this kind of general knowledge because of the inherent free-rider problem.

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[5] Jun-Gu Lee, *The Science of Finance (3rd ed.)*, Da-San Publishing, pp. 113-114
[6] Jun-Gu Lee, Supra Note 5, p. 114

It is very important to tell the general basic science and specific applied science to make the proper policy regarding knowledge research. For example, the invention of solar batteries was specific and applied knowledge and it could be patented. On the other hand, a mathematic theorem cannot be patented. Therefore general basic science is unexcludable while specific and applied knowledge is excludable. [7]

So the government and charitable persons should sponsor research into general basic sciences which are not protected or rewarded by a patent. If all the companies establish applied science research institutions, the development of science will reach a limitation. Basic science is the base of applied science. In fact the bulletproof vest and the global positioning systems which now exist in cars were developed in the process of developing technologies for space travel. In fact in the United States of America they give many scholarships to the students of basic science, e.g. physics, chemistry, etc.

In the aspect of honor, the non-rivalry and non-excludability of the development of general basic science knowledge can be an incentive to conduct research. The more non-rival it is, the more people can use the science knowledge. Therefore the user of the science knowledge will appreciate and admire the scholars who discover that knowledge. Many famous theorems of mathematics, physics, chemistry, and other basic sciences are named after the scholars who discover them, so their named are remembered in history forever. They cannot be rewarded with money because of the non-excludability of their research, but they are rewarded with this kind of honor.

And charitable persons should also sponsor the independent think tanks which enquire into national policy strategies with the criteria of the benefit of their own country keeping neutral stance regarding specific politicians. If a think tank is sponsored by the government, it cannot freely criticize government policy. For this reason they need the support of individual charities.

3. Education

A. Escape from Poverty

The most basic reason for inequality of individuals can be found in the following three reasons: genetic differences, educational differences after birth and economic differences

[7] N. Gregory Mankiw, Supra Note 4, p.227

which make people afford to have greater opportunity of education and in other areas as well.[8] We cannot improve the genetics, so to provide educational opportunities to the poor students is the most available method for solving inequality.

A last, even more crucial difference sets violence and wealth apart from knowledge as we race into what has been called an information age: By definition, both force and wealth are the property of the strong and the rich. It is the truly revolutionary characteristic of knowledge that it can be grasped by the weak and the poor as well. Knowledge is the most democratic source of power.[9] Yet, despite the vast maldistribution of wealth in a world painfully divided between rich and poor, it turns out that, compared with the other two sources of worldly power, wealth has been, and is, the *least* maldistributed. Whatever gulf separates the rich from the poor, an even greater chasm separates the armed from the unarmed and the ignorant from the educated. Today, in the fast-changing, affluent nations, despite all inequities of income and wealth, the coming struggle for power will increasingly turn into a struggle over the distribution of and access to knowledge. This is why, unless we understand how and to whom knowledge flows, we can neither protect ourselves against the abuse of power nor create the better, more democratic society that tomorrow's technologies promise. The control of knowledge is the crux of tomorrow's worldwide struggle for power in every human institution.[10]

For example, in the United States, each year of schooling has historically raised a person's wage on average by about 10 percent. In less developed countries, where human capital is especially scarce, the gap between the wages of educated and uneducated workers is even larger. Thus, one way in which government policy can enhance the standard of living is to provide good schools and to encourage the population to take advantage of them.[11]

B. Public Good

Many parts of the private charities are realized by the way of scholarships to students and endowments to universities. Education enables people to add value to their work and increases productivity. If there are many highly educated people, they can make more effective government, so education creates a positive public good – a more well-governed society. Usually if an individual gets more education, he will be rewarded by getting a higher

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[8] Jun-Gu Lee, *The Science of Finance (3rd ed.)*, Da-San Publishing, pp. 226
[9] Alvin Toffler, *Power Shift*, p.19, 1991, Bantam Books
[10] Alvin Toffler, *Power Shift*, p. 20, 1991, Bantam Books
[11] N. Gregory Mankiw, Supra Note 9, p.549

salary. Additionally the society will benefit from each individual's education.[12] For example, a well-educated person might be able to invent a new idea of how to make goods or services best. This can be a public good included in the knowledge pool which more people can access.[13] Basic education of mathematics and reading and writing give externalities, because if people can calculate well, they can deal better with large-scale commercial transactions. If people can read, they can learn technology and sophisticated skills. By the peoples' mass consumption of newspapers, politics function well and stably with the exchange of public opinion.

