

Egalitarianism and International Investment

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In applying a new approach from social psychology for how culture can be decomposed and measured, this study identifies the historical foundations for differences in a key cultural dimension—egalitarianism—and it cleanly estimates the effect of egalitarianism on a set of economic outcomes. Egalitarianism is defined as a society's cultural orientation with respect to intolerance for abuses of market and political power. We show egalitarianism to be based on historical factors including social fractionalization, religion, and war experiences. We use theory and empirical data from social psychology to construct measures of distance between countries in their orientations toward egalitarianism. Controlling for a large set of competing explanations, we find robust support for the influence of egalitarianism distance on cross-national investment flows of equity, debt, and mergers and acquisitions. An informal cultural institution largely determined a century or more ago, egalitarianism exercises its effect on international investment via an associated set of consistent policy choices made in recent years. But even after controlling for these associated policy choices, egalitarianism continues to exercise a direct effect on cross-border investment flows, likely through its direct influence on managers' daily business conduct.

COMMENTS ARE WELCOME.

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I. INTRODUCTION

Despite Arrow's [1971] earlier observation that "norms of social behavior, including ethical and moral codes, ... , are reactions of society to compensate for market failure," culture has long been understudied in economics. The paucity of studies on the determinants of culture and its economic consequences has occurred perhaps because of the belief held by some that culture does not matter or because of the belief that culture cannot be suitably decomposed and measured [Guiso, Sapienza and Zingales 2005b]. While culture has more frequently been studied in financial economics and in the economics of international business, we believe that past measures of culture have significant shortcomings. Nevertheless, over recent years there has been a renaissance of cultural studies in economics.¹ Alesina and Glaeser [2004], in an argument that is quite germane to the present study, argued that cultural beliefs taught to children in public schools can potentially help to explain why the United States has a much smaller welfare state than most of Europe. Recently, Guiso, Sapienza and Zingales [2005a] showed for a sample of European countries that cultural biases towards other countries' citizens influence the level of cross-border portfolio investment and trade.

This emerging interest has led to important new insights, yet we still have insufficient understanding of what beliefs constitute a "culture," where these beliefs come from, and what beliefs affect which economic outcomes. In this study we seek to make the following contributions to the study of culture, institutions more generally, and the effect of institutions on

¹ One set of notable studies showed why social groups' adherence to cultural beliefs can be rational for supporting trade over long distances and for adopting new technologies (e.g., Greif [1994] and Fang [2001]). Cozzi (1998) also showed that cultural transmission from generation to generation is rational as long as it leads to expanded economic production over time. Lazear (1999), in addition, showed that common culture facilitates trade between individuals, and further that cultural demography determines both the choice of neighborhood for new immigrants in the United States as well their choice over whether to invest in acquiring the majority culture. Barro and McCleary [2003] point to the connections between beliefs in heaven and hell, church attendance, and economic growth. Bénabou and Tirole (2006), moreover, explored the role of beliefs in a just world in several policy contexts.

economic outcomes. First, we marshal support for a new theoretical framework from social psychology that explains how to define what beliefs constitute a culture and how to compare cultural beliefs across cultures. Yet we do more than simply argue for the approach. More importantly, this study is the first to apply this theoretical framework to economic outcomes and link a specific cultural orientation towards egalitarianism in a society to important economic and financial outcomes in the global business environment.

Here, we will briefly explain our theory for why egalitarianism is so economically important in the global context. Egalitarianism relates to a society's intolerance for abuses of market and political power inequality. It is reflected in a society's choices about the need for redistribution in favor of the weak, the unemployed, and the elderly; about the need to provide workers with labor protections; about how much to control market abuses by monopolists; about how much financial transparency to expect from large firms; and about how much to limit political corruption. At the individual level, egalitarianism has been shown by negotiations scholars to greatly influence individual negotiating behavior. For example, negotiations scholars Brett [2001] and Tinsley [2001] have shown that managers from more hierarchical societies much more frequently invoke their status, power, or authority as a means of forcing concessions from their negotiation partner. Managers from hierarchical societies tend to believe that status or power differences are so legitimate as to allow for different rules for different people. In contrast, managers from egalitarian societies are more unwilling to tolerate the use of status or power as a substitute for information disclosure and evidence needed to calculate mutual gains. Managers in egalitarian cultures tend to believe that the same rules of everyday conduct should apply to all people regardless of status, power, or authority.

Our argument is that differences in egalitarianism between countries influence the size of the transaction costs in negotiating over cross-border debt and equity, and also in negotiating

over cross-border mergers and acquisitions. Egalitarianism matters because it influences policymaking at the macro level and everyday business conduct at the individual manager level. This business conduct includes a company's belief in the need for revealing sensitive information about its financial condition, a company's decision not to exploit its monopoly position in an anti-competitive fashion, a company's practices of dealing with workers, including the provision of job protection and employment benefits, and a company's decision not to engage in corrupt political activity. At the macro level, egalitarianism influences legislators, executive officials, prosecutors, and regulators who enact and enforce laws dealing with antitrust, labor protections, financial transparency, and anti-corruption. Companies from a low egalitarian society are likely to think that their everyday business conduct is entirely appropriate, and they are also likely to be quite experienced and capable in acting according to their society's social norms. When faced with doing business in a high egalitarian environment, they will face higher transaction costs than in another environment where the rules of the game are similar. That is likely true for three reasons: they may not recognize the exact content of the opposing beliefs and rules, they may not think these beliefs and rules are necessary or appropriate, and they may not be skilled or experienced in acting according to those contrary rules.²

We propose in this study a new multi-faceted theory for what determines differences in egalitarianism across countries, and we find strong empirical support for this theory. Next, we show that egalitarianism is a robust determinant of cross-border financial and strategic investment flows even after controlling for a wide-ranging set of competing explanations. In fact, cultural egalitarianism is of far greater economic significance in explaining cross-border financial and strategic investment flows than many if not all of the formal legal institutions

² Mezias [2002] wrote, for example, a cogent case study showing that foreign firms operating in the U.S. faced a difficult time adjusting to rules on employment discrimination that were different from those in their home country.

widely seen as dominant in the current institutional economics literature. For cross-border debt and equity, we have found a large arena in which informal institutions trump formal institutions in their influence on cross-border economic outcomes. Next, we show that egalitarianism is associated with a set of policy choices that are highly consistent with a societal emphasis on egalitarianism. However, egalitarianism significantly influences cross-border investment flows even after controlling for these policy choices. In other words, the effect of an informal cultural belief on managers' everyday business conduct is of first-order economic importance even after controlling for formal rules of the game. Or at the same time, even when the formal rules are inconsistent with the informal beliefs, it is often the informal beliefs that decide economic outcomes. This is, we believe, some of the most compelling evidence yet for the importance of informal cultural institutions in determining a set of important economic outcomes.

The paper is organized as follows. Section II briefly reviews how culture has been treated in the past by the financial economics and economics of international business literatures in studying a specific type of economic outcome—cross-border flows of debt, equity, and mergers and acquisitions. Section III articulates the theory for why egalitarianism distance exercises a significant impact on cross-border financial and strategic investment flows. Section IV reviews the data gathered on egalitarianism, cross-border flows of equity, debt, mergers and acquisitions, and other variables. Section V reports our results on the historical determinants of egalitarianism and the influence of egalitarianism on cross-border transaction flows. Section V also identifies policy choices through which egalitarianism likely exercises its effect on cross-border flows. Lastly, Section V reports on how egalitarianism exercises a direct effect on cross-border investment even after controlling for these indirect effects. Section VI concludes.

II. LITERATURE REVIEW

Both the international finance and economics of international business literatures relate cultural barriers to international investment flows. Because they have developed along parallel tracks, we briefly review them in turn.

II.A. Institutional Distance and International Finance

The international finance literature has long puzzled over the peculiar patterns of international financial flows. Investors over the world exhibit an inexplicable preference for domestic equities and, when they do invest in foreign equities, tend to do so in a limited sample of countries. Firms exhibit an equivalent preference for proximate markets. International finance authors invoke a notion of cultural distance to account for this pattern, but fail to distinguish specific cultural factors that might account for the observed patterns.

Institutional barriers have long been believed to be responsible for these patterns of international investment (see Karolyi [2004] for a survey). But with the rapid decline of direct transaction costs and the dismantling of a host of barriers to cross-border capital flows [Chan, Covrig, and Ng 2005], scholars are turning to culture for explanations. The underlying story here is one of familiarity, which might translate quite simply into lower information asymmetry: hence, Huberman's [2001] argument that "familiarity breeds investment."³

Recent studies support the thesis that issuers might seek prospective investors in culturally proximate markets to ensure the smooth flow of information between home and destination markets (e.g., Sarkissian and Schill [2004] and Pagano, Röell, and Zechner [2002]). Language and cultural background are mentioned as possible sources of an informational disadvantage for foreign investors that contributes to the home bias (see, for example, Tesar and

³ The financial economics literature is undecided on whether such familiarity preference reflects rational choice or a behavioral bias. See French and Poterba [1991], Huberman [2001], and Heath and Tversky [1991].

Werner [1995] and Grinblatt and Keloharju [2001]; see Lewis [1999] for a survey). Chan, Covrig, and Ng [2005] follow Sarkissian and Schill [2004] in using variables for common language, geographical proximity, common colonial ties, and bilateral trade to try to capture the causes of the informational disadvantage. Portes and Rey [2005] show that cross-border equity portfolio investment flows are explained by a gravity model in which geographic distance plays an important role. These authors associate geographical proximity with cultural affinities that reduce informational frictions and promote economic exchange.

Such studies trumpet the importance of culture. Yet thus far, familiarity and cultural distance have been defined and operationalized somewhat loosely. The assumption that underlies the use of the commonly used proxies is that information asymmetries stem from frictions in the flow of information and that cultural differences engender these frictions. But geographical distance captures cultural differences only indirectly. Portes and Rey's [2005] proxies (numbers of telephone calls and bank branches) similarly reflect not so much substantive features of a culture as transmission channel size. Societies that have in common the evolution of broad transmission channels might or might not be culturally similar. Moreover, common language and colonial ties are simple proxies that are silent on which aspects of culture might be responsible for the observed effects. The same-language variable indeed is insensitive to the existence of closely related but non-identical languages (see Fearon [2003]) and the colonial heritage variable, widely considered in the institutions literature, lacks theory for associating culture with investment.

Finally, Guiso, Sapienza, and Zingales [2005a] extend this line of research, finding that lower levels of trust between two countries lead to lower levels of economic exchange, portfolio investment, and direct investment across borders. Our study differs from these authors' contribution in the causal channel of cultural influence that is being investigated. While these

authors focus on biases that may be caused by cultural stereotypes (prior beliefs) and hold social institutions constant through country fixed effects, we employ a framework that considers values (motivations) to unpack these social institutions and compare their relative influence. The two studies thus complement one another in shedding light on culture's consequences.

II.B. Cross-Border Mergers and Acquisitions

Although the economics of international business literature has produced relevant theory for linking cultural distance and cross-border merger and acquisition behavior, we believe theoretical and data limitations to be responsible for a number of contradictory empirical findings. The literature relies heavily on a cultural distance index, developed in a seminal work by Kogut and Singh [1988], which pools four different cultural constructs and examines the aggregate distance across countries. Subsequent work has done little to elaborate on the distinct role of individual cultural factors notwithstanding suggestions to this effect (see Shenkar [2001]).

Past studies predict that cultural distance will discourage firms from pursuing mergers and acquisitions in foreign host countries. Cultural distance, scholars argue, makes it difficult to value foreign investments, transfer management practices, and gather valuable local information (e.g., Richman and Copan [1972], Davidson [1980], and Root [1982]). It is likely to increase transaction costs [Kogut and Singh 1988], render firms less comfortable with operating methods in the host country [Caves 1982] and, in general, less knowledgeable of their host informational environment [Hennart 1990]. Past authors further predict that firms will initially invest in foreign countries that are culturally distant, but learn from experience that the transaction costs are too high to justify the anticipated returns [Weber, Shenkar, and Raveh 1996].

Habib and Zurawicki [2002] find that firms grow accustomed to the high corruption level in their home countries and feel most comfortable doing business in countries with similar corruption levels. This prediction also holds in the other direction, firms in less corrupt countries

preferring to do business in countries with low levels of corruptions. We find these results encouraging with respect to the present study. As we will show, egalitarianism exercises an indirect effect on cross-border investment via its effect on corruption levels, but it also exercises a direct effect on cross-border investment after accounting for corruption.

Yet, when tested further, prior studies do not support as strongly the prediction that cultural distance keeps firms from pursuing mergers and acquisitions in foreign countries (compare Grosse and Trevino [1996], Weber, Shenkar, and Raveh [1996], Terpstra and Yu [1988], Sharma and Johanson [1987], and Benito and Gripsrud [1992]; see Tihanyi, Griffith, and Russell [2005] for a meta-analysis). Thus, although prior theory suggests that cultural distance matters for international investment, owing to limitations in theories generated around culture and in the measurement of its aspects, past studies have failed to achieve consistent results. We attempt through our theory of the relevance of egalitarianism to international business, together with our new data source, to shed light on the role informal social institutions play in driving international business flows.

III. THEORETICAL FRAMEWORK

III.A. Informal Social Institutions

Institutions are widely understood to be the “humanly devised constraints that structure human interaction” (see North [1990, p. 3]). They are composed of formal rules, informal constraints, and the enforcement characteristics of both. If institutions are understood to be “the rules of the game,” then informal institutions are the unwritten, unspoken rules of the game, the collection of beliefs, values, and social norms that constrain the behavior of individuals and organizations often lumped together as “culture.”

