

# Shareholder Protection and Stock Market Development: An Empirical Test of the Legal Origins Hypothesis

*John Armour, Simon Deakin, Prabirjit Sarkar, Mathias Siems, and Ajit Singh\**

Using a panel data set covering a range of developed and developing countries, we show that common-law systems were more protective of shareholder interests than civil-law ones in the period 1995–2005. However, civilian systems were catching up, suggesting that legal origin was not much of an obstacle to formal convergence in shareholder protection law. We find no evidence of a positive impact of these legal changes on stock market development. Possible explanations are that laws have been overly protective of shareholders and that transplanted laws have not worked well in contexts for which they were not suited.

---

\*Address correspondence to Simon Deakin, University of Cambridge, Centre for Business Research, Top Floor, The Judge Business School Bldg., Trumpington St., Cambridge CB2 1AG, UK; email: s.deakin@cbr.cam.ac.uk. Armour is at the University of Oxford; Sarkar is at Jadavpur University; Siems is at the University of East Anglia; Singh is at the University of Cambridge.

The work reported here was carried out at the Centre for Business Research, University of Cambridge, as part of the “Law, Finance and Development” project (<http://www.cbr.cam.ac.uk/research/programme2/project2-20.htm>). We gratefully acknowledge funding from the ESRC’s “World Economy and Finance” Programme, the Newton Trust, and the EU Sixth Research and Development Framework Programme (Integrated Project “Reflexive Governance in the Public Interest”). We are grateful for comments received from Badi Baltagi, Brian Burgoon, Stijn Claessens, Panicos Demetriades, and other participants at the World Economy and Finance Workshop held at the University of Amsterdam in October 2007; from participants at the Second Conference on Empirical Legal Studies held at NYU in November 2007, in particular Howell Jackson; and from a Public Economics Seminar at Oxford University in February 2008. We also thank the editor and an anonymous referee for most helpful comments on earlier drafts. The quantitative data on shareholder protection analyzed here were compiled by Mathias Siems (Germany, France, United Kingdom, United States, Japan, China), Priya Lele (India, Pakistan, South Africa, Malaysia, Canada), Pablo Iglesias-Rodriguez (Spain, Mexico, Argentina, Chile), Viviana Mollica (Italy, Switzerland, Brazil), Theis Klauberg (Latvia), and Stephan Heidenhain (Czech Republic). Thanks to all of them. The usual disclaimer applies.