C. Education Market

Education is also a kind of service. The more good quality the service has, the more it can cost. This is the market principle and it is an incentive to make a higher quality education. Therefore poor students cannot afford to receive good quality education in the education market. To solve the gap between the rich and the poor society should intervene to deliver higher quality education to the poor students with international scholarships and low interest loans for tuition, so that the students who try to learn and have the will to learn can obtain the opportunity.

Education is a way of exploiting human capital. The investors will invest in human capital if it is worthwhile. Nowadays, many enterprises are stirred to develop their employees' human capital. But we should pay the education fees long before receiving the interest from the investments in education. Therefore many people cannot afford to provide education fees. In the case of investment in material capital, the investors can have the security of collateral on the loan. However in the case of investment in education, financial institutions do not have a clear collateral basis on which they can lend the money to a student. So they hesitate to lend money to poor students. The only way is to deliver credit. But the poorer a student's family is, the more difficult it is for students to receive credit. Consequently this exacerbates the gap between the rich and the poor. Another problem which comes from the characteristics of credit given for education is that the students will prefer a short term education which produces lower salaries instead of a long-term education which can result in a higher salary. As a result in the market system education tends to tilt towards the education for vocations which can make money immediately but do not utilize high technology. Hence the benevolent scholarship is needed for students and for the whole society as well.

[12] N. Gregory Mankiw, Supra Note 9, p.207
[13] N. Gregory Mankiw, Supra Note 9, p.550

4. Culture and Religion

The development of art and music exist for the enjoyment of people. In the case of popular music the singers earn a lot of money from the performance and advertisement and from sales of their records. In the case of popular movies, the actors and directors make enough money from the ticket sales at theaters. So they have a clear incentive to develop popular music and popular movies. However classical music and classical art can hardly have sufficient incentives from the market, so the rich should evaluate classical music and art highly, sponsoring performances of classical music and exhibitions of classical art.

Our society is stable and sound, when religion is kept sacred and many people live with religious beliefs and convictions. Religion is also non-rival and non-excludable, and so it is also a form of public good. My going to church does not hinder other peoples' church attendance. This is non-rivalry. In modern countries, they pronounce the separation of religion and state because of the guarantee of individual religious liberty. It is because even government's support for every kind of religious group is also a form of discrimination against people who do not have any religion. Accordingly the government do not sponsor religious institutions, and therefore the benevolent people's collections are needed.

Such public goods are not produced enough in the market because of non-rivalry and non-excludabilitiy. So the philanthropist's contribution is important. In the aspect of honor, non-rivalry and non-excludability make the fame of the producers of these public goods known more widely in society.

Ⅲ. Voluntary Redistribution of Wealth

There is a self-cleansing system between the rich and the poor in our society. I named it as the voluntary redistribution of wealth. We can approach it from two different angles. One is the "haves" share their wealth with the "have-nots" voluntarily. I call this the voluntary sharing form of redistribution of wealth. For example, it takes the form of philanthropic work and donation to social welfare, educational or research institutions, endowments to religious institutions, and volunteer work in the community. The key point is how to enhance the sharing redistribution of wealth in our society. I think the core is the transparency and cleanness of the society which are accelerated with development of the internet and communication technology. The other way of approaching this issue is to open the way for the "have-nots" to become richer with their own effort. I named this as the voluntary pursuit of the redistribution of wealth. We can guarantee the equality of educational opportunities with, for example, scholarships or low interest loans for tuition.