The mechanisms through which informal institutions exert their influence have been understudied in economics. In one view such institutions are simply treated as exogenous factors – they are “taken as given by most institutional economists” [Williamson 2000, p. 596]. Alternatively, informal institutions are modeled as endogenously-appearing self-enforcing rules that are the equilibrium of a repeated game [Aoki 2001]. The latter view considers the content of such institutions to be common knowledge [Greif and Laitin 2004]. Social players thus interact with partners assumed to share the same priors (beliefs) and to be guided by a similar set of motivational goals (values). The constraining effect of culture as societal common knowledge in equilibrium stems from the belief that it is in everybody's self-interest to adhere to these values and beliefs unless and until an exogenous shock upsets the equilibrium.

Viewing them merely as constraints does not fully capture the role of informal institutions. Sociology and psychology view a society's prevailing values and norms as motivators of and justification for action [Nee 2005]. The cognitive (knowing) element of values is augmented, at the individual level, by an affective (feeling) element that influences motivations and guides actions [Schwartz and Bilsky 1987]. Behavior that is consistent with values engenders a positive feeling and vice versa. At the societal level, psychologists view value preferences as an interconnected system, a “social mind” (e.g., Hofstede [2001] and Oyserman [2002]), much in line with the economic conception of societal common knowledge.

Consistent with the view of informal institutions as societal equilibria, recent work has found cultural orientations to be relatively stable and to exert their influence over long periods of time (e.g., Guiso, Sapienza, and Zingales [2005a and b] and Tabellini [2005]).⁴ Psychologists

⁴ For the sake of terminological clarity we confine the use of the term “values” to the individual level. Values define what is good, right, or desirable for the individual. Value preferences stand for the degree to which one considers particular values as guiding principles in one's life. Societal/cultural stances on what is good, right, or desirable are dubbed “orientations.”

tend to agree that, once adopted, value preferences remain relatively fixed over time (e.g., Rokeach [1973], Schwartz [1992], and Oyserman [2002]). The upshot is that societies' informal institutions affect a vast array of factors that evolve as a system in which specific components are compatible with one another. The resulting institutions "have a lasting grip on the way a society conducts itself" (Williamson [2000, p. 597]).

III.B. Comparing Cultures

The inclination to treat informal institutions as black boxes is responsible for the paucity of analyses of their content and structure. Theoretical models of the content of cultural orientations are few and incomplete (see notable exception by Greif [1994]). Tabellini [2005] recently took a step forward in drawing on the World Value Survey to depict a cultural emphasis on obedience in more hierarchical societies. In many analyses, however, researchers account for culture by focusing exclusively on the dominant religion or percentage of followers of each religion (e.g., La Porta et al. [1999]).

Dominant religion is a valid proxy for culture because religions are a primary source of moral injunctions and beliefs. Beyond data availability, that the religion variable is considered exogenous due to countries' long histories of religious affiliation is also an advantage. But the approach nevertheless has a number of drawbacks. Religions are exceedingly complex institutions with protracted evolutionary tracks. Many accommodate the coexistence of conflicting views on numerous issues, and degree of religious commitment varies both within and across countries. Moreover, that many modern countries are predominantly secular weakens the link between religion and contemporary informal institutions. Finally, classifying countries by religion, in particular, the common distinction between Protestantism and other religious denominations, leaves the substantive content of the cultural differences virtually undefined.

A research program in psychology going back several decades suggests how to identify and measure informal institutions of national societies, namely, their cultures. The approach is guided by two theoretical postulates. The first postulate is that all societies confront similar basic issues or problems when they seek to regulate human activity [Kluckhohn and Strodtbeck 1961]. Societies' responses to these basic issues thus constitute their fundamental institutions. The second postulate is similar to the central insight of institutional economics, namely, that as a general social institution, culture affects numerous factors including individual values and beliefs. Psychological models of culture go beyond current economic accounts in identifying these key issues and observing the differential impacts of societal responses to these issues on psychological factors. Given that the classic definition of culture highlights shared values [Kroeber and Kluckhohn 1952], most mappings of cultures have used values to derive cultural profiles.

The cultural theory put forward and expanded in the present study was created by Schwartz [1994, 1999, 2004]. This theory identifies three key issues societies must address and derives three corresponding dimensions for cross-cultural analysis. Only one of the latter, egalitarianism vs. hierarchy, exhibits a clear theoretical connection to the economic outcomes in the present study. As part of a series of robustness checks, we test and control for the other cultural dimensions and find that egalitarianism is both the theoretically relevant and statistically robust predictor of these economic outcomes. To operationalize nations' cultural profiles, Schwartz analyzes differences in how national populations prioritize 45 universally recognized values (details are provided in the data section). A multidimensional scaling analysis was performed to generate country scores on the three key issues societies must address. Schwartz's model is currently considered the most advanced in social psychology for a number of reasons. First, the model is theory-driven, its central elements having been derived from earlier work in the social sciences. Second, and most important, the model's operationalization uses value measures that have been shown to have universally

equivalent content meaning at the individual level. Finally, validating data for this model was collected relatively recently (see Smith and Bond [1998], Brett and Okumura [1998], Hofstede [2001], and Mezias et al. [2002]). An earlier theory developed by Hofstede [1980] identifies cultural value dimensions derived from audits of employee morale in IBM Corporation.

III.C. Egalitarianism

The present study focuses on societal stances concerning the legitimacy and desirability of equal distribution of power, resources, and roles. Egalitarianism is “the belief that all people are of equal worth and should be treated equally in society” (Schwartz [2001, p. 65]). Egalitarianism also stands for the corresponding cultural orientation in the Schwartz model. Societal stances on this issue vary along a continuum between the two polar positions on a dimension termed egalitarianism versus hierarchy. Such stances are the institutional responses every society must develop to address the key challenge of guaranteeing responsible behavior that will preserve the social fabric. Important values in egalitarian cultures include equality, caring for the weak in society, responsibility, helpfulness, and honesty. In other words, highly egalitarian societies are ones whose citizens say that these values do relatively more to guide their everyday conduct. As will be shown in a later section, societal stances that emphasize egalitarianism are reflected primarily in a society’s preference for equality of opportunity and lack of tolerance for abuses of power, whether market or political, but also in a wide range of social and economic policy choices including distributions and regulations that protect the indigent, the unemployed, the retired, and the elderly. Cultural preference for hierarchy, in contrast, legitimizes unequal distribution of power, roles, and resources on the basis of attributes such as wealth, gender, age, and caste. People are socialized to obey their role obligations and to accept the consequences of such structures. Values such as social power, authority, humility, and wealth are held to be more important in hierarchical cultures.

Note that these mappings are relative. It is not that hierarchical societies fail to acknowledge egalitarian values, but instead their emphasis on egalitarianism is lower relative to more egalitarian societies. It might be efficient to organize certain activities hierarchically (e.g., the military, a bureaucracy, or corporations), but the harsh consequences of doing so for weaker members of society can be expected to be mitigated more in egalitarian societies. Egalitarian societies can also be expected to aggressively curb monopolists' abuses of market power.

III.D. Egalitarianism and International Investment

How might societal emphasis on egalitarianism influence an important economic outcome such as international investment flows? Prior literature discusses only cultural distance in general, without reference to specific cultural dimensions. Barkema et al. [1997, p. 427] define cultural distance as “the sum of factors creating, on the one hand, a need for knowledge, and on the other hand, barriers to knowledge flow and hence also for other flows between the home and the target countries.” Low cultural distance between countries means that their peoples have more common knowledge; they thus share more of the implicit information with which they make sense of and assess their social environments. They feel less uncertain about each other and about each others' firms, and the resulting sense of familiarity breeds cross-national investment [Huberman 2001].

The social psychological framework enables us to be specific about which factors might be critical for facilitating international investment. The observation that distance on a particular cultural orientation, namely, egalitarianism, is linked with economic exchange leads the analyst to the set of more concrete institutions that might be playing a role. Differences in this orientation between home and destination countries are reflected in differences in social regulation of power and consequences thereof. In the economic arena, egalitarian societies might be expected to be less tolerant of abuses of market power. When greater distance is

observed in this particular cultural orientation it is likely that the home and destination countries are playing to different sets of rules. Foreign firms that face the prospect of navigating an institutional environment governed by rules that are contrary to those that prevail in their home countries are likely to invest only if anticipated returns are sufficiently high to offset the adaptation costs. That is likely true for three reasons: they may not recognize the exact content of the opposing beliefs and rules, they may not think these beliefs and rules are necessary or appropriate, and they may not be skilled or experienced in acting according to those contrary rules. Stated simply, cultural distance might be a liability, as has been assumed by the literature on strategic investment. But cultural similarity might also be an asset, especially when similarity in everyday business conduct and similarity in institutions governing the proper use of market and political power allow for speedier negotiations and more economic cooperation between firms and investors across borders.

IV. DATA

IV.A. Dependent Variables

A comprehensive data set on cross-border debt, equity, and merger and acquisition transactions was assembled by the present authors. Thomson Financial Securities Data, which was our source for debt transactions, includes basic data on all Euro and Foreign New Issues, Yankee Bonds, and cross-border syndicated loans. The Citibank ADR database joined the Thomson database as our source for equity transactions. Both were searched for all cross-border equity listings, current and expired, and including listings that involved capital raisings as well as those that did not. The equity data were then crosschecked against the pre-1998 cross-border equity data set provided by Sarkissian and Schill [2004]. The Securities Data Corporation (SDC) database was our source for a comprehensive set of cross-border merger and acquisition

transactions. The SDC database is itself a component of Thomson's research database; Thomson acquired SDC in 1988. The strength of our final data set is that it draws information from all relevant local regulators, market participants (including investment banks and international law firms), trade publications, local periodicals, and stock exchanges, and that it was crosschecked for consistency. The merger and acquisition database includes all cross-border deals that involve at least 5% ownership and are valued at \$1 million or more.

We examined one by one every set of company-year observations in the resulting cross-border equity, debt, and merger and acquisition data sets to remove the small number of individual transactions listed more than once. The resulting data set—to our knowledge the most comprehensive of its kind—has large numbers of equity and debt observations beginning in 1975 and cross-border merger and acquisition transactions beginning in 1978 and extending to 2003, the last year in which we collected data. The number of cross-border transactions increases dramatically over these nearly three decades, more than three-quarters of the total number of global transactions occurring in 1990 or later. Because our variable of interest is collected for 51 countries, we confirm that the distributional characteristics are nearly identical between the full sample of all countries with cross-border transactions and the sample confined to these 51 countries. In fact, the two samples have identical minimum (1), median (2), and maximum (310) values. As did La Porta et al. [1998], we largely confine our sample to the approximately 50 countries with a minimum level of capital market development.

IV.B. Culture and Cultural Distance

Schwartz's [1994, 1999, 2004] large-scale value survey of some 35,000 urban teachers who teach the full range of subjects in grades 3-12 in the most common type of school system in countries on every inhabited continent is the original source of our cultural data. We utilize the 2005 release of the data set for the 51 countries surveyed during the years 1988-1997. Teacher

surveys were conducted during 2002-2004 in four more countries (Egypt in 2004, Jordan in 2002, Peru in 2002, and South Korea in 2002) and a repeat survey was conducted in Russia in 1999, resulting in modest updates to Russia's cultural data. The latter observations falling either close to the end of or after our sample time period, we exclude surveys added or updated during 1999-2004. This is consistent with the fact that most of the legal distance indices to which we are comparing the cultural measures were measured in the mid-1990s. As a robustness check, we replicate every table in the paper with the addition of the 1999-2004 data and obtain substantively identical results (available in an appendix from the first author).

The Schwartz survey yielded 45 value items that have equivalent meaning across cultures. The mean importance of a particular cultural orientation in a country was computed as the average of the importance individual respondents attributed to the set of value items that represent the orientation. For cross-national comparisons, sample differences in scale use were eliminated by centering the importance ratings of all cultural orientations within each sample around their mean. Focusing on teachers enabled us to obtain samples matched on critical characteristics (e.g., distributions of age, education, and occupation) largely from the dominant cultural group in each nation. The robustness of national cultural profiles obtained from the teacher sample was separately confirmed with data obtained from samples of undergraduate students in most of these same countries.

Further testing also indicates that the measure is reflective of general cultural beliefs across very different segments of the population. When splitting the Schwartz survey respondents by age (those younger than 37 and those older than 37), the correlation in their beliefs towards egalitarianism is 0.92. The correlation between males and females is 0.90. The correlation between teachers and students is 0.91. Furthermore, the Schwartz survey has been conducted in a small number of countries in samples of employees, adults, adolescents, and

nationally representative groups. We take these samples together as a group and find a correlation of 0.91 with the teacher-generated scores used in this study. While the Schwartz survey has yet to be directly conducted on a pure sample of managers, the egalitarianism variable itself is (as will be shown in Section V) positively correlated to various corruption indices. Treisman (2000) found that samples of the business community and samples of the general population were highly correlated in their views towards corruption. In summary, we believe that the Schwartz egalitarianism scores do proxy effectively both for the general society's view and the business community's views about egalitarianism.

Kogut and Singh's [1988] approach, with significant adaptations, was used to operationalize cultural distance. The Kogut-Singh index aggregates the absolute value of differences between countries' scores on the four Hofstede dimensions. Although widely used in global business strategy research, this approach has certain weaknesses [Shenkar 2001]. Aggregating all four dimensions assumes equal roles for all cultural orientations notwithstanding evidence that some dimensions might be more important than others. Also, using absolute instead of signed distance values conceals the direction of movement along a dimension.

For every pair of countries we constructed two measures of distance: egalitarianism distance, being the square of the difference between the countries' scores on egalitarianism; and signed egalitarianism distance, being the signed algebraic difference between the countries' scores on egalitarianism.⁵ For the second measure we took the egalitarianism value for the country of origin of the firm doing the cross-border transaction. We then subtracted from that number the egalitarianism value of the country hosting the cross-border transaction.

IV.C. Formal and Informal Legal Distance

⁵ Taking the absolute value of the difference between two countries' egalitarianism scores yields similar results.

