Rodolfo Debenedetti Lecture

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Legal Origin Distribution

Legal Origins
- English
- French
- German
- Scandinavian
- Socialist
Legal Origin

Institution

• Procedural Formalism
• Judicial Independence
• Regulation of Entry
• Employment Laws
  Collective Relations Laws
  Social Security Laws
• Company Laws
  Securities Laws
• Bankruptcy Law
• Government Ownership of Banks

Outcomes

• Time to evict nonpaying tenant
  Time to collect a bounced check
• Property rights
• Corruption
  Unofficial economy
• Participation rates
  Unemployment
• Stock Market Development
  Firm Valuation
  Ownership Structure
• Private Credit
• Interest Rate Spread
Variable: LEGAL FORMALISM (*Check Collection*)

Description: The index measures substantive and procedural statutory intervention in judicial cases at lower-level city trial courts, and is formed by adding up the following indices: (i) professionals versus laymen; (ii) written versus oral arguments; (iii) legal justification; (iv) statutory regulation of evidence; (v) control of superior review; (vi) engagement formalities; and (vii) independent procedural actions. The index ranges from zero to seven where seven means a higher level of control or intervention in the judicial process. Source: Djankov et al, *Courts*, Quarterly Journal of Economics (2003).

Legal Formalism (Check) Means by Legal Origin

<table>
<thead>
<tr>
<th></th>
<th>British Origin</th>
<th>French Origin</th>
<th>German Origin</th>
<th>Scan. Origin</th>
<th>Socialist Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>mean</td>
<td>2.76</td>
<td>4.29</td>
<td>3.15</td>
<td>3.15</td>
<td>3.93</td>
</tr>
</tbody>
</table>

Total countries represented: 109  
World mean: 3.53
Variable: LEGAL FORMALISM (Eviction)

Description: The index measures substantive and procedural statutory intervention in judicial cases at lower-level city trail courts, and is formed by adding up the following indices: (i) professionals versus laymen; (ii) written versus oral arguments; (iii) legal justification; (iv) statutory regulation of evidence; (v) control of superior review; (vi) engagement formalities; and (vii) independent procedural actions. The index ranges from zero to seven where seven means a higher level of control or intervention in the judicial process. Source: Djankov et al, Courts, Quarterly Journal of Economics (2003).

Legal Formalism (Eviction) Means by Legal Origin

Total countries represented: 109
World mean: 3.58
Variable: JUDICIAL INDEPENDENCE

Description: Judicial independence is computed as the normalized sum of: (i) the tenure of Supreme Court judges; (ii) the tenure of administrative Court judges; and (iii) the case law variable. Source: La Porta et al, *Judicial Checks and Balances*, Journal of Political Economy (2004).

Judicial Independence Means by Legal Origin

<table>
<thead>
<tr>
<th>Legal Origin</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>0.99</td>
</tr>
<tr>
<td>French</td>
<td>0.70</td>
</tr>
<tr>
<td>German</td>
<td>0.78</td>
</tr>
<tr>
<td>Scan.</td>
<td>1.0</td>
</tr>
</tbody>
</table>

Total countries represented: 69

World mean: 0.75
Description: The number of different procedures that a start-up has to comply with in order to obtain a legal status, i.e., to start operating as a legal entity. Source: Djankov et al, *The Regulation of Entry*, Quarterly Journal of Economics (2002).

Total countries represented: 85  
World mean: 10.48
REGULATION OF LABOR

• Employment laws
  • Alternative employment contracts
  • Conditions of employment; cost of increasing hours worked
  • Cost of firing workers
  • Dismissal procedures

• Industrial (collective) relations laws
  • Collective bargaining
  • Worker participation in management
  • Collective disputes

• Social security laws
  • Old age, disability and death benefits
  • Sickness and health benefits
  • Unemployment benefits
Variable: EMPLOYMENT LAWS INDEX

Description: Measures the protection of labor through employment laws as the average of: (1) Alternative employment contracts; (2) Cost of increasing hours worked; (3) Cost of firing workers; and (4) Dismissal procedures. Source: Botero et al, *The Regulation of Labor*, Quarterly Journal of Economics (2004).