This voluntary sharing redistribution of wealth means that the rich share their wealth with the poor voluntarily, and participate in many kinds of charitable ventures. Examples of almsgiving include: donations to people affected by natural disasters, hungry people, or sick children, and endowments to university tuition paying programs for the needy, and academic scholarships, and collections for religious institutions, and physical volunteer work; building community centers, welfare institutions, art galleries, sponsoring musical performances, and giving money to research institutes and private think-tanks.

1. Transparency

Relief of poor peoples' poverty is a kind of public good. Supporting basic science research, sponsorship of art or music, and the collections of religious institutions are also kinds of public goods. They are also all non-rival and non-exclusive goods. So if we let the market produce these kinds of things naturally, they will not be produced sufficiently to meet the needs of society. Therefore the government should intervene. These kinds of public goods also raise the total utility of society. The non-rival and non-exclusive attributes are an advantage of these charitable works because they allow more people to more easily feel the benefits of these goods. The more transparent a society is, the more appreciative its people are.

A free media is one of the principal vehicles for informing the public about the charitable activities. By investigating and reporting on needy people in society, it significantly contributes to the basis of knowledge with which citizens can hold attention to the philanthropies. And shedding light on the good conduct of philanthropists, the media provides important information encouraging the citizens in assistance to the needy. A functioning media is also related to effective charitable society action against poverty. The impact of charitable society is dependent not only on reliable information, but also on the existence of means to disseminate its opinions and raise issues of public concern. Moreover, the media has the editorial capacity to promote the anti-poverty positions of charitable society groups. In countering poverty, the media therefore plays a dual role: its spotlight directly revealing miserable realities in our society while, at the same time, illuminating the anti-poverty efforts of other actors.

The first intention of doing the voluntary redistribution of wealth is to help the poor with sympathetic feelings, Good Samaritan spirit, returning money to the society from which they earn money. But some people have a second intention to gaining honor and image advertising.[14] For example, in 2001, Stanford University received $580,473,838, Harvard $485,238,498, Duke $407,952,525, Yale $358,102,600, Cornell $308,676,394 in donations. Among these, donations from alumni were $233,715,511 at Yale, $209,897,707 at Stanford, $188,122,681 at Harvard, and $154,311,052 at Cornell. The alumni intention to increase their political power through donations is not connected to bribery but to the universities' endowments. This is a most desirable phenomenon.[15]

So society should create systems which induce these kinds of donations, and to this end praise the people who contribute to such endowment funds and let many people know their endowment activity. Some companies do charitable works in order to create the image that their companies do not pursue only profit, but return its profits to society and do well to the community. And some companies have scholarship programs in order to help elites form a positive image of their company. Andrew Carnegie, "Steel King," John Rockefeller of Standard Oil, William Vanderbilt, "Railroad King," who are examples of *noblesse oblige,* made great donations to establish the Carnegie Foundation, the Rockefeller Center, Vanderbilt University. An officer of Intel, the computer processor chip company, told a Korean reporter investigating several businesses' contributions to the community that, "The total amount of donations of American enterprises is over 10 billion dollars per year, but they do not make these donations only for charity. They make these donations for greater business success with a concrete objective based on the principle of reciprocity, with a larger strategic view." [16]

An example of this marketing can be seen in American Express, which donated 16 million dollars for starvation prevention programs in their "Share Our Strength" program. As a result, more people joined the American express card. According to an IBM business consulting report called, the 2010 World Consumption Patterns Analysis, consumers decide which companies to buy from according to companies' ethical beliefs and consumer preference for companies. In 2002, Walmart was ranked as the top contributing company toward charity, giving away 136 million dollars. They placed posters advertising this fact in their stores with slogans saying "Donations," "Help," and "Action," clearing pointing customers to take notice of Walmart's contributions to charity.