A sizable literature holds that formal legal institutions are the most important determinant of financial and economic development. Foremost are such formal legal institutions as shareholder and creditor rights as defined and operationalized by La Porta et al. [1998]. La Porta et al. [2000] later advanced the “legal approach”—namely, classifying legal regimes by a country’s legal origin affiliation—as the preferred way to understand corporate governance. More recently, La Porta et al. [2006] have argued that among the numerous rules in securities laws, those linked to financial development are the rules that facilitate private litigation, primarily rules on disclosure and burden of proof. Taking this literature on its own terms, we construct distance measures for the following variables: indices of shareholder and creditor rights drawn from La Porta et al. [1998]; and indices of private litigation rules and disclosure in securities regulation laws drawn from La Porta et al. [2006] (namely, the formal rules these authors identify as ones that “work”). Our desire to measure differences in securities regulations is in part inspired by Vlachos [2004], who showed that bilateral differences in securities regulation were associated with decreased bilateral asset holdings.

Because legal family has been shown to be a powerful predictor of financial development, we also test directly for the importance of legal family. A dummy is set equal to 1 when origin and host countries are from different legal families. We started with the data on legal origin reported in La Porta et al. [1999] and then did an enlarged survey of recent changes in civil and commercial code taken by former socialist countries. Classifying some countries’ legal systems by legal family has become complicated since the demise of the soviet bloc and the consequent obsolescence of the socialist legal family (see, for example, Van Hoescke and Warrington [1998] and Zweigert and Kötz [1998]). Since the present sample includes transactions through the year 2003, we conducted an extensive survey to identify the year in which each former socialist country adapted its civil or commercial code to market economy

principles, sometimes by reverting to and revamping old pre-socialist versions of the particular country's legal code. We also traced the main source of influence in these reforms, which in most cases was either German or French civil law. Our main sources were Ajani [1996], Maggs [2003], and Pistor [2000]. Our variable for different legal family is therefore time-contingent, taking into account the year of change in legal code for these countries formerly belonging to the socialist legal family. (See Appendix Table A1 for complete details.) We use this coding because we believe it to be the most accurate and complete for our sample, but also as a precaution we run a series of robustness checks. As will be described in the results section, our egalitarianism results are substantively identical even when we try using alternative definitions of legal family from the prior institutional economics literature. The legal family results are also substantively identical.

Next, we consider the manner in which court systems resolve, in terms of flexibility and vagueness versus rigidity and perceived clarity, two common types of commercial disputes. Djankov et al. [2003] find that the more rigid the procedures a society prescribes, the longer the duration of dispute resolution and the lower the enforceability of contracts. We construct, based on Djankov et al.'s [2003] index for evicting a non-paying private tenant, a measure of distance between two countries in their level of procedural formalism. It deserves emphasizing that this measure captures both formal and informal elements of the legal system, although the original authors correctly focused on the fact that many elements of procedural formalism are codified in formal law and legal precedent.⁶ However its formal versus informal character is apportioned, the more important implication is that this variable serves as an effective proxy for the overall character, or “spirit,” of the legal system (Djankov et al. [2003, p. 457]).

⁶ We get substantively similar results using Djankov et al.'s [2003] twin index on collection of a bounced check.

Our final measure of legal institutions captures the acceptance of the rule of law in a country. The rule of law refers to legality, law and order, and protection of property rights, among other aspects. This is an informal institution, a social norm. It refers to law-abidingness as a social reality, not to a formal provision on whether the law should be obeyed (to which every legal system largely answers in the affirmative). There exist many comparative measures for the rule of law. We use the index from the World Bank's governance indicators data set for 1998 [Kaufmann, Kraay, and Mastruzzi 2003], probably the most comprehensive and reliable data set available, to construct distance measures for this institution.

To recap, we operationalize five categories of institutional distance: cultural distance, which covers egalitarianism and signed egalitarianism; informal legal distance, which covers the rule of law; differences in legal origin; distance in the regulation of commercial dispute resolution proxied by the procedural formalism index; and formal legal distance, which covers specific shareholder and creditor rights and securities laws.

V. RESULTS

V.A. Antecedents of Egalitarianism

We show that a country's orientation towards egalitarianism is determined largely by exogenous, historical factors. Societal fractionalization, whether consequent to historical divisions in ethnicity, language, or religion, is an ecological variable commonly used in the institutions literature as an exogenous factor (e.g., Mauro [1995] and Hall and Jones [1999]). Societal fractionalization is inimical to cultural egalitarianism. Linguistic or ethnic fractionalization has been associated with lower trust and less cooperation in providing public goods (see Alesina and La Ferrara [2005] for a recent review of the fractionalization literature). Religions, because of their proclivity to claim a monopoly on truth and morality, also pose a

threat to one another. Such claims (which are less the case with some Eastern religions and at least in the rhetoric of some liberal streams in Western religion) are at odds with a cultural emphasis on egalitarianism, which views all people as moral equals. Many religions that preach universal concern for others in practice tend to promote a sense of their own moral superiority and a dominant commitment to the welfare of fellow religionists (e.g., Batson and Ventis [1982] and Schwartz [2004]).

Fractionalization is an important historical determinant of egalitarianism in practice. Numerous studies have associated fractionalization with less investment in public goods across countries (e.g., Easterly and Levine [1997]). Even in the United States, higher fractionalization has been associated with lower investment in public education [Goldin and Katz 1999], less individual investment in associational activities [Alesina and La Ferrara 2000], and greater probability of riots and destruction of public goods [DiPasquale and Glaeser 1996].

The prior literature has delineated two mechanisms that might account for the relationship between fractionalization and reduced investment in public goods. First, different ethnolinguistic and religious groups may have different political needs based, for example, on speaking a different language and thus seeking different educational priorities. Moreover, such groups may also live in segregated enclaves and thus have intrinsically different needs for improving their neighborhood infrastructure. Given conflicting political demands and a fixed pie of community resources, less cooperation is likely to be observed in investment in public goods (e.g., Easterly and Levine [1997] and Alesina, Baqir, and Easterly [1999]). Second, in a fractionalized society, individuals might worry that their public contributions will benefit disproportionately members of groups with which they do not identify (e.g., Poterba [1997] and Alesina, Baqir, and Easterly [1999]). Luttmer [2001] finds this effect—resentment of others' receipt of public welfare—to be magnified when a different racial group seen to be receiving

public welfare assistance lives in close proximity. This evidence suggests a deleterious effect of fractionalization on egalitarianism.

The content of religious belief likely exercises a long-term effect on egalitarianism as well. From the time of the Apostles to the 19th century, Christianity has had two opposing internal dynamics, one hierarchical, the other egalitarian (see Brown [1988], Wilensky [2002], and Woodhead [2004]). But since the late nineteenth century both Protestant and Catholic ideologies have been observed by numerous authors to have influenced the formation of egalitarian social beliefs across a wide range of societies (especially a subset of European and Latin American societies).⁷ Rimlinger [1971, p. 91] argues that a Protestant belief system led Prussian governmental elites (themselves often educated by and recruited from the Lutheran church) to embrace pioneering social protections beginning in the latter half of the nineteenth century. Not only did successive Popes embrace egalitarian governmental protections for the poor, the sick, and the weak (most notably *Rerum Novarum* [1891] and the other encyclicals of Pope Leo XIII), but lay persons, too, turned their “pre-political convictions” (Meier [1969, p. 13]), in other words, cultural values and beliefs, into what is widely considered to have been the most successful post-1949 electoral force in much of Western Europe (Conway [1996]).

These social convictions gave rise to the formation of Christian Democratic parties across a range of European countries including Austria, Belgium, Germany, Italy, Luxembourg, Netherlands, Portugal, Spain, and Switzerland [Irving 1979] as well as a subset of Latin American countries including Chile, Costa Rica, El Salvador, Guatemala, Mexico, and Venezuela [Mainwaring 2003]. These parties were based on a philosophy of social personalism [Fogarty 1957], whereby the community shares an obligation to protect the individual from the

⁷ More broadly, Dumont [1970] and Lal [2003] aver that Christianity is more egalitarian than Hinduism.

abuses and excesses of both capitalism and politics. More specifically, the Protestant and Catholic political parties typically shared a set of beliefs that favored parliamentary democracy, social policies built on welfarist principles, protection of the weak from the abuses of market and political power, defense of Christian-denominational institutions and schools, and concertation, that is, active consultation between government, industry, trade unions, and other organized groups (see Irving [1979] and Hanley [1994, p. 3]).

These parties found the greatest receptivity in countries with relatively high rates of Protestant or Catholic religious observance, the typical Christian Democratic voter also being both strongly pro-welfare and attached to traditional concepts of Christian morality (e.g., Irving [1979] and Hanley [1994]). This set of egalitarian beliefs has been seen to be responsible for Christian Democratic political parties having had an effect similar to that of the leftist socialist parties in the period between World War II and 1980 on increasing social welfare spending (e.g., Kersbergen [1995] and Wilensky [2002]). Christian Democratic parties, by appealing across class lines for the support of both working class Catholic trade unionists and rural social conservatives (e.g., Fogarty [1957] and Kersbergen [1995]), have won major political victories even during a period of broad secularization [Conway 1996].

A country's war history also influences the development of egalitarianism. Efforts to raise standing armies during and after the English Civil War of the 1640s and French Revolution of 1789 were, for example, clearly associated with a broad expansion of political and economic rights (Schwartz [2001, p. 65]). Social scientists have long noted that wars, especially those fought during the period of state formation in the 19th century, required actions and expansions of rights that promoted national solidarity (e.g., Holsti [1991] and Tilly [1993, p. 48]). Elites have been persuaded or forced to broaden the definition of social and political rights and share additional resources with the lower classes (e.g., Lasswell [1941], Hurwitz [1949], Feldman

[1966], and Gouldner [1970]).⁸ Once enacted, these reforms often served as the foundation for subsequent expansion of the social safety net. In the United Kingdom during and after World War II Conservative as well as Labor Party leaders pushed for broad expansion of social welfare programs for children [Briggs 1961]. Although the welfare state did not expand to the same extent in the United States, the federal government, to build a so-called “equality of sacrifice,” enacted excess profits taxes and made income taxes more progressive [Wilensky 1975]. Building blocks for later policy innovations were enacted in the 19th century, such as the German innovations in social security, and these innovations often took place during and just after wars of state formation. Thus our hypothesis is that the experience of wars of state formation during the 19th century may have been associated with an increased level of egalitarianism.⁹

We estimate the following OLS regression:

$$(1) \text{Egalitarianism}_i = \beta_0 + \beta_1 * \text{Fractionalization}_i + \beta_2 * \text{Dominant religion}_i + \beta_3 * \text{Historical war experience}_i + \varepsilon_i,$$

where egalitarianism for country i is jointly determined by fractionalization, dominant religion, and historical war experience. Table 1 shows egalitarianism to be in large part determined by these three historical factors. Data on war experience are from the Correlates of War database [Sarkees 2000]. Religious, ethnic and language fractionalization are shown to be significantly associated with egalitarianism, and the dominant religion to also be important. Protestant and

⁸ Some wars have been shown not only to bring about a change in taxation and social welfare policies, but also to increase egalitarianism through full employment and equalization of incomes. Solow [1960] points to full employment being behind a noticeable and nontransient equalization of U.S. incomes during World War II. See also Titmuss [1958] and Briggs [1961] for further evidence of World War II’s permanent effect on egalitarianism.

⁹ Although it might at first seem possible that countries that already had higher levels of egalitarianism tended to enter into a greater number of 19th century wars, the available evidence does not support that possibility. Our results are statistically significant for the number of wars in which a country participated but not for the number of wars a country initiated. Likewise, the countries listed as 19th century social welfare pioneers in Lindert [2004] began the 19th century with virtually no social welfare net, even relative to other countries. These same countries ended the 19th century with pioneering social protections. Taken together, the evidence is consistent with the view that 19th century war experience war enhanced egalitarianism but not vice versa.

Catholic countries tend to rank significantly higher in egalitarianism than the Hindu, Buddhist, Muslim, and Christian Orthodox ones that comprise the excluded dummy.¹⁰

As shown in Model 6, the number of wars in which a country was involved during the 19th century is also significantly associated with higher levels of egalitarianism today. Interestingly, Models 7 and 8 show the number of days a country spent at war during the 19th century and number of military deaths it sustained in wars during that century to also be significantly associated with higher levels of egalitarianism. Those three variables are highly correlated, and it is shown that the number of wars a country participated in during the 19th century is the variable with the most explanatory power. That war experiences in the 20th century are not significantly associated with egalitarianism is consistent with the finding in the political science literature that many of these wars had little to do with state formation. Only when national survival was at stake, as in the case of the United Kingdom during World War II, did 20th century wars likely continue to have egalitarian consequences. Even when we examine a broader time period that encompasses the 19th century through World War II the coefficient loses its statistical significance. These results are in line with earlier theorizing about egalitarianism often being progressively built on a foundation of 19th century experiences.¹¹

¹⁰ We utilize three different measures of fractionalization in Models 3-5. These measures are highly collinear with one another, and among them the measure of religious fractionalization does the most to explain the variation in egalitarianism. We proceed with the religious fractionalization measure, but we get the same substantive results using any of the three other fractionalization measures. We do not include multiple fractionalization measures in the same model because we found strong evidence of collinearity among them.

