

La Porta, Lopez-de-Silanes, and Shleifer (JEL 2008)
The Economic Consequences of Legal Origins

Summary:

- Legal Origins Theory: differences between legal origins are deep enough that they are expressed in the different strategies of social control of economic life even after centuries of legal and regulatory evolution. These legal systems have significant effects on the legal and regulatory framework of society, as well as for economic outcomes.
- The French civil law family is relatively more concerned with disorder and less with dictatorship whereas the English common law family is relatively more concerned with dictatorship and less with disorder.
- Both seek to find a balance but common law does so by shoring up markets, while civil law does so by restricting them or even replacing them with state commands.

Hypothesis:

- Legal origins have an effect on particular laws and regulations (institutions), which in turn affects economic outcomes.

Methodology:

- Tables 1, 2, 3 (Panel A): cross-country OLS regressions of legal or regulatory institutions (financial, government, and judicial) on legal origins (French, German, and Scandinavian), controlling only for per capita GDP.
- Tables 1, 2, 3 (Panel B): cross-country OLS regression of outcomes (financial, government, and judicial) on legal rules.
- Did not combine the two in IV because of omitted variables in the first stage.

Results:

Compared to French civil law, common law is associated with:

- Better **investor protection**, which is associated with improved financial development, better access to finance, and higher ownership dispersion.
- Lighter **government ownership and regulation**, which are associated with less corruption, better functioning labor markets, and smaller unofficial economies.
- Less formalized and more independent **judicial systems**, which are associated with more secure property rights and better contract enforcement.

Issues:

- Reverse causality: countries change rules and institutions in response to outcomes.
- Omitted variables: legal origin affects financial development through channels other than legal rules and institutions.
- Legal origin is a proxy for other factors influencing legal rules and outcomes.
- Alternative strategy: did an exogenous change in the environment (such as the start/end of war or major financial crises) change the direction of common law versus civil law approach to social control of economic life?