Regulation of Labor Means by Legal Origin

<table>
<thead>
<tr>
<th>Legal Origin</th>
<th>EMPLOYMENT LAWS INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Origin</td>
<td>0.30</td>
</tr>
<tr>
<td>French Origin</td>
<td>0.55</td>
</tr>
<tr>
<td>German Origin</td>
<td>0.45</td>
</tr>
<tr>
<td>Scan. Origin</td>
<td>0.68</td>
</tr>
<tr>
<td>Socialist Origin</td>
<td>0.59</td>
</tr>
</tbody>
</table>

Total countries represented: 85

World mean: 0.49
Variable: COLLECTIVE RELATIONS LAWS INDEX

Description: Measures the protection of collective relations laws as the average of: (1) Labor union power and (2) Collective disputes. Source: Botero et al, The Regulation of Labor, Quarterly Journal of Economics (2004).

Collective Relations Laws Index Means by Legal Origin

- British Origin: 0.33
- French Origin: 0.49
- German Origin: 0.48
- Scan. Origin: 0.48
- Socialist Origin: 0.49

Total countries represented: 85
World mean: 0.45
Variable: SOCIAL SECURITY LAWS INDEX

Description: Measures social security benefits as the average of: (1) Old age, disability and death benefits; (2) Sickness and health benefits; and (3) Unemployment benefits. Source: Botero et al, The Regulation of Labor, Quarterly Journal of Economics (2004).

Total countries represented: 85

World mean: 0.57
Variable: DRAFT


Draft Means by Legal Origin

Total countries represented: 162
World mean: 0.638
## Outcome Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duration of procedure</strong></td>
<td>The total estimated duration in calendar days of the procedure. It equals the sum of: (i) duration until completion of service of process, (ii) duration of trial, and (iii) duration of enforcement.</td>
</tr>
<tr>
<td><strong>Security of property rights</strong></td>
<td>The total estimated duration in calendar days of the procedure. It equals the sum of: (i) duration until completion of service of process, (ii) duration of trial, and (iii) duration of enforcement.</td>
</tr>
<tr>
<td><strong>Unofficial economy</strong></td>
<td>Size of the shadow economy as a percentage of GDP (varying time periods).</td>
</tr>
<tr>
<td><strong>Corruption</strong></td>
<td>ICR’s assessment of the corruption in government. Lower scores indicate “high government officials are likely to demand special payments” and “illegal payments are generally expected throughout lower levels of government” in the form of “bribes connected with import and export licenses, exchange controls, tax assessment, policy protection, or loans”. Average of the months of April and October of the monthly index between 1982 and 1995. Scale from 0 to 10, with lower scores for higher levels of corruption.</td>
</tr>
<tr>
<td><strong>Male labor force participation</strong></td>
<td>Male participation rate as a percentage of the total male population aged 15 to 64. Based on population censuses or household surveys.</td>
</tr>
<tr>
<td><strong>Unemployment of males (20-24)</strong></td>
<td>Unemployed males aged 20 to 24 as a percentage of the total active male population of the same age during 1991-2000.</td>
</tr>
</tbody>
</table>
Formalism in check collection determines duration of procedure

\[ \text{Log of Duration} \]

Formalism coef = 0.30962918, (robust) se = 0.04999153, t = 6.19
Formalism in eviction determines duration of procedure

coef = .258319, (robust) se = .06562027, t = 3.94
Judicial Independence determines security of property rights

coefficient = 1.2918341, (robust) se = 0.22983734, t = 5.62
Regulation of entry determines corruption

\[ \text{corrpution} = -0.80438868 \times \text{log number of procedures} \]

(coef = -0.80438868, (robust) se = 0.27344169, t = -2.94)
Regulation of entry determines unofficial economy

Unofficial Economy vs Log Number of Procedures

$\beta = 3.4882058$, (robust) $se = 1.8923093$, $t = 1.84$
Employment laws determine male labor force participation

\[
\text{coef} = -5.7418225, \text{ (robust se) } 1.6421745, \ t = -3.5
\]
Employment laws determine unemployment of males 20-24

Employment Regulation

coef = 13.719544, (robust) se = 4.2742754, t = 3.21
What about financial markets?
Variable: SHAREHOLDER RIGHTS

**Description:** An index of anti-director rights. The index is formed by adding 1 when: (1) the country allows shareholders to mail their proxy vote to the firm; (2) shareholders are not required to deposit their shares prior to the General Shareholders' Meeting; (3) cumulative voting or proportional representation of minorities in the board of directors is allowed; (4) an oppressed minorities mechanism is in place; (5) the minimum percentage of share capital that entitles a shareholder to call for an Extraordinary Shareholders' Meeting is less than or equal to 10 percent (the sample median); or (6) shareholders have preemptive rights that can only be waved by a shareholders' vote. The index ranges from 0 to 6. Source: La Porta et al, *Law and Finance*, Journal of Political Economy (1998).