¹¹ We also tested five other hypotheses of what might determine egalitarianism. The first hypothesis was that population density might be associated with egalitarianism, but we found no support for this hypothesis. The second hypothesis was that Putterman's state antiquity index (the time during which a present-day country has been the site of nation-states, kingdoms, or empires) might be positively related to egalitarianism. We tested the current Version 3 of the State Antiquity Index (available at <http://www.econ.brown.edu/fac/Louis%5FPutterman/>) and found the coefficient for state antiquity to be positive but never statistically significant in any of its forms. The third hypothesis was that countries with smaller populations might be more egalitarian. We found that population size had but an economically trivial association with egalitarianism levels. The fourth hypothesis was that average family size was negatively correlated with egalitarianism. This hypothesis was not supported, although we did find that Catholicism is highly and significantly correlated with average family size, as proxied using the age-dependency

V.B. Egalitarianism and International Investment

We now turn to the results that link egalitarianism distance to cross-border flows of international investment. We perform a series of zero-inflated negative binomial models with cross-border flows on the left-hand side and stock market capitalization, legal institutional distance, and egalitarianism distance on the right-hand side. The zero-inflated negative binomial model is appropriate for this context because (a) we are counting the number of transactions in a given year and thus a negative binomial model is most appropriate for a count model; and (b) the zero values that often take place between a random origin country-host country pair should be considered as part of a possibility set.¹² The zero-inflated negative binomial model has two parts, one that predicts the zero values and another that predicts the number of transactions. Our argument is that lack of financial and economic development largely determines the zero values, and hence we use either the log of the product of origin country-host country equity market capitalization or GDP as the righthand side variable in determining the zero values. In each regression we cluster the standard errors by origin country-host country pair. Summary statistics and a correlation table for our main variables of interest are presented in Tables 2 and 3. As seen in Table 3, there is no significant collinearity between egalitarianism and the other variables.

We estimate the following zero-inflated negative binomial regression for country-pair-years during 1975-2003:

ratio in 1960, the birth rate per 1,000 in 1962, and/or births per woman in 1962 (the earliest years available for most countries in the World Development Indicators). The fifth hypothesis was that the use of proportional representation systems might be associated with egalitarianism. Using alternative measures of proportional representation systems created by Milesi-Ferretti, Perotti and Rostagno (2002) and Persson and Tabellini (2003), we find no evidence that either measure is significantly associated with egalitarianism. We do, however, find that there is a significant association between Catholicism and the use of proportional representation systems.

¹² We have also run the regressions using OLS and gotten similar results, although the zero-inflated negative binomial model is the statistically more appropriate model for our data set.

$$\begin{aligned}
(2) \text{ Cross-border flow}_{ijt} = & \beta_0 + \beta_1 * \text{Origin-host market capitalization}_{ijt} \\
& + \beta_2 * \text{Egalitarianism distance}_{ijt} + \beta_3 * \text{Signed egalitarianism distance}_{ijt} \\
& + \beta_4 * \text{Legal/law-related distance} + \varepsilon_{ijt},
\end{aligned}$$

where annual cross-border transaction flows between origin country i and host country j in year t are jointly determined by the log of the product of origin-host market capitalization, egalitarianism distance, signed egalitarianism distance, and legal/law-related distance.

Egalitarianism and other cultural elements being time-invariant, it is not feasible to estimate fixed effects, but we correct the standard errors for clustering at the country-pair level and, as a robustness check, experiment with correcting the standard errors for clustering at the origin-country and host-country levels. We also instrument for egalitarianism later in this section.

Results connecting egalitarianism distance to a pooled sample of cross-border debt and equity transactions are presented in Table 4. As expected, the log of the product of origin-country and host-country equity market capitalization is strongly and positively associated with flows of cross-border debt and equity transactions. Similar to a gravity model setting, market capitalization represents the “mass” that attracts transaction flows. Measures of stock market size are highly correlated with GDP but seem more appropriate for an examination of financial and strategic investment transactions. Still, we use GDP as an alternative variable, and when we do so our results for egalitarianism are even more economically significant. Egalitarianism distance is, in turn, highly negatively correlated with cross-border debt and equity transactions. In other words, the greater the distance in egalitarianism between two countries, the smaller is the number of pooled debt and equity transactions. The coefficient for egalitarianism distance is statistically significant across a range of specifications.

When we control for the signed egalitarianism distance between the origin and host countries, we find mixed evidence for the importance of this factor. In several specifications in

the pooled sample (Table 4) and the debt sample (Table 5), signed egalitarianism distance has a significant positive sign. This would suggest that firms in countries that rank high in egalitarianism are more likely to pursue transactions in countries that rank low in egalitarianism, but not vice versa. On the other hand, the signed egalitarianism measure loses all of its statistical significance for cross-border debt and equity in some specifications about to be described, including when we instrument for egalitarianism, and is of mixed direction and statistical significance for cross-border flows of mergers and acquisitions. We consequently place significantly greater emphasis on our interpretation of the far more robust measure for egalitarianism distance. Future research may examine the role of this factor in greater detail.

In a similar vein, it is important to note that our tests for the relative effects of egalitarianism distance and signed egalitarianism distance showed egalitarianism distance to be of far greater economic significance in terms of its marginal effects on the dependent variable. After estimating the full model 24 of Table 4, we then tested for the effect of each discrete change in egalitarianism distance holding all other variables at their mean. Since the marginal effects of any given variable are nonlinear in this zero-inflated negative binomial model, we tested directly for the effect of small, medium and large changes in egalitarianism distance. We found that a tiny increase in egalitarianism distance (equal to 10 percent of one standard deviation) is associated with a 6 percent drop in predicted bilateral transaction flows. We found that a medium-sized increase in egalitarianism distance (equal to just over 50 percent of one standard deviation) is associated with a 33 percent drop in predicted bilateral transaction flows. We further found that a one-standard deviation increase in egalitarianism distance is associated with a 54 percent drop in predicted bilateral transaction flows. Whereas the marginal effects of egalitarianism distance are quite large, for every equivalent increase in signed egalitarianism the marginal effects are much smaller (approximately one-third as large as above). Moreover, the

fact that the two variables have opposite signs does not reflect collinearity; as shown in Table 3, the two variables have a pairwise correlation of 0.000. Checking (albeit redundantly) for evidence of collinearity, we find that temporarily removing either distance variable will change the other variable's coefficient little.

Turning to law-related distance, we find that differences in legal family and procedural formalism are by far the most significant. They remain significant no matter whether we looked at the pooled debt and equity sample, the debt sample in isolation, the equity sample in isolation, or the mergers and acquisitions sample. The rule of law difference is almost as significant as the other two, although it is not as statistically robust when looking at equity in isolation. More specific measures of creditor rights are economically and statistically important only when looking separately at debt transactions. The other two legal distance variables for shareholder rights and private securities litigation are never highly significant.

Broad-stroke comparisons between the common law and civil law traditions hold that the former exhibits greater flexibility, vagueness, and uncertainty than the latter as a consequence of traditionally different sources of authority and modes of reasoning (e.g., Merryman [1985]). Thus, the different legal family variable may overlap conceptually with the procedural formalism distance variable, which taps similar qualities in simple commercial litigation. Taken together, we interpret these results to mean that the general character and quality of the legal system is more important in determining cross-border investment flows than are specific investor rights. The exception is for creditor rights, which are shown to be highly significant in debt transactions.

We submit these results to a further series of robustness checks. We first examine whether our results on egalitarianism would hold after inserting time dummies. As shown in Model 8 of Table 4, the coefficient for egalitarianism distance is actually slightly larger when year dummies are included.

We next examine whether Guiso, Sapienza, and Zingales's [2005a] Eurobarometer survey measure for trust between citizens of European countries might be driving our results in the European subsample. Additional information on this measure is provided in Appendix Table A1. Testing this measure in Model 9 confirms the result obtained in Guiso, Sapienza, and Zingales [2005a]. We also show that our egalitarianism distance measure retains its importance in this subsample, which supports our earlier view that this study and Guiso, Sapienza, and Zingales' [2005a] study are complementary. Guiso, Sapienza, and Zingales' cross-country trust variable, moreover, is not highly correlated with either of our egalitarianism distance measures.¹³

We then substitute in Models 10-12 the natural log of the product of each country pair's GDP for the natural log of the product of each country pair's market capitalization. We find that the coefficient for egalitarianism distance becomes larger while retaining the same statistical significance, indicating that our results are not being determined by the choice between these variables. Because the flows we are studying are primarily financial it makes more sense to include market capitalization than GDP, and as these two variables are correlated at the relatively high level of .77, it makes sense to include only one.

We next confirm that our results are not being determined by the omission of a variable on intergovernmental checks and balances. Henisz's political constraints index defined in two different ways measures the feasibility of policy change within countries over time (see Henisz

¹³ We also test a related set of variables for intergovernmental connectedness from Ingram, Robinson, and Busch (2005). These authors argue that more connections between states in intergovernmental organizations (IGOs), both social and economic IGOs, leads to deeper inter-country trust and higher levels of inter-country trade. We find that Ingram, Robinson, and Busch's measures for total IGO cross-country membership, social IGO cross-country membership, and economic IGO cross-country memberships for years 1975-2000 are each largely orthogonal to our egalitarianism variable. We find, moreover, that their variables are statistically significant in explaining cross-border merger and acquisition flows between countries. Our egalitarianism variable is unaffected by the inclusion or exclusion of each of the IGO variables.

[2000]).¹⁴ Guler and Guillén [2005] show that Henisz's measure of policy stability predicts where and when U.S. venture capital firms choose to invest abroad. One version of Henisz's index (POLCONIII) is concerned with the feasibility of policy change within the executive and legislative branches. The other version (POLCONV) adds information on whether the judicial branch and subfederal entities can effectively block policy change within a country.¹⁵ Models 13 and 14 show the inclusion of the political constraints index does nothing to take away our main results. The version of Henisz's index that focuses on the feasibility of policy change within the executive and legislative branches is highly significant. Thus, investors tend to avoid making cross-border financial transactions in countries that are highly distant from their home country in the level of political constraints on the executive and legislative branches.

We next perform a direct test for any nonlinearity in the effect of egalitarianism on cross-border interactions. Wondering whether egalitarianism exerts a stronger economic effect at certain levels, we constructed a simple measure of the sum of an origin and host countries' egalitarianism scores and added it to the specification. That the variable, as shown in Model 17, carries no statistical significance is a strong sign that our basic linear specification is appropriate.

We next test our results' robustness to the inclusion of controls for common language, common colonial ties, geographic distance, and cross-country differences in corporate taxation.¹⁶ We have earlier in this study argued that language, colonial ties, and geographic distance lack

¹⁴ Additional information on this variable is provided in Appendix Table A1.

¹⁵ The data for POLCONIII and POLCONV was retrieved in January 2006 from <http://www-management.wharton.upenn.edu/henisz/>

¹⁶ Utilizing the data on corporate tax rates from the World Tax Database of the University Michigan Office of Tax Policy Research, we find our results to be robust to the inclusion of a variable that measures the difference between the origin country's high statutory corporate tax rate and the host country's high statutory corporate tax rate. Desai, Dyck, and Zingales's [2005] examination of the impact of taxation on corporate governance emphasizes high statutory corporate tax rates from the same data source. Checking for the effect of corporate taxation in all our samples, we find that our results on egalitarianism distance hold in every case.

theoretical elaboration and probably pick up a diverse range of causes and mechanisms. To show that our results are not being driven by these variables, we include them as robustness checks in Models 18-27, which show our results to continue to be robust and significant.

We next test whether the results hold if only the fitted values for egalitarianism distance and signed egalitarianism distance from Table 1 are used. Taking the fitted values from the model in Table 1 that best explains egalitarianism (Model 6), we find that the fitted value for egalitarianism distance is, indeed, a highly significant determinant of international debt and equity flows. We find this result both before and after bootstrapping the standard errors with 50 replications. The fitted egalitarianism results shown in Table 4 are with the bootstrap, a necessary procedure given the use of fitted values from the first stage. We then conduct a test for the exogeneity of the fitted egalitarianism values and find that social fractionalization, religion, and 19th century war experience do not carry any statistical significance separate from their effect on egalitarianism. The results presented in Models 15-16, 22-23 and 25 also show that signed egalitarianism distance loses its statistical significance. More important, the coefficient for our main variable of interest, egalitarianism distance, is always quite large and retains its statistical significance. The economic significance of the two-stage model results and the earlier single-stage results for egalitarianism distance are nearly identical.

Although we present both sets of results, we admit a slight preference for the one-stage results because if egalitarianism can be shown to be exogenous (as Table 1 indicates) it makes sense to avoid the usual error in model estimation that is the normal imperfection of two-stage models. In fact, using an augmented Durbin-Wu-Hausman test, we find using the same models shown in Tables 9 and 10 that egalitarianism is an exogenous variable in determining modern industrial and policy outcomes. As a further check, we graph the residuals from our one-stage estimation for all models in Table 5 and find the residuals to exhibit no discernible pattern and

have an average value of just less than zero. Based on the totality of the evidence, we believe both the one-stage estimation and the two-stage model results to be valid.

We next examine the role of egalitarianism in explaining cross-border debt and cross-border equity transactions separately. Egalitarianism distance is revealed to be a significant determinant of debt flows in Table 5 and of equity flows in Table 6. The egalitarianism distance results are marginally more robust when studying cross-border debt flows. For debt flows, in a robustness check not reported here but available in separate appendices, we find that the results on egalitarianism distance continue to be robust when we cluster debt transactions based on either origin country or host country pair as opposed to our otherwise uniform practice of clustering based on the origin-host pair combination. Interestingly, signed egalitarianism is often not statistically significant when looking at debt or equity in isolation.

An interesting pattern emerges in Tables 5 and 6, which focus respectively on debt and equity. Egalitarianism distance continues to be highly significant. In addition, the more general legal distance variables covering procedural formalism and legal family are of high economic and statistical significance. Informal rule of law and creditor rights are important when looking at debt in isolation. But it is the more general variables covering procedural formalism and legal family that are of the most universal importance across a range of transactions.

What could be the reason? The evidence strongly suggests that international investors care more about the broad features of legal systems in foreign countries than about the specific content of any individual law governing investor rights. These results are intriguing given that the law and finance literature continues to debate which legal variables are the most important determinants of within-country financial development. This study brings these same variables to the arena of cross-border investment, where it is shown that legal family and procedural formalism are most important for channeling specific types of financial transactions.