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[14] Refer to Harbaugh, W. T., "What Do Donations Buy?: A Model of Philanthropy Based on Prestigeand Warm Glow," *Journal of Public Economics*, 1998a, 67, pp.269-284.
[15] Colin Park, p.33, *Guidebook of Universities in America*, 2003, Nexus
[16] Young-Sun Gee, "Robberbarons", *Hankyoreh Newspapers*, 2005.5.18.

In February 2005, the financial publication *Fortune* announced the most admired companies in America. The most admired company was Dell, followed by General Electric, Starbucks, Walmart, Southwestern Airlines, respectively. The founder of Dell, Michael Dell, is very active in philanthropic work. Of his 13 billion dollar fortune, he has donated 1.3 billion dollars to child-protection programs. In 2003, Michael Dell placed sixth on *Businessweek's* ranking of philanthropic businessmen in America. In 2002 General Electric was number one on both *Fortune's and The Financial Times'* list of most admired businesses in the world. GE has a business philosophy that the most admired enterprises are those which are the most socially responsible. This means that working for the consumers, workers, and investors in their company, and contributing to the wider community. Starbucks is famous for their social responsibility. They publish an ethical management report every year on their website, which shows the company's long-term support for coffee farm communities of South America and Africa, as well as lists their environmental protection programs. Walmart donated 2.16 million dollars toward the Republican Party in the last Presidential election. The founding Walton family donated 750 million dollars since 1999 to programs which work for child education.[17]

2. Corruption

The principle of Diminishing Marginal Utility postulates that the more one consumes of a good, the less utility one receives from consumption of that good. For example, however delicious a food is, the utility of every bite of that food diminishes because you eventually get full. Human beings are limited in their physical body – the capacity of their stomach is limited, their lifetime is limited, and so forth – and so there must be a limitation on a single person's expenditure of money. So the endless increase of money does not result in the endless increase of utility for a single human being. Therefore when we look at the ultra-rich in society we can be sure that they can only spend so much money on houses, luxurious food, servants, cars, etc. until they discover that they are either fully satisfied or cannot spend their entire fortune away in their lifetime. Thus charitable contributions seem to be a better way for them to employ the remainder of their fortunes after they spend money on themselves.

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[17] Kyo-Man Kim, "The respectable enterprises do charities in U.S.", *Munhwa Daily*, 2005.3.31.

A. Government

The corruption is one of the most important obstacles to diminishing marginal utility of money. In a transparent society, agencies have less discretion because of the ease with which a principal can follow their actions using the transparent social system and mass media. The more the discretion an agent gains, the more moral hazard issues arise. If politicians gain more discretion without the watchfulness of the people in a less transparent society, they can create and execute policies for their own interests, or the interests of special groups, which provide him with bribes. In a less transparent society, the phenomenon of "voters' rational ignorance" makes the principal less likely to watch the agencies closely. In a legal and economic analysis, for a single voter, if the cost to be informed about candidates and issues is higher than the profit from electing the most suitable candidates, then it is rational for the voter to remain uninformed, because the profit of electing that candidate is spread over all the voters. Consequently, rich voters in a less transparent society can do more things with a bribe than in a transparent society. As for voters' rational ignorance, we need some organizations that can gather and evaluate politicians' information and propose alternative ideas. In a transparent society, the cost to be informed about candidates and directors is less than in the opaque society. Therefore they can watch their agencies more easily and the risk for the agency's corrupt practices to be revealed is much higher. And as the discretion of agencies shrinks, the possibility of rich people using bribes also shrinks.

The original nature of human beings to pursue their own interest makes humans receptive to corruption.[18] Every social group works for the maximization of the profit of their group: consumers work for utility maximization, firms work for profit maximization, and politicians work for vote maximization. So if there is no competition, excessive discretion, asymmetric information, and an absence of transparency or accountability, then corruption will arise.