**Shareholder Rights Means by Legal Origin**

<table>
<thead>
<tr>
<th>Origin</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>4.0</td>
</tr>
<tr>
<td>French</td>
<td>2.33</td>
</tr>
<tr>
<td>German</td>
<td>2.33</td>
</tr>
<tr>
<td>Scan.</td>
<td>3.0</td>
</tr>
</tbody>
</table>

**Total countries represented:** 49  
**World mean:** 3.0
Variable: DISCLOSURE

Description: The index of disclosure equals the arithmetic mean of: (1) Prospectus; (2) Compensation; (3) Shareholders; (4) Inside ownership; (5) Irregular contracts; (6) and Transactions. Source: La Porta et al, *What Works in Securities Laws?*, Journal of Finance (2005).

Disclosure Means by Legal Origin

Total countries represented: 49

World mean: 0.60
Variable: LIABILITY STANDARD


Total countries represented: 49  
World mean: 0.47
Variable: CREDITOR RIGHTS

Description: A score of one is added for each of the following legal rights of secured lenders: (1) there are restrictions, such as creditor consent, for a debtor to file for reorganization; (2) there is no “automatic stay” on assets; (3) secured creditors are paid first out of the proceeds of liquidating a bankrupt firm; (4) management does not retain administration of property pending the resolution of the reorganization. Source: Djankov et al, *Private Credit in 129 Countries*, working paper (2004).

Creditor Rights Means by Legal Origin

<table>
<thead>
<tr>
<th>Legal Origin</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Origin</td>
<td>2.28</td>
</tr>
<tr>
<td>French Origin</td>
<td>1.31</td>
</tr>
<tr>
<td>German Origin</td>
<td>2.38</td>
</tr>
<tr>
<td>Scan. Origin</td>
<td>1.75</td>
</tr>
<tr>
<td>Socialist Origin</td>
<td>2.20</td>
</tr>
</tbody>
</table>

Total countries represented: 129

World mean: 1.79
Variable: GOVERNMENT OWNERSHIP OF BANKS IN 1995


Government Ownership of Banks Means by Legal Origin

<table>
<thead>
<tr>
<th>Origin</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>British</td>
<td>28.16</td>
</tr>
<tr>
<td>French</td>
<td>45.45</td>
</tr>
<tr>
<td>German</td>
<td>33.67</td>
</tr>
<tr>
<td>Scan.</td>
<td>35.54</td>
</tr>
<tr>
<td>Socialist</td>
<td>61.76</td>
</tr>
</tbody>
</table>

Total countries represented: 92
World mean: 41.57
### Outcome Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market cap</td>
<td>Average of the ratio of stock market capitalization held by small shareholders to gross domestic product for the period 1996-2000. The stock market capitalization held by small shareholders is computed as the product of the aggregate stock market capitalization and the average percentage of common shares not owned by the top three shareholders in the ten largest non-financial, privately-owned domestic firms in a given country.</td>
</tr>
<tr>
<td>Number of firms</td>
<td>Logarithm of the number of domestic firms listed in a given country.</td>
</tr>
<tr>
<td>IPO value</td>
<td>Average of the ratio of the equity issued by newly-listed firms in a given country (in thousands) to its gross domestic product (in millions).</td>
</tr>
<tr>
<td>Block premia</td>
<td>The block premia is computed taking the difference between the price per share paid for the control block and the exchange price two days after the announcement of the control transaction, dividing by the exchange price and multiplying by the ratio of the proportion of cash flow rights represented in the controlling block.</td>
</tr>
<tr>
<td>Ownership concentration</td>
<td>Average percentage of common shares owned by the top three shareholders in the ten largest non-financial, privately-owned domestic firms in a given country.</td>
</tr>
<tr>
<td>Private credit / GDP</td>
<td>Ratio of credit from deposit taking financial institutions to the private sector (IFS lines 22d and 42d) relative to GDP (IFS line 99b).</td>
</tr>
<tr>
<td>Interest rate spread</td>
<td>Interest rate charged by banks on loans to prime customers minus the interest rate paid by commercial or similar banks for demand, time or saving deposits. For most countries, the data is available for the period 1970 to 1995.</td>
</tr>
</tbody>
</table>
Shareholder Rights determine market capitalization

\[ \text{Shareholder Rights Index} \times 0.10497531 \pm 0.03074505 \times t = 3.41 \]
Shareholder Rights determine number of listed firms

