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EASING BUSINESS ACROSS THE CLEAVAGES OF LEGAL ORIGINS**

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Contract Rules in Codes and Statutes: Easing Business Across the Cleavages of Legal Origins¹

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Abstract

Contract theory qualifies legal origins theory by focusing on codified default rules, which ease the conclusion of enforceable contracts. We have selected 10 economically important codified contract types containing default rules and 8 countries particularly relevant as mother countries of legal origins, financial centers or newly industrialized economies (France, Germany, Japan, South Korea, Switzerland, Taiwan, the UK and the US). We exclude countries having received their laws as colonial “transplants” and countries in legal transformation. The economic impact of default rules is detectable by econometric analysis based on panel data inference over prolonged periods (1870-2008). Codified default rules favor economic performance, the higher their number the better. The results are controlled for time and country fixed effects, confirmed by counterfactual simulations and robust. We also test whether the presence of all ten contract types can compensate the absence of financial center advantage, and find that they do so in the civil law mother countries and the two newly industrialized countries of our sample. The Swiss case shows that the cumulation of default rule advantage and financial center advantage results in superior economic performance. While qualifying legal origins theory, our results strongly confirm institutional economics in its core of contract theory.

Keywords - Legal origins theory, contract theory, default rules in civil law and common law, economic performance

JEL Codes - D86, K00, K10, K12, L14, N40, O43

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