An examination of cross-border merger and acquisition flows in Table 7 reveals egalitarianism distance to be highly significant in explaining such flows. In a further robustness check, not reported here but available in a separate appendix, the egalitarianism distance measure is robust to whether we cluster based on origin-host pair, origin countries by themselves, or host countries by themselves. Interestingly, signed egalitarianism distance is of mixed significance in explaining merger and acquisition flows, but procedural formalism distance, the dummy for different legal family, and rule of law distance are highly significant. In contrast, differences in shareholder and creditor rights do not appear to play any significant role in channeling merger and acquisition transactions. Again, it is the overall quality of the legal system that plays a significant role. The highly significant negative sign of rule of law distance indicates that merger and acquisition flows are more sensitive than cross-border equity flows to differences in law-abidingness and general protection of legal entitlements, as one might expect.

An interesting feature of these findings is that the sign of egalitarianism distance is negative for both financial (debt and equity) and strategic investment (merger and acquisition) transactions. This holds even though the direction of capital flows is different for financial and strategic investments. Specifically, investors supplying finance typically reside in the host market, investors in strategic investment transactions in the origin market. This difference notwithstanding, firms making both financial and strategic investment decisions appear to be making similar choices in terms of destination markets. These results suggest that managers assess potential markets for entry in light of their cultural institutions for all three entry modes.

As a further robustness check, we confirm that the simultaneous inclusion of all significant legal distance variables, geographic distance, common language, and political constraints does not make our result go away. Our egalitarianism result holds for this model regardless of whether we use the predicted values for egalitarianism from Table 1 or

egalitarianism without instruments. As expected, once we include several legal distance variables together, some conceptual overlap and statistical collinearity leads to less robust results for legal distance. But upon further inspection, we find that even when these three legal distance variables are inserted separately into the equivalent of Model 24 in Table 4, none of them is statistically significant. That these legal variables lose significance when geography and language is controlled for is due to the substantial collinearity among these variables. Also, the collinearity between common language and common colonial tie is so great that we keep only common language in the final model due to its greater economic and statistical significance. Still, it is important to note that the result for egalitarianism distance is highly robust through all of these alternative specifications.

Next, we compare the relative economic significance of egalitarianism distance and other institutional determinants of cross-border investment flows. To carry out this test, we standardize all the independent variables. By doing so, we can see which among the institutional variables is doing the most to drive cross-border investment flows. As shown in Models 26 and 27 of Table 4, we find that egalitarianism is the single most important institutional determinant of cross-border flows of debt and equity. This finding holds even after controlling for all three significant legal distance variables, for geographic distance, for common language, for tax differences, and for differences in Henisz' political constraints index. The same is true when the legal distance variables are alternatively entered into the model in isolation. The economic impact of egalitarianism is larger than any of these institutional factors, and the impact of egalitarianism is greater than that of geographic distance. As shown in Tables 5 and 6, the same is true when looking at cross-border debt or equity flows in isolation. Also, we test the same model for cross-border flows of mergers and acquisitions in Models 6 and 7 of Table 7. For mergers and acquisitions, geographic distance carries greater economic significance, as should

be expected given that mergers and acquisitions require actual transportation and greater coordination of people and resources. Yet egalitarianism distance continues to exercise economic importance along with legal family, common language, and political constraints. Interestingly, egalitarianism distance is more economically important for determining merger and acquisition flows than corporate taxation differences, no matter whether one focuses on egalitarianism distance or fitted egalitarianism distance. We believe it is no accident that a larger set of institutional variables play a role in determining merger and acquisition flows, in contrast to debt and equity flows. A merger or acquisition typically involves even greater daily managerial interaction with the host country's cultural, legal, and political environment than does a cross-listing of debt or equity.

Next, in a series of robustness checks, not reported here but available in a separate set of appendices, we confirmed that our egalitarianism results are not affected by the inclusion or omission of a series of alternative control variables. From the IMD World Competitiveness Yearbook, we gathered time-series data on employers' mandated social security contribution rates over time, personal income taxes paid as a percentage of GDP, corporate taxes paid as a percentage of GDP, indirect taxes paid as a percentage of GDP, collected capital and property taxes as a percentage of GDP, total taxes (direct and indirect, including social security contributions) paid as a percentage of GDP, government subsidies to private and public companies as a percentage of GDP, and executives' perceptions of the risk of domestic political stability, of whether investment incentive are attractive to foreign investors, and of foreign investors' freedom to acquire control in a domestic company. From the Economist Intelligence Unit Country Data, we collected time-series data on government consumption as a percentage of GDP. Using Banks' Cross-National Time Series Data Archive, we gathered time-series data on energy production per capita. From the World Development Indicators, we gathered time-series

data on trade as a percentage of GDP and natural resource abundance, as proxied by the share of fuel, ore and metal exports from the total merchandise exports (the latter variable averaged for 1971-1996). From Keefer [2002], we use his index on federalism, and from You and Khagram [2005], we use the absolute value of latitude and the Freedom House political rights/democracy score averaged for 1972-1996. We find that our egalitarianism distance result is robust to the inclusion or omission of any of the above variables. Furthermore, while a few variables such as political rights/democracy have some modest to moderate positive correlation with egalitarianism, there is no evidence of collinearity driving our egalitarianism results.

Next, in a further series of robustness checks we verify that our egalitarianism results are not affected by the use of varying definitions of our control variables. Identifying the legal origin of former communist countries has been the subject of differing coding within the institutional economics literature. Some past studies code the former socialist countries as still belonging to a common socialist family, other studies code them based on the type of civil law they typically employed before or after socialism, and still others code some of them in the post-communist era as socialist and others as civil law. Merryman [1985] also argued that the various civil law families are more similar to each other than they are different from common law. We have tried varying definitions of legal origin, and we find that our egalitarianism result is robust to these varying definitions. Furthermore, the creditor rights variable coding has recently been updated, and our results are robust to the inclusion of the updated creditor rights variable.¹⁷

Next, in a series of robustness checks we find that our results are highly robust to other alternative variations in the data set. For example, Schwartz has replicated most of his teacher

¹⁷ The updated creditor rights data comes from Djankov, McLiesh, and Shleifer [2006]. Also, we confirm that our results hold even if using Andrew Rose's definitions of common language and common colonizer, which only vary slightly in definition and coding from our own. Rose's data was downloaded in January 2005 from his website at <http://faculty.haas.berkeley.edu/arose/RecRes.htm#Software>.

survey with surveys of undergraduate students in the same countries over time. We do a robustness check by replacing our main egalitarianism distance variables with alternative ones based on the student surveys. We find that all of our results hold even when we use the student surveys. It is conceptually preferable to use the teacher surveys, as they represent a more directly comparable sample based on (typically) common educational background and social class. Yet we find it encouraging that the results hold even when using student surveys instead. Furthermore, even if we take the countries that have both student and teacher scores and created sample size-weighted scores combining the surveys of teachers and students, we get the same results for egalitarianism distance. This is true whether we use the surveys done through 1998 only or whether we use all surveys done through 2004. Moreover, we do two other robustness checks with the egalitarianism data. Schwartz [1994] earlier published egalitarianism scores for the 29 countries surveyed before 1994, and we find that our results are robust to using just those 29 countries and their pre-1994 scores. Moreover, Schwartz in other work has conducted a simulation in which countries whose teachers were surveyed but not their students, and also countries whose students were surveyed but not their teachers, are put into an OLS regression in which the missing teacher or student scores are predicted on the basis of the actual sample and the overall relationship across countries between teacher and student scores. This leads to a much expanded “simulated” variable for 69 countries through 2004. While we would not counsel using such a simulated variable in the main models of a paper such as this one, we believe it is a sufficiently worthwhile robustness check. We find that our egalitarianism results are robust to the use of this simulated measure of egalitarianism distance.

Then, as a final set of robustness checks, not reported here but available in a separate set of appendices, we confirm that our results for debt and equity and for mergers and acquisitions are robust to the temporary exclusion of different years’ data. Even after temporarily excluding

transactions in sequence from before 1980, before 1985, before 1990, before 1995, before 1996, before 1997, before 1998, before 1999, and before 2000, the results continue to be statistically robust. Finally, we perform a test whereby the transaction flows between any origin-country pair are summed for the entire 1975-2003 and then put in a regression with the mean of each of the explanatory variables. We find whether we use OLS or a zero-inflated negative binomial model that the egalitarianism results hold even under this robustness check.

V.C. Policy and Industry Outcomes Associated with Egalitarianism

The key word for understanding why egalitarianism might matter for international investment flows is “power.” Tables 8-12 show egalitarianism to be strongly associated with societal intolerance for any actor that abuses its power position vis-à-vis industrial entrants and workers. Egalitarianism is associated with societal intolerance for abuses of power and corruption generally and with greater redistribution towards the weak, namely, the unemployed, the sick, and the elderly.

Table 8 presents a set of intriguing correlations. The correlations shown in the first column reveal egalitarianism to be highly negatively associated with corruption. Whether we use Transparency International’s Corruption Perceptions Index, the World Bank Control of Corruption Index, or Political Risk Service’s ICRG index, we find egalitarianism strongly associated with freedom from corruption. We then show further in Panel A of Table 8 that egalitarianism is associated with protection for the sick, unemployed, and elderly.

We next present the results of OLS regressions on related policy outcomes. Following in part the example of You and Khagram [2005], we test for determinants of the perceived freedom from corruption. We use all three widely known indices for freedom from corruption in Panel B of Table 8, and we find that egalitarianism is highly correlated with freedom from corruption even after controlling for income inequality, religious composition, legal origin, federalism,

natural resource abundance, and constructed trade openness as constructed by Rodrik et al. [2004] using “pure” geography variables.

Then, in Table 9, we show that egalitarianism is a highly significant predictor of policy protections for the unemployed and the elderly even after controlling for other institutional variables used previously in Botero, Djankov, La Porta, Lopez-de-Silanes, and Shleifer [2004]. We estimate the following cross-sectional OLS regression, which preserves noncollinear institutional variables advocated by Botero et al. [2004] and adds egalitarianism:

$$(3) \text{ Policy Outcome}_i = \beta_0 + \beta_1 * \text{Egalitarianism}_i + \beta_2 - \beta_5 * \text{Legal family}_i \\ + \beta_6 * \text{POLCONIII political constraints index}_i \\ + \beta_7 * \text{Geographic openness}_i \\ + \beta_8 * \text{Political power of the left}_i + \varepsilon_i,$$

where the Botero et al. [2004] Unemployment Benefits Index and Social Security Law Index in country i are respectively determined by egalitarianism, legal family (Common, Scandinavian, German, and Socialist, with French as the omitted dummy), political constraints on the executive, geographic openness, and the political power of the left.¹⁸ We report robust standard errors, and we test alternative definitions of leftist political power from Botero et al. [2004]. Furthermore, in Panel A, we go one step further and focus on a particular form of labor protection enshrined by law in only a very small number of countries: legally-mandated worker participation on boards of directors. We find an intriguing interaction effect between German legal family and egalitarianism in positively influencing whether a country chooses to mandate worker representation on boards of directors. Interestingly, German legal family is not enough in

¹⁸ The Social Security Law Index is itself composed of the Unemployment Benefit Index, the Sickness and Health Benefits Index, and the Old Age, Disability, and Death Benefits Index. We also test for all other institutional control variables used in Botero et al. [2004] to explain these labor protections, and while collinearity among those control variables prevents including all of them together in the same model above, we try each of them individually and in combination. We find that egalitarianism is robust to the inclusion of any of these institutional control variables.

isolation to significantly explain this policy choice, and neither is egalitarianism, but the interaction effect between those two variables is highly positive and highly significant when it comes to this one particular and unusual policy choice. As shown in Panel B of Table 9, egalitarianism on its own does a great deal to explain which countries choose to put in place stronger and broader protections for workers and the elderly.

Table 10 shows egalitarianism to be strongly associated with the quality and transparency of financial disclosure within a society. Bushman, Piotroski, and Smith [2004] factor analyze an extensive range of measures that capture countries' firm-specific information environments. Of the two factors isolated by these authors, the one that deals with financial transparency correlates strongly with egalitarianism. We also present results for specific items from Bushman, Piotroski, and Smith [2004] that correlate with egalitarianism: a measure of the overall transparency of company financial disclosures in a society, a measure of the timeliness of company financial disclosures in a society, and a measure of the quality of disclosures (focusing on auditing).

Table 11 presents further evidence that egalitarianism is associated with a society's intolerance for abuses of market power. In Panel A of Table 11 we find egalitarianism to be strongly associated with Nicholson's [2004] measures of the quality of a country's antitrust laws and antitrust expenditures per staff member. Whereas the former measure reflects the law on the books, which might be easy to enact but could remain a dead letter, the latter measure reflects how serious a country is about enforcing its antitrust law. Nicholson [2004] notes (and we separately confirmed) that this measure is not correlated with GDP. As Nicholson [2004, p. 12] observes: "[This] measure may prove a strong indicator of antitrust regimes, since wealthier countries are not necessarily funneling greater monetary resources into their institutions." Although this might still be an imperfect measure, it yields results consistent with those we obtain from survey evidence.

Panel B of Table 11 reports results of using a global survey measure from the IMD World Competitiveness Yearbook on the perceived effectiveness of antitrust policy across countries. The number of senior executives and economic leaders who responded to the IMD survey grew from 2,800 in 1994 to 4,000 in 2005. For all years these respondents assessed the effectiveness of antitrust policy on a scale of 1-6, the response 1 indicating the most negative, the response 6 the most positive, perception of the effectiveness of antitrust policy. The responses were averaged by country and subsequently converted to a 0-10 scale by IMD.¹⁹ We find in Panel B of Table 11 that no matter the year of IMD survey data, egalitarianism is strongly associated with a higher perceived effectiveness of antitrust policy.