C (Corruption) **= M**(Monopoly) **+D**(Discretion) **–A**(Accountability) **-T**(Transparency) [19]

To prevent corruption, we must prevent monopolies with the execution of anti-trust laws, and reduce the discretion of agencies by setting up oversight mechanisms. People should have the right to prosecute or sue agencies who engage in corruption because this will create accountability. Freedom of speech should be protected, because mass media helps to create a transparent atmosphere in society. The overall transparency of a society affects reducing discretion and increasing accountability. Therefore the more transparent a country is, the less corrupted it is.

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[18] R. Dawkins, *The Selfish Gene*, Oxford University Press, 1976.

[19] Robert Klitgaard, *Controlling Corruption*, University of California Press, 1991, pp.181-185.

Philanthropic works can serve as a substitute for bribes. Rich individuals and companies engage in bribery in order to gain influence for their interests. However if bribery were not available to these businesses and individuals they would seek other ways to gain influence. Thus we see in transparent societies how wealthy people and corporations do more charitable works as a way to gain honor and respect. This allows them to have a greater say in society. Although bribery is a very direct way of gaining influence and doing philanthropic works is very indirect, when the direct methods are not available, people who want influence will want to use the indirect methods. So we can see that in some sense charity serves as an alternative to bribery. A bribe consists of the rich and power giving money to the authorities to maintain their wealth and power. Bribes do not serve to redistribute wealth in the way that charitable ventures do. Actually bribery is a mechanism which entrenches the concentration of wealth in society. The social belief that the people who use bribes must be punished bridges the psychological gap of the classes.

Access to information relates to the policies, practices, laws and procedures that help guarantee openness in the conduct of public affairs. In a broad sense, it is a question of how much access to internally held information outsiders are entitled to, and what outsiders can do if insiders are not sufficiently forthcoming in providing such access. Having access to information plays a key role in efforts to curb corruption and control its impact. By facilitating the release of information from a variety of sources into the public domain, it introduces a fundamental mechanism of transparency and accountability. Where official information can be viewed by any interested party - including members of the public, civil society and the media - corruption becomes more difficult to conduct and to conceal. Those engaged in corrupt acts are faced with the real prospect of being held to account for their actions, while those contemplating such acts may be dissuaded by increased levels of openness. Ensuring access to information is therefore a fundamental requirement for establishing a functioning system of national integrity.[20]

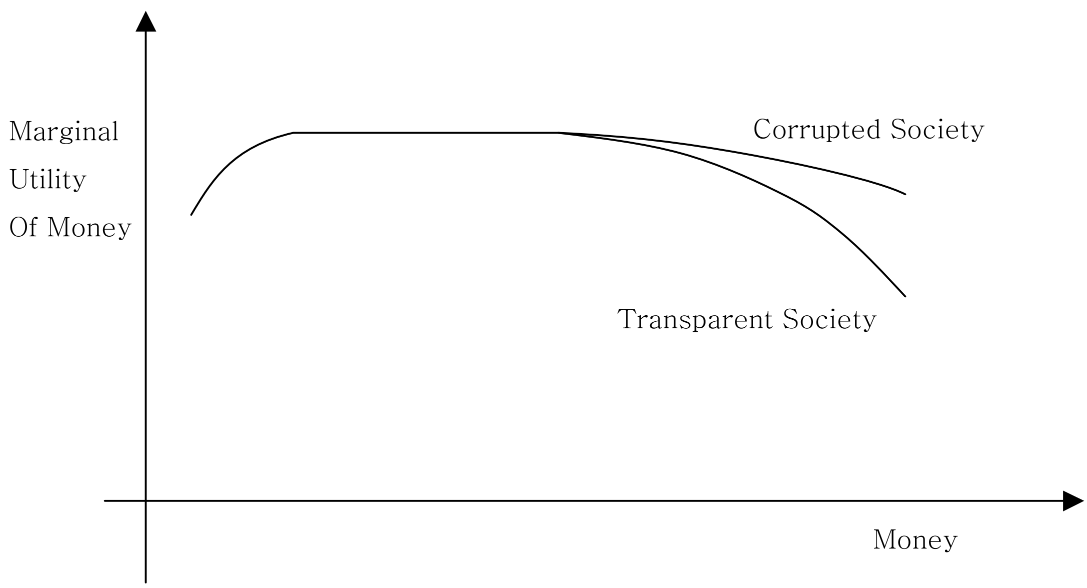
For example, Colombia uses the internet to promote municipal accountability. This project uses software and training manuals to enable small municipalities to improve financial transparency by publishing their budgets and accounts in a simple manner. The software, applied in 2002 and 2003 in five pilot municipalities, has now been donated to the state of Colombia, which has made its introduction mandatory in 500 other cities. It is "free code" software that can be copied without charge by those who wish to do so. The software package contains the software itself as well as training materials to set up a web-page and