Log of Number of Listed Firms

Shareholder Rights Index

$\text{coef} = 0.46014078$, (robust) $\text{se} = 0.12186662$, $t = 3.78$
Shareholder Rights determine IPO value

$\beta = .56476115$, (robust) $se = .27698973$, $t = 2.04$
Shareholder Rights determine block premia

\[ \text{coef} = -0.04206739, \ (\text{robust}) \ se = 0.01444246, \ t = -2.91 \]
Shareholder rights determine ownership concentration

\[
\text{Ownership Concentration} = \text{Shareholder Rights Index} \\
\text{coef} = -0.04394509, \text{ (robust) se} = 0.01111832, t = -3.95
Disclosure determines market capitalization

Market Cap / GDP

Disclosure Index

coef = .7818512, (robust) se = .14132285, t = 5.53
Disclosure determines number of listed firms

\[ \text{Log of Number of Listed Firms} \]

\[ \text{Disclosure Index} \]

\[ \text{coef} = 3.3878763, \text{(robust)} \text{ se} = 0.61303984, \text{ t} = 5.53 \]
Disclosure determines IPO value

\[ \text{coef} = 5.1864271, \text{ (robust) se} = 1.3289642, t = 3.9 \]
Disclosure determines block premia

\[ \text{coef} = -0.32344663, \text{ (robust) se } = 0.08094435, \text{ t } = -4 \]
Disclosure determines ownership concentration

\[ \text{coef} = -0.27070509, \text{(robust) se} = 0.07508985, t = -3.61 \]
Liability Standard determines market capitalization

$\text{ coef } = 0.64485842, \text{ (robust) se } = 0.12922437, t = 4.99$
Liability Standard determines number of listed firms

\[ \text{coef} = 2.2667641, \text{ (robust) se} = .74168951, t = 3.06 \]
Liability Standard determines IPO value

coef = 4.4601769, (robust) se = 1.1509476, t = 3.88
Liability Standard determines block premia

\[ \text{coef} = -.19357107, \ (\text{robust}) \ \text{se} = .06713368, \ t = -2.88 \]
Liability Standard determines ownership concentration

\[ \text{Liability Standard Index} \]

\[ \begin{align*}
\text{coef} &= -.19730718, \quad \text{(robust)} \, \text{se} = .06389783, \quad t = -3.09
\end{align*} \]
Creditor Rights determine private credit

Private Credit / GDP

Creditor Rights Index

coef = .06973402, (robust) se = .02625236, t = 2.66
Government ownership of banks determines interest rate spread

$\text{coef} = 45.540284, \text{ (robust) se} = 26.938754, t = 1.69$
## Political Variables

<table>
<thead>
<tr>
<th>Political Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief executive and largest party in congress have left or center political orientation</td>
<td>Measures the percentage of years between 1928 and 1995, and, alternatively, between 1975 and 1995, during which both the party of the chief executive and the largest party in congress had left or center orientation. If the country was not independent in the initial year of the period, we use the independence year as the first period.</td>
</tr>
<tr>
<td>Union density</td>
<td>Measures the percentage of the total work force affiliated to labor unions in 1997.</td>
</tr>
<tr>
<td>Autocracy</td>
<td>This variable classifies regimes based on their degree of autocracy.</td>
</tr>
<tr>
<td>Proportional representation</td>
<td>Equals one if legislators were elected based on the percentage of votes received by their party; equals zero otherwise.</td>
</tr>
<tr>
<td>Divided government</td>
<td>The probability that two randomly chosen deputies will belong to a different party in a given year.</td>
</tr>
<tr>
<td>Democracy</td>
<td>A measure of the degree of democracy in a given country based on: (1) the competitiveness of political participation; (2) the openness and competitiveness of the chief executive recruitment; and (3) the constraints on the chief executive.</td>
</tr>
</tbody>
</table>
# Cultural Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent protestant</td>
<td>Identifies the percentage of the population of each country that belonged to the protestant religions in the world in 1980.</td>
</tr>
<tr>
<td>Buddhist, Catholic, Muslim, Ortho, Protest, Other</td>
<td>A dummy variable that identifies the religion practiced by the largest proportion of the population. There are nine religions: Atheist, Buddhist, Catholic, Hindu, Indigenous, Judaism, Muslim, Orthodox Christian, and Protestant.</td>
</tr>
</tbody>
</table>
Independent judges
Private orderings
Total loss minimization
Institutional possibility frontier (IPF)
Social losses due to state expropriation (Dictatorship)
Social losses due to private expropriation (Disorder)

Institutional possibilities