In summary, egalitarianism is strongly associated with a society's intolerance for abuses of market or political power, with redistribution towards and protection of weaker members of the society, and with a high quality of financial disclosure. We believe that through these related mechanisms egalitarianism plays a fundamental role in channeling international business flows. Firms that are accustomed to playing by one set of informal rules of the game will see lower transaction costs in foreign countries that play by a similar set of rules. This helps to explain why egalitarianism distance is an important determinant of cross-border flows of debt, equity, and mergers and acquisitions.

As a final test, we examine whether egalitarianism only exerts an effect on cross-border investment via these associated policies, or else whether egalitarianism has both a direct effect and an indirect effect via policy. The research of Brett [2001] and Tinsley [2001] suggests that egalitarianism may exercise a direct effect on managers' everyday business conduct. These authors find that managers from a more egalitarian culture are not likely to accept the use of

¹⁹ Details of the IMD survey question are provided in Appendix Table A1.

power, status or authority for denying information sought in a negotiation. The laboratory negotiations between managers from societies that were distant in egalitarianism ended in mutually suboptimal outcomes as a result. Also, managers from egalitarian cultures are not likely to think the aggressive use of market power is appropriate, much less the use of bribery and other forms of corruption. As shown in Table 12, egalitarianism distance indeed appears to exercise a direct and significant effect on cross-border transaction flows even after controlling for corruption distance, Nicholson Antitrust Law Index distance (these first two control variables show evidence of significant statistical collinearity and hence are run separately), sickness and health benefits distance, unemployment benefits distance, and audit distance. We run additional robustness checks substituting conceptually overlapping policy variables from Tables 8-11 and get similar results. In summary, egalitarianism distance likely exercises its effect on cross-border investment both via its associated policies and through its direct effect on managers' everyday conduct. Furthermore, Table 12 suggests that the direct effect of egalitarianism is economically important; even after controlling for any of these associated policies, the largest part of the egalitarianism coefficient remains robust and significant.

VI. CONCLUSION

International markets for finance and mergers and acquisitions are an arena in which one expects market actors' return-driven valuations, not their cultural beliefs, to play a role. Yet this study presents evidence that suggests that the two might be strongly related. In a comprehensive data set on debt and equity portfolio investment and strategic investment transactions around the world, we find a robust negative role for the distance between origin and destination countries on cultural egalitarianism. Countries' stances on egalitarianism constitute their most fundamental informal institution concerned with issues of power and its consequences. This institutional

posture is reflected in a broad array of important policy outcomes that include imposing controls on corruption, regulating market power, and mitigating harsh consequences endured by weaker members of a society. Sources of nations' emphasis on cultural egalitarianism vary as well. Egalitarianism is negatively related to societal fractionalization and positively related to nations' historically dominant religions (Protestantism or Catholicism) and historical war experiences dating back to the 19th century.

Previous work has treated informal social institutions as a black box. Drawing on advances in psychology, this study is among the first to open this black box. The cultural value dimension framework enabled us to address directly the content of informal institutions and to identify a particular cultural orientation that exhibits a first-order importance for international investment. We have shown in this study that culture can be broken down into component beliefs, that we can explain the factors influencing the formation of this belief, that this belief can be shown to influence important cross-border financial and strategy investment activity, and that this belief can be shown to be of first-order importance when placed in a kind of horse race with other institutional determinants. The implication of our study is that informal institutions trump formal institutions in determining certain types of economic outcomes.

Our study suggests several possible extensions. For instance, perhaps egalitarianism influences economic and financial development at the individual country level even after accounting for formal institutions like legal family. Also, perhaps egalitarianism influences cross-border trade just as it influences cross-border financial and strategic investment. Further research is required to test for the role of egalitarianism and other informal cultural institutions in determining a broad array of economic outcomes.

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Table 1. Antecedents of Egalitarianism

This table provides results of an OLS regression of egalitarianism on its possible sources. For variable definitions, please see Appendix Table A1. Orthodox Christianity is the base case for religion below. Robust standard errors appear below the coefficients.

Independent Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Ethnic fractionalization	-0.434** [0.180]		-0.300* [0.165]							
Language fractionalization				-0.292* [0.161]						
Religious fractionalization					-0.398*** [0.141]	-0.378** [0.142]	-0.368** [0.142]	-0.370** [0.143]	-0.382** [0.145]	-0.375** [0.143]
Protestantism is the country's dominant religion		0.346*** [0.089]	0.337*** [0.087]	0.339*** [0.089]	0.355*** [0.082]	0.362*** [0.089]	0.360*** [0.085]	0.368*** [0.085]	0.369*** [0.087]	0.371*** [0.089]
Catholicism is country's dominant religion		0.270** [0.100]	0.267** [0.101]	0.231** [0.104]	0.197** [0.095]	0.177* [0.097]	0.152 [0.100]	0.203** [0.097]	0.214** [0.106]	0.211** [0.099]
Islam is the country's dominant religion		-0.056 [0.166]	0.018 [0.149]	0.000 [0.142]	-0.150 [0.140]	-0.163 [0.125]	-0.174 [0.125]	-0.205 [0.127]	-0.143 [0.133]	-0.147 [0.127]
Hinduism is the country's dominant religion		-0.103 [0.107]	-0.057 [0.133]	-0.004 [0.136]	-0.164** [0.075]	-0.120 [0.086]	-0.141* [0.082]	-0.140* [0.083]	-0.148* [0.087]	-0.115 [0.090]
Number of times a country was at war in the 19th century						0.044*** [0.016]				
Total length in days of the wars that a country participated in during the 19th century							8.66e-05** [4.02e-05]			
Number of battle-related deaths that a country suffered during the 19th century								8.31e-07* [4.32e-07]		
Number of times a country participated in war during the 20th century (more specifically, 1901-1979)									0.008 [0.014]	
Number of times a country participated in war during 1823-1945										0.014 [0.009]
Observations	51	51	51	51	51	51	51	51	51	51
P-value	0.020	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
R-Squared	0.100	0.313	0.355	0.354	0.388	0.469	0.437	0.420	0.392	0.418

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 2. Summary Statistics on Egalitarianism and International Investment

Variable	Variable Definition	Mean	Median	Standard Deviation	Minimum	Maximum	Observations
Number of annual transactions between a origin country-host country pair	We utilize the collected data sets on cross-border debt and equity and sum them together by origin country-host country pair and the year. The origin country is the one where the firm is domiciled, and the host country is the one where the firm is doing a cross-border debt or equity listing. <i>Source: Thomson Financial Securities Data and Citibank ADR database. This equity data set was crosschecked with the data set provided by Sarkissian and Schill (2004) to make sure it included all their observations.</i>	0.253	0.000	4.099	0.000	310.000	64616
Log of the product of origin and host market capitalization	We take the product of the equity market capitalization of any two origin country-host country pairs for each year. We then take the natural log of that product. <i>Source: authors' calculations based on primary data from Global Financial Data (GFD) Database.</i>	20.533	20.720	3.798	2.773	31.957	42419
Log of the product of origin and host country GDP	We take the product of the gross domestic product of any two origin country-host country pairs for each year. We then take the natural log of that product. <i>Source: authors' calculations based on primary data from the Economist Intelligence Unit Country Data.</i>	22.888	23.011	2.636	15.094	31.552	63136
Egalitarianism distance	The squared difference between a country pair on their cultural egalitarianism score. <i>Source: Authors' calculations based on Schwartz (1994) and authors' additional work</i>	0.173	0.086	0.215	0.000	1.297	64616
Signed egalitarianism distance (origin country first)	The signed difference between each of two countries' scores on cultural egalitarianism, with the origin country first for each transaction. <i>Source: Authors' calculations based on Schwartz (1994) and authors' additional work</i>	0.000	0.000	0.417	-1.139	1.139	64616
Procedural formalism distance	The distance on an aggregate measure of substantive and procedural intervention in lower-court proceedings for evicting a non-paying private residence tenant. <i>Source: Djankov et al. (2003).</i>	1.672	0.723	2.380	0.000	20.250	59590
Rule of law distance	The distance on the Rule of Law (legality) index for 1998, the latter being an index of perceived compliance with protection of legal entitlements (property and contractual rights), law and order, etc. <i>Source: Kaufmann, Kraay, and Mastruzzi (2003).</i>	2.043	1.106	2.318	0.000	9.710	64616
Creditor rights distance	The distance on certain creditor legal rights under countries' company law or commercial codes. <i>Source: La Porta et al. (1998).</i>	3.487	1.000	4.047	0.000	16.000	32539
Shareholder rights distance	The distance on certain shareholder legal rights under countries' company law or commercial codes. <i>Source: La Porta et al. (1998).</i>	3.234	1.000	3.871	0.000	16.000	34511
Securities law private litigation distance	The distance on an aggregate measure of private enforcement of securities laws, consisting of the mean of disclosure index and burden of proof index. <i>Source: La Porta et al. (2005).</i>	0.091	0.045	0.115	0.000	0.672	34511
Different legal family	A dummy set equal to 1 if origin and host countries come from different legal origins. The dummy is set equal to zero otherwise. <i>Source: La Porta et al. (2005).</i>	0.742	1.000	0.437	0.000	1.000	64616

Note: Summary statistics in this table were run on the 51 countries with egalitarianism survey data.

Robustness Check: This Appendix Table Uses Egalitarianism Country Scores Through 2004

Table 3. Correlation Table for Egalitarianism and International Investment

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
[1] Number of annual transactions between a origin country-host country pair	1										
[2] Log of the product of origin and host market capitalization	0.141***	1									
[3] Log of the product of origin and host country GDP	0.128***	0.770***	1								
[4] Egalitarianism distance	-0.028***	-0.050***	0.057***	1							
[5] Signed egalitarianism distance (origin country first)	0.014***	0.000	0.000	0.000	1						
[6] Procedural formalism distance	-0.022***	-0.052***	-0.034***	-0.132***	0.000	1					
[7] Rule of law distance	-0.035***	-0.060***	0.006*	0.122***	0.000	0.239***	1				
[8] Creditor rights distance	-0.015***	-0.088***	-0.133***	0.092***	0.000	0.104***	0.129***	1			
[9] Shareholder rights distance	0.004	0.128***	0.150***	-0.045***	0.000	0.124***	0.045***	-0.017***	1		
[10] Securities law private litigation distance	0.035***	0.099***	0.210***	-0.066***	0.000	0.135***	0.104***	0.000	0.390***	1	
[11] Different legal family	-0.035***	0.055***	0.007*	0.056***	0.000	0.179***	0.102***	0.038***	0.177***	0.138***	1

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Note: Summary statistics in this table were run on the 55 countries with egalitarianism survey data.

Table 4. Egalitarianism and a Pooled Sample of Cross-Border Equity and Debt Transactions

This table presents the results of zero-inflated negative binomial regressions in which cross-border debt and equity transaction flows serve as the dependent variable. Robust standard errors appear below the coefficients in brackets.

Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7							
	Log of the product of origin and host market capitalization	0.462 *** [0.043]	Log of the product of origin and host market capitalization	0.454 *** [0.037]	Log of the product of origin and host market capitalization	0.460 *** [0.049]	Log of the product of origin and host market capitalization	0.470 *** [0.047]	Log of the product of origin and host market capitalization	0.468 *** [0.047]	Log of the product of origin and host market capitalization	0.461 *** [0.051]	
Egalitarianism distance	-5.442 *** [0.909]	Egalitarianism distance	-5.605 *** [0.716]	Egalitarianism distance	-4.875 *** [0.620]	Egalitarianism distance	-5.424 *** [0.767]	Egalitarianism distance	-5.187 *** [0.757]	Egalitarianism distance	-5.319 *** [0.688]	Egalitarianism distance	-5.292 *** [0.777]
Signed egalitarianism distance (origin country first)	0.868 ** [0.387]	Signed egalitarianism distance (origin country first)	0.571 ** [0.283]	Signed egalitarianism distance (origin country first)	0.655 ** [0.276]	Signed egalitarianism distance (origin country first)	0.717 ** [0.322]	Signed egalitarianism distance (origin country first)	0.779 ** [0.330]	Signed egalitarianism distance (origin country first)	0.403 [0.283]	Signed egalitarianism distance (origin country first)	0.737 ** [0.343]
	Procedural formalism distance	-0.155 *** [0.056]	Different legal family	-0.691 *** [0.267]	Creditor rights distance	-0.048 [0.039]	Shareholder rights distance	-0.025 [0.025]	Rule of law distance	-0.106 ** [0.054]	Securities law private litigation distance	0.549 [0.862]	
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.654 *** [0.034]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.423 *** [0.035]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.430 *** [0.033]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.406 *** [0.037]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.410 *** [0.037]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.423 *** [0.036]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.413 *** [0.038]
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	42419	No. of observations	40065	No. of observations	42419	No. of observations	28259	No. of observations	29795	No. of observations	42419	No. of observations	29795
Nonzero obs	1780	Nonzero obs	1776	Nonzero obs	1780	Nonzero obs	1666	Nonzero obs	1681	Nonzero obs	1780	Nonzero obs	1681
Zero obs	40639	Zero obs	38289	Zero obs	40639	Zero obs	26593	Zero obs	28114	Zero obs	40639	Zero obs	28114
Wald chi2	36.12(2)	Wald chi2	153.93(4)	Wald chi2	184.87(4)	Wald chi2	129.66(4)	Wald chi2	132.29(4)	Wald chi2	138.96(4)	Wald chi2	163.72(4)
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000
Log pseudolikelihood	-10054.53	Log pseudolikelihood	-9527.63	Log pseudolikelihood	-9534.29	Log pseudolikelihood	-8834.97	Log pseudolikelihood	-8927.40	Log pseudolikelihood	-9560.92	Log pseudolikelihood	-8929.95