[20] http://www.transparency.org/ach/strategies/access_info/discussion.html

implement a methodology to account for municipal public funds.[21]

B. Corporation

In the case of shareholders, if the cost to be informed about the directors and the business projects and directors is higher than the profit from electing the most efficient, honest directors because the profit from that would be spread over every stockholder, then it is rational for the small stockholders to remain uninformed. Thus, in this case, the directors of a company will be elected mainly by the major stockholders. Directors elected under such conditions will work for the profit of the major shareholders. This can be an agency problem for small stockholders. So major stockholders have disproportionate control and so they are more able to engage in corrupt practices. For example, in South Korea, some of the largest shareholders were involved in embezzling the company's money to invest in real estate using a company director who was loyal only to them. But in a transparent society, the small shareholders will sue the directors if they abuse their discretion, and so even the major stockholders cannot use the directors for illegal purposes. As a result, the major shareholders in a transparent society have less discretion than in a corrupted society, and the possibility of major stockholders embezzling their company's money becomes less likely. Therefore in the transparent society, the marginal utility of money is less than a less transparent society. It affects the increase in donation.



[21] Both the software and training materials (Spanish language) can be downloaded free at: http://www.municipiostransparentes.colnodo.org.co

Futhermore, let's examines an ownership structure in which a shareholder exercises control while retaining only a small fraction of the equity claims on a company's cash flows. We term this pattern of ownership a controlling-minority structure (CMS) because it permits a shareholder to control a firm while holding only a fraction of its equity.[22] The discussion of agency costs thus far has implicitly assumed that a CMS controller has no significant constraints on her ability to extract private benefits or perk. But public reputation constrains agency costs.[23] The fact that CMS structures can impose significant agency costs is well known, even if the magnitude of these costs is not. It follows that CMS controllers who return to the equity market must pay a price for the expected agency cost of CMS structures unless they can establish a reputation for sound management. There is some evidence that reputational concerns constrain CMS controllers. A good reputation appears to facilitate CMS structures. For example, Barr, Gerson and Kantor[24] find that South African controlling shareholders with better reputations tend to maintain smaller stakes in CMS firms. Conversely, a reputation for exploiting minority shareholders sharply increases the cost of capital for a CMS firm. Thus, after the Russian firm Menatep was accused of stripping profits from the subsidiaries of AO Yukos, a closely held oil company that is controls, its acquisition of another oil company (Eastern Oil) raised new fears of asset stripping and sharply decreased the share price of Eastern's subsidiary Tomskneft[25]. A further clue about the role of reputation in controlling agency costs is that families—frequently regarded as repositories for reputation—are the most common controlling shareholders in CMS structures[26]. Since family pyramids and cross-holding structures tend to grow gradually through the generation of internal capital and the issuance of minority stock, one might expect family controllers to limit their appropriation of private benefits in order to assure continued growth for the benefit of their offspring. Moreover, the pressure on CMS controllers to maintain a good reputation appears to have increased in countries such as Sweden and South Africa that have recently reduced barriers to the inflow of foreign investment capital[27].