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 4 continued

	Robustness Check: Adding Year Dummies	Robustness Check: Controlling for Guiso, Sapienza, and Zingales' [2005] Eurobarometer measure of Inter-Country Trust in Europe; Note: this robustness check is thus limited to a subsample of countries surveyed by Eurobarometer	Robustness Check: Substituting GDP for Stock Market Capitalization	Robustness Check: Substituting GDP for Stock Market Capitalization	Robustness Check: Substituting GDP for Stock Market Capitalization and Adding Year Dummies	Robustness Check: Testing for the Importance of POLCONIII_200 2 distance	Robustness Check: Testing for the Importance of POLCONV_2002 distance						
	Model 8	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14						
Log of the product of origin and host market capitalization	0.704 *** [0.088]	Log of the product of origin and host market capitalization	0.486 *** [0.051]	Log of the product of origin and host country GDP	0.620 *** [0.059]	Log of the product of origin and host country GDP	0.603 *** [0.052]	Log of the product of origin and host market capitalization	0.689 *** [0.075]	Log of the product of origin and host market capitalization	0.460 *** [0.047]	Log of the product of origin and host market capitalization	0.467 *** [0.047]
Egalitarianism distance	-5.330 *** [0.608]	Egalitarianism distance	-7.246 *** [1.267]	Egalitarianism distance	-6.551 *** [0.689]	Egalitarianism distance	-5.839 *** [0.613]	Egalitarianism distance	-6.314 *** [0.680]	Egalitarianism distance	-5.289 *** [0.690]	Egalitarianism distance	-5.360 *** [0.720]
Signed egalitarianism distance (origin country first)	0.704 ** [0.279]	Signed egalitarianism distance (origin country first)	3.575 *** [0.815]	Signed egalitarianism distance (origin country first)	0.537 * [0.285]	Signed egalitarianism distance (origin country first)	0.649 ** [0.263]	Signed egalitarianism distance (origin country first)	0.271 [0.273]	Signed egalitarianism distance (origin country first)	0.454 [0.280]	Signed egalitarianism distance (origin country first)	0.525 * [0.296]
Different legal family	-0.617 ** [0.288]	Different legal family	-0.431 [0.363]	Procedural formalism distance	-0.192 *** [0.052]	Different legal family	-0.708 *** [0.253]	Rule of law distance	-0.231 *** [0.058]	POLCONIII distance	-3.878 *** [1.474]	POLCONV distance	-0.250 [0.679]
		Guiso, Sapienza, and Zingales' [2005] Eurobarometer measure of Inter-Country Trust	1.835 *** [0.398]										
Regressor in constant only model: Log of the product of origin and host market capitalization	-0.382 *** [0.039]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.285 *** [0.051]	Regressor in constant-only model: Log of the product of origin and host country GDP	-0.692 *** [0.065]	Regressor in constant-only model: Log of the product of origin and host country GDP	-0.708 *** [0.061]	Regressor in constant-only model: Log of the product of origin and host country GDP	-0.655 *** [0.069]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.435 *** [0.036]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.437 *** [0.036]
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin Countries?	Yes
No. of observations	42419	No. of observations	6532	No. of observations	58148	No. of observations	63136	No. of observations	63136	No. of observations	41678	No. of observations	40942
Nonzero obs	1780	Nonzero obs	750	Nonzero obs	1850	Nonzero obs	1854	Nonzero obs	1854	Nonzero obs	1763	Nonzero obs	1763
Zero obs	40639	Zero obs	5782	Zero obs	56298	Zero obs	61282	Zero obs	61282	Zero obs	39915	Zero obs	39179
Wald chi2	406.94(32)	Wald chi2	178.58(5)	Wald chi2	153.11(4)	Wald chi2	194.94(4)	Wald chi2	594.27(32)	Wald chi2	140.13(4)	Wald chi2	135.22(4)
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000
Log pseudolikelihood	-9228.61	Log pseudolikelihood	-3479.90	Log pseudolikelihood	-10028.79	Log pseudolikelihood	-10049.01	Log pseudolikelihood	-9844.81	Log pseudolikelihood	-9415.39	Log pseudolikelihood	-9435.72

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 4 continued

Robustness Check: Substituting the Fitted Values of Egalitarianism Distance and Signed Egalitarianism Distance from Model 6 of Table 1; given that this model uses predicted variables from Table 1, the standard errors are calculated using the nonparametric bootstrap procedure with 50 replications

Robustness Check: Substituting the Fitted Values of Egalitarianism Distance and Signed Egalitarianism Distance from Model 6 of Table 1; given that this model uses predicted variables from Table 1, the standard errors are calculated using the nonparametric bootstrap procedure with 50 replications

Robustness Check: Also Controlling for Possible Nonlinearity of Egalitarianism

Robustness Check: Controlling for Common Colonial Tie

Robustness Check: Controlling for Common Language

Robustness Check: Controlling for Corporate Taxation and Common Language

Robustness Check: Controlling for Geographic Distance

	Model 15	Model 16	Model 17	Model 18	Model 19	Model 20	Model 21						
Log of the product of origin and host market capitalization	0.454 *** [0.047]	Log of the product of origin and host market capitalization	0.440 *** [0.030]	Log of the product of origin and host market capitalization	0.461 *** [0.036]	Log of the product of origin and host market capitalization	0.462 *** [0.031]	Log of the product of origin and host market capitalization	0.445 *** [0.035]	Log of the product of origin and host market capitalization	0.499 *** [0.040]	Log of the product of origin and host market capitalization	0.488 *** [0.041]
Fitted egalitarianism distance (from Model 6 of Table 1)	-7.317 *** [1.656]	Fitted egalitarianism distance (from Model 6 of Table 1)	-6.116 *** [1.173]	Egalitarianism distance	-4.776 *** [0.627]	Egalitarianism distance	-4.973 *** [0.618]	Egalitarianism distance	-4.679 *** [0.623]	Egalitarianism distance	-4.258 *** [0.592]	Egalitarianism distance	-4.306 *** [0.637]
Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	1.675 *** [0.508]	Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	1.953 *** [0.475]	Signed egalitarianism distance (origin country first)	0.568 ** [0.263]	Signed egalitarianism distance (origin country first)	0.681 ** [0.272]	Signed egalitarianism distance (origin country first)	0.621 ** [0.275]	Signed egalitarianism distance (origin country first)	0.598 ** [0.278]	Signed egalitarianism distance (origin country first)	0.533 * [0.272]
Creditor rights distance	0.021 [0.040]	Different legal family	-0.998 *** [0.269]	Different legal family	-0.699 *** [0.267]	Different legal family	-0.850 ** [0.368]	Different legal family	-0.483 [0.361]	Different legal family	-0.248 [0.269]	Different legal family	-0.616 ** [0.247]
				Sum of origin country's egalitarianism score and host country's egalitarianism score	0.228 [0.278]	Common colonial tie	-0.300 [0.472]	Common language	0.416 [0.445]	Common language	0.663 * [0.368]	Log of geographic distance	-0.260 ** [0.124]
										Difference between origin country's corporate tax rate and host country's corporate tax rate	0.030 *** [0.006]		
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.408 *** [0.042]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.434 *** [0.035]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.426 *** [0.034]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.427 *** [0.033]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.432 *** [0.033]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.413 *** [0.037]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.409 *** [0.036]
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	28259	No. of observations	42419	No. of observations	42419	No. of observations	42419	No. of observations	42419	No. of observations	36435	No. of observations	42419
Nonzero obs	1666	Nonzero obs	1780	Nonzero obs	1780	Nonzero obs	1780	Nonzero obs	1780	Nonzero obs	1670	Nonzero obs	1780
Zero obs	26593	Zero obs	40639	Zero obs	40639	Zero obs	40639	Zero obs	40639	Zero obs	34765	Zero obs	40639
Wald chi2	170.35(4)	Wald chi2	261.03(4)	Wald chi2	196.68(5)	Wald chi2	253.97(5)	Wald chi2	219.35(5)	Wald chi2	206.58(6)	Wald chi2	219.70(5)
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000
Log pseudolikelihood	-8882.49	Log pseudolikelihood	-9552.62	Log pseudolikelihood	-9532.42	Log pseudolikelihood	-9531.52	Log pseudolikelihood	-9528.27	Log pseudolikelihood	-8768.22	Log pseudolikelihood	-9508.32

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 4 continued

Robustness Check: Substituting the Fitted Values of Egalitarianism Distance and Signed Egalitarianism Distance from Model 6 of Table 1; also Controlling for Geographic Distance; given that this model uses predicted variables from Table 1, the standard errors are calculated using the nonparametric bootstrap procedure with 50 replications

Robustness Check: Substituting the Fitted Values of Egalitarianism Distance and Signed Egalitarianism Distance from Model 6 of Table 1; also Controlling for Common Language, Common Colonial Tie, and Corporate Taxation; given that this model uses predicted variables from Table 1, the standard errors are calculated using the nonparametric bootstrap procedure with 50 replications

Robustness Check: Including All Statistically Significant Legal Distance Measures, Geographic Distance, Common Language, Political Constraints Index, and Corporate Taxation

Robustness Check: Substituting the Fitted Values of Egalitarianism Distance and Signed Egalitarianism Distance from Model 6 of Table 1; Including All Statistically Significant Legal Distance Measures, Geographic Distance, Common Language, Political Constraints Index, and Corporate Taxation; given that this model uses predicted variables from Table 1, the standard errors are calculated using the nonparametric bootstrap procedure with 50 replications

Model 24 with standardized variables

Model 25 with standardized variables

	Model 22	Model 23	Model 24	Model 25	Model 26	Model 27
Log of the product of origin and host market capitalization	0.485 *** [0.035]	Log of the product of origin and host market capitalization	0.485 *** [0.030]	0.528 *** [0.047]	0.530 *** [0.037]	2.152 *** [0.192]
Fitted egalitarianism distance (from Model 6 of Table 1)	-6.105 *** [1.281]	Fitted egalitarianism distance (from Model 6 of Table 1)	-6.184 *** [1.170]	-3.633 *** [0.568]	-5.692 *** [1.212]	-0.782 *** [0.122]
Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	1.486 *** [0.427]	Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	1.445 *** [0.556]	0.443 * [0.268]	1.111 *** [0.424]	0.184 * [0.112]
Different legal family	-0.869 ** [0.341]	Different legal family	-0.442 [0.385]	-0.122 [0.252]	-0.240 [0.326]	-0.054 [0.111]
Log of geographic distance	-0.318 *** [0.111]	Common language	0.809 [0.555]	-0.236 ** [0.106]	Log of geographic distance	-0.318 *** [0.103]
		Common colonial tie	-0.086 [0.662]	0.809 ** [0.334]	Common language	0.926 ** [0.446]
		Difference between origin country's corporate tax rate and host country's corporate tax rate	0.028 *** [0.005]	-2.434 * [1.361]	POLCONIII distance	-2.033 [1.247]
				0.027 *** [0.007]	Difference between origin country's corporate tax rate and host country's corporate tax rate	0.025 *** [0.008]
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.410 *** [0.035]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.419 *** [0.039]	-0.398 *** [0.041]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.396 *** [0.038]
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?
No. of observations	42419	No. of observations	36435	No. of observations	35822	No. of observations
Nonzero obs	1780	Nonzero obs	1670	Nonzero obs	1655	Nonzero obs
Zero obs	40639	Zero obs	34765	Zero obs	34167	Zero obs
Wald chi2	343.36(5)	Wald chi2	327.82(7)	Wald chi2	187.56(8)	Wald chi2
p value	0.000	p value	0.000	p value	0.000	p value
Log pseudolikelihood	-9510.10	Log pseudolikelihood	-8774.16	Log pseudolikelihood	-8608.37	Log pseudolikelihood

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 5. Egalitarianism and Cross-Border Debt Transactions

This table presents the results of zero-inflated negative binomial regressions in which cross-border debt transaction flows serve as the dependent variable. Robust standard errors appear below the coefficients in brackets.

Model 1	Model 2	Model 3	Model 4	Model 5	Model 6--Full Model with Every Independent Variable Standardized in order to Assess Relative Economic Significance				Model 7--Same as Model 6 but Using Fitted Egalitarianism Distance; Standard Errors are Bootstrapped with 50 Repetitions								
Log of the product of origin and host market capitalization	0.351 *** [0.047]	Log of the product of origin and host market capitalization	0.340 *** [0.041]	Log of the product of origin and host market capitalization	0.347 *** [0.051]	Log of the product of origin and host market capitalization	0.360 *** [0.054]	Log of the product of origin and host market capitalization	0.364 *** [0.055]	Standardized: Log of the product of origin and host market capitalization	1.854 *** [0.190]	Standardized: Common language	0.117 [0.106]	Standardized: Log of the product of origin and host market capitalization	1.883 *** [0.165]	Standardized: Common language	0.180 [0.156]
Egalitarianism distance	-6.016 *** [0.941]	Egalitarianism distance	-5.392 *** [0.845]	Egalitarianism distance	-5.534 *** [0.915]	Egalitarianism distance	-5.994 *** [1.051]	Egalitarianism distance	-5.722 *** [1.111]	Standardized: Egalitarianism distance	-0.814 *** [0.133]	Standardized: POLCONIII distance	-0.207 [0.164]	Standardized: Fitted egalitarianism distance (from Model 6 of Table 1)	-0.796 *** [0.138]	Standardized: POLCONIII distance	-0.129 [0.131]
Signed egalitarianism distance (origin country first)	0.809 * [0.448]	Signed egalitarianism distance (origin country first)	0.961 ** [0.377]	Signed egalitarianism distance (origin country first)	0.648 [0.458]	Signed egalitarianism distance (origin country first)	0.979 * [0.536]	Signed egalitarianism distance (origin country first)	1.007 * [0.552]	Standardized: Signed egalitarianism distance (origin country first)	0.359 *** [0.126]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.643 *** [0.118]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	0.699 *** [0.122]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.528 *** [0.116]
Procedural formalism distance	-0.165 *** [0.059]	Different legal family	-0.673 * [0.360]	Rule of law distance	-0.156 ** [0.067]	Creditor rights distance	-0.082 ** [0.039]	Securities law private litigation distance	-0.004 [0.918]	Standardized: Different legal family	-0.058 [0.132]		Standardized: Different legal family	-0.109 [0.166]			
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.473 *** [0.038]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.486 *** [0.036]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-7.669 *** [1.419]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.461 *** [0.041]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.464 *** [0.041]	Standardized: Log of geographic distance	-0.251 *** [0.088]		Standardized: Log of geographic distance	-0.307 *** [0.087]			
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.684 *** [0.181]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.677 *** [0.162]
No. of observations	40065	No. of observations	42419	No. of observations	42419	No. of observations	28259	No. of observations	29795	No. of observations	35823		No. of observations	35823			
Nonzero obs	1225	Nonzero obs	1226	Nonzero obs	1226	Nonzero obs	1159	Nonzero obs	1173	Nonzero obs	1138		Nonzero obs	1138			
Zero obs	38840	Zero obs	41193	Zero obs	41193	Zero obs	27100	Zero obs	28622	Zero obs	34685		Zero obs	34685			
Wald chi2	101.22(4)	Wald chi2	116.26(4)	Wald chi2	93.31(4)	Wald chi2	100.03(4)	Wald chi2	102.08(4)	Wald chi2	142.01(8)		Wald chi2	261.40(8)			
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000		p value	0.000			
Log pseudolikelihood	-6772.85	Log pseudolikelihood	-6776.47	Log pseudolikelihood	-6780.84	Log pseudolikelihood	-6338.57	Log pseudolikelihood	-6430.56	Log pseudolikelihood	-6080.47		Log pseudolikelihood	-6030.69			

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 6. Egalitarianism and Cross-Border Equity Transactions

This table presents the results of zero-inflated negative binomial regressions in which cross-border equity transaction flows serve as the dependent variable. Robust standard errors appear below the coefficients in brackets.