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22 Lucian Bebchuk, Reinier Kraakman and George Triantis, "Stock Pyramids, Cross-Ownership, and Dual Class Equity: The Creation and Agency Costs of Separating Control From Cash-Flow Rights", *Harvard Law School Olin Discussion Paper No. 249 (1999)*, p.1.

23 Lucian Bebchuk, Reinier Kraakman and George Triantis, Supra Note 22, pp.13-14

24 Barr, Graham, Jos Gerson, and Brian Kantor. 1997. "Shareholders as agents and principals: The case of South Africa's corporate governance system", in *A Comparison of the U.S., Japan, and Europe*, ed. Donald H. Chew. New York: Oxford University Press.

25 Cullison, Alan. 1998. "Russia market regulator –3: Tomshneft resolution defeated". *Dow Jones International News Service*, 6 February, 13:54.

26 La Porta, Rafael, Florencio Lopez-de-Silanes, and Andrei Shleifer. 1999. "Corporate Ownership Around the World". *Journal of Finance* 54, pp.471-517.

27 "Storming the Citadel: The Peter Wallenberg business empire". 1990. *Economist*, 23 June, p.73; Barr, Graham, Jos Gerson, and Brian Kantor, Supra Note 24.

Ⅳ. Conclusion

In the era of global competition we tend to value efficiency over equity, but we cannot ignore any longer the increasing gap between the rich and the poor which is deepened by the extreme pursuit of efficiency. Therefore democratic governments need to look harder for a better balance between efficiency and equity. Individual charitable works can greatly complement the efforts of government redistribution programs.

Charitable works can be analyzed as public goods or externalities. Eradication of extreme poverty and hunger, basic science research, and support for art and religion are public goods. These have non-excludability and non-rivalry, which are the defining characteristics of public goods, making philanthropist's honor spread over more beneficiaries. And to achieve universal primary education is an externality because educations for the unlearned peolpe benefits both themselves and society at large. And in this knowledge and information era education is more and more important, thus society has to support the students who desire to escape from poverty helping them to receive high-technology educations which raise the productivity of high value-added industries of the 21^{st} century. The philanthropic help for young students who are trying to learn are displaying one of the most valuable benefits of a social sense of *noblesse oblige*. Enlarging these kinds of public goods and externalities is a good way to improve the efficiency as well as equity.

The more transparent is a society, the more charitable works are appeared. In the transparent society the good behavior of the philanthropist is easily known to the public, so the philanthropy is more praised by the people than in the opaque society. It functions as strong motivation to do the charitable works, because image marketing is more and more important in this mass media era. In the transparent society the charitable works are known to many people by way of mass media, and the doers of charity receive the adulation of society, which improves their image. This tends to encourage a repetitive pattern of doing charity. Therefore we can encourage the individual charitable works giving them the incentives to do charity by way of publicizing and complementing philanthropists' charitable deeds. For example, in advanced countries, enterprises have contributed over many years, constantly and consistently owing to the system which encourages them economically through advertisements of their generosity by way of mass media.

To foster the voluntary sharing redistribution of wealth we can reduce the opportunity cost for charitable works as a result of the relative decrease of the marginal utility of money by way of making society transparent and enlarging the capacity of people to get information. Organizations have the problem of agency cost. The moral hazard of agency intensifies in conditions of asymmetric information. The problem of agency occurs when principals do not provide strict supervision, and this creates a space where agency behaves freely. The greater is the space, the more can the agency use it for his own benefit. Thus the utility of money is greater in a more corrupted society, indeed where the agencies have relative freedom than in a more transparent society. Transparent opening up of information enable the principals to look over the actions of agencies and prevent moral hazard conveniently. Consequently in a transparent society bribery is easily regulated, and the rich are persuaded to do charitable works to the poor rather than to put money to use in bribery. We can induce people to do charity instead of bribery, via strict supervision and enforcement of regulations. Therefore the more transparent and cleaner is a nation, the more voluntary redistribution of wealth is realized. To make society transparent, the role of mass media, the activities of NGOs, and the development of the internet is important.