Model 1	Model 2		Model 3		Model 4		Model 5		Model 6--Full Model with Every Independent Variable Standardized in order to Assess Relative Economic Significance			Model 7--Same as Model 6 but using Fitted egalitarianism distance; standard errors are bootstrapped with 50 repetitions					
Log of the product of origin and host market capitalization	0.521 *** [0.048]	Log of the product of origin and host market capitalization	0.533 *** [0.039]	Log of the product of origin and host market capitalization	0.535 *** [0.051]	Log of the product of origin and host market capitalization	0.517 *** [0.053]	Log of the product of origin and host market capitalization	0.517 *** [0.057]	Standardized: Log of the product of origin and host market capitalization	2.273 *** [0.214]	Standardized: Common language	0.385 *** [0.095]	Standardized: Log of the product of origin and host market capitalization	2.262 *** [0.219]	Standardized: Common language	0.362 *** [0.115]
Egalitarianism distance	-5.314 *** [0.909]	Egalitarianism distance	-4.297 *** [0.809]	Egalitarianism distance	-5.210 *** [0.884]	Egalitarianism distance	-4.882 *** [0.979]	Egalitarianism distance	-5.085 *** [0.959]	Standardized: Egalitarianism distance	-0.717 *** [0.161]	Standardized: POLCONIII distance	-0.416 ** [0.174]	Standardized: Fitted egalitarianism distance (from Model 6 of Table 1)	-0.625 *** [0.158]	Standardized: POLCONIII distance	-0.441 *** [0.162]
Signed egalitarianism distance (origin country first)	0.355 [0.326]	Signed egalitarianism distance (origin country first)	0.362 [0.326]	Signed egalitarianism distance (origin country first)	0.173 [0.321]	Signed egalitarianism distance (origin country first)	0.578 [0.360]	Signed egalitarianism distance (origin country first)	0.485 [0.389]	Standardized: Signed egalitarianism distance (origin country first)	0.078 [0.126]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	-0.208 * [0.113]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	0.019 [0.133]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	-0.197 [0.143]
Procedural formalism distance	-0.137 ** [0.069]	Different legal family	-0.901 *** [0.254]	Rule of law distance	-0.071 [0.056]	Shareholder rights distance	-0.017 [0.027]	Securities law private litigation distance	0.795 [1.265]	Standardized: Different legal family	0.015 [0.119]		Standardized: Different legal family	-0.085 [0.158]			
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.436 *** [0.057]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.420 *** [0.053]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.430 *** [0.058]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.428 *** [0.058]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.430 *** [0.060]	Standardized: Log of geographic distance	-0.055 [0.084]		Standardized: Log of geographic distance	-0.083 [0.102]			
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin Countries?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.715 *** [0.279]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.694 *** [0.291]
No. of observations	40066	No. of observations	42420	No. of observations	42420	No. of observations	29796	No. of observations	29796	No. of observations	35824		No. of observations	35824			
Nonzero obs	1071	Nonzero obs	1074	Nonzero obs	1074	Nonzero obs	1004	Nonzero obs	1004	Nonzero obs	996		Nonzero obs	996			
Zero obs	38995	Zero obs	41346	Zero obs	41346	Zero obs	28792	Zero obs	28792	Zero obs	34828		Zero obs	34828			
Wald chi2	144.74(4)	Wald chi2	205.19(4)	Wald chi2	140.74(4)	Wald chi2	121.36(4)	Wald chi2	110.77(4)	Wald chi2	195.04(8)		Wald chi2	401.81(8)			
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000		p value	0.000			
Log pseudolikelihood	-5843.17	Log pseudolikelihood	-5821.76	Log pseudolikelihood	-5866.61	Log pseudolikelihood	-5443.88	Log pseudolikelihood	-5442.55	Log pseudolikelihood	-5221.04		Log pseudolikelihood	-5220.66			

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 7. Egalitarianism and Cross-Border Merger and Acquisition Transactions

This table presents the results of zero-inflated negative binomial regressions in which merger and acquisition transaction flows serve as the dependent variable. Robust standard errors appear below the coefficients in brackets.

Model 1	Model 2	Model 3	Model 4	Model 5	Model 6--Full Model with Every Independent Variable Standardized in order to Assess Relative Economic Significance				Model 7--Same as Model 6 but using Fitted egalitarianism distance; standard errors are bootstrapped with 50 repetitions								
Log of the product of origin and host market capitalization	0.463 *** [0.030]	Log of the product of origin and host market capitalization	0.484 *** [0.025]	Log of the product of origin and host market capitalization	0.441 *** [0.030]	Log of the product of origin and host market capitalization	0.526 *** [0.032]	Log of the product of origin and host market capitalization	0.529 *** [0.032]	Standardized: Log of the product of origin and host market capitalization	2.711 *** [0.061]	Standardized: Common language	0.233 *** [0.039]	Standardized: Log of the product of origin and host market capitalization	2.712 *** [0.103]	Standardized: Common language	0.228 *** [0.042]
Egalitarianism distance	-3.539 *** [0.314]	Egalitarianism distance	-2.938 *** [0.298]	Egalitarianism distance	-2.959 *** [0.309]	Egalitarianism distance	-5.474 *** [0.411]	Egalitarianism distance	-5.334 *** [0.399]	Standardized: Egalitarianism distance	-0.258 *** [0.048]	Standardized: POLCONIII distance	-0.180 *** [0.061]	Standardized: Fitted egalitarianism distance (from Model 6 of Table 1)	-0.263 *** [0.039]	Standardized: POLCONIII distance	-0.184 *** [0.067]
Signed egalitarianism distance (origin country first)	0.476 *** [0.149]	Signed egalitarianism distance (origin country first)	0.514 *** [0.140]	Signed egalitarianism distance (origin country first)	0.681 *** [0.150]	Signed egalitarianism distance (origin country first)	-0.346 ** [0.167]	Signed egalitarianism distance (origin country first)	-0.331 ** [0.169]	Standardized: Signed egalitarianism distance (origin country first)	0.157 *** [0.044]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.082 * [0.043]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 6 of Table 1)	0.090 * [0.046]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.064 [0.040]
Procedural formalism distance	-0.141 *** [0.027]	Different legal family	-0.817 *** [0.109]	Rule of law distance	-0.147 *** [0.023]	Creditor rights distance	-0.017 [0.015]	Shareholder rights distance	-0.014 [0.012]	Standardized: Different legal family	-0.202 *** [0.038]			Standardized: Different legal family	-0.219 *** [0.039]		
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.467 *** [0.031]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.415 *** [0.028]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.448 *** [0.030]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.629 *** [0.041]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.614 *** [0.040]	Standardized: Log of geographic distance	-0.669 *** [0.026]			Standardized: Log of geographic distance	-0.663 *** [0.029]		
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.798 *** [0.118]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.829 *** [0.166]
No. of observations	40064	No. of observations	42418	No. of observations	42418	No. of observations	28258	No. of observations	29794	No. of observations	35822			No. of observations	35822		
Nonzero obs	6204	Nonzero obs	6275	Nonzero obs	6275	Nonzero obs	5324	Nonzero obs	5399	Nonzero obs	5768			Nonzero obs	5768		
Zero obs	33860	Zero obs	36143	Zero obs	36143	Zero obs	22934	Zero obs	24395	Zero obs	30054			Zero obs	30054		
Wald chi2	420.49(4)	Wald chi2	595.57(4)	Wald chi2	433.31(4)	Wald chi2	467.51(4)	Wald chi2	473.94(4)	Wald chi2	3285.93(8)			Wald chi2	1219.54(8)		
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000			p value	0.000		
Log pseudolikelihood	-24909.66	Log pseudolikelihood	-25195.44	Log pseudolikelihood	-25348.48	Log pseudolikelihood	-20560.21	Log pseudolikelihood	-20873.08	Log pseudolikelihood	-21121.14			Log pseudolikelihood	-21114.90		

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 8. Egalitarianism and Associated Policy Outcomes

Panel A. Pairwise Correlations

Variable	[1]
[1] Egalitarianism: countries' scores on the Schwartz cultural egalitarianism orientation. Source: Schwartz (1994) and authors' additional work.	1
[2] Transparency International's Corruption Perceptions Index 1996-2002 average: this index represents freedom from corruption because a higher number indicates a lower level of corruption. Source: Lambsdorff (2006) as also used in You and Khagram (2005)	0.523***
[3] World Bank Control of Corruption Index 1996-2002 average: this index represents freedom from corruption because a higher number indicates a lower level of corruption. Source: Kaufmann, Kray, and Mastruzzi (2003).	0.558***
[4] Political Risk Service ICRG Corruption Index 1996-2002 average: this index represents freedom from corruption because a higher number indicates a lower level of corruption. Source: Political Risk Service's ICRG Index, used previously in You and Khagram (2005).	0.548***
[5] Sickness and Health Benefits Index: An aggregate measure of the level of sickness and health legal benefits, computed as the normalized sum of the following four variables: (1) the number of months of contributions or employment required to qualify for sickness benefits by law; (2) the percentage of the worker's monthly salary deducted by law to cover sickness and health benefits; (3) the waiting period for sickness benefits; and (4) the percentage of the net salary covered by the net sickness cash benefit for a two-month sickness spell. Source: Botero et al. (2004).	0.257*
[6] Unemployment Benefits Index: This index measures the level of protection of unemployment benefits. Four factors are taken into account: (a) the months of contributions or employment required to qualify for unemployment benefits by law; (b) the percentage of the worker's monthly salary deducted by law to cover unemployment benefits; (c) the waiting period for unemployment benefits; and (d) the percentage of salary covered by unemployment benefits for one year. Source: Botero et al. (2004).	0.334**
[7] Social Security Laws Index: An aggregate measure of 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. (2004).	0.391***

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Note: The above correlation between egalitarianism and Transparency International's Corruption Perception Index is for the 49 countries with available data. The correlation between egalitarianism and the World Bank Control of Corruption Index 1996-2002 average is for all 51 countries. The correlation between egalitarianism and the Political Risk Service ICRG Corruption Index is for the 48 countries with available data. The correlations between egalitarianism and the sickness and health benefits index, unemployment benefits index, and social securities law index are for the 46 countries with available data.

Panel B. Determinants of Anti-Corruption Levels

Variable	DV: Transparency International's Corruption Perceptions Index 1996-2002 average	DV: World Bank Control of Corruption Index 1996-2002 average	DV: Political Risk Service ICRG Corruption Index 1996-2002 average	DV: World Bank Control of Corruption Index 1998	DV: Transparency International's Corruption Perceptions Index 1996-1999 average	DV: World Bank Control of Corruption Index 1998 average	DV: Transparency International's Corruption Perceptions Index 1998
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Egalitarianism	4.774*** [1.361]	2.208*** [0.609]	1.502*** [0.632]	2.358*** [0.649]	4.523*** [1.392]	2.062*** [0.611]	4.648*** [1.425]
Gini coefficient averaged over the years 1971-1996, from You and Khagram (2005)	-2.161 [3.976]	-2.503 [1.830]	-4.766** [1.830]	-1.895 [1.904]	-1.001 [3.820]	-1.661 [1.768]	-0.173 [3.878]
Percentage of Protestants in 1980, from La Porta et al. (1999)	3.285 [2.217]	1.458 [0.979]	2.647** [1.003]	1.718 [1.041]	3.712 [2.197]	1.636 [0.972]	3.714 [2.203]
Percentage of Catholics in 1980, from La Porta et al. (1999)	-0.658 [0.824]	-0.035 [0.363]	-0.009 [0.497]	-0.013 [0.416]	-0.535 [0.796]	-0.014 [0.380]	-0.477 [0.789]
Percentage of Muslims in 1980, from La Porta et al. (1999)	-1.301 [1.024]	-0.332 [0.497]	-1.012 [0.743]	-0.232 [0.593]	-1.355 [0.974]	-0.147 [0.517]	-1.379 [0.984]
French civil law origin, from La Porta et al. (1999)	-1.663* [0.912]	-0.592 [0.397]	0.063 [0.488]	-0.670 [0.436]	-1.753* [0.931]	-0.637 [0.408]	-1.822* [0.948]
German civil law origin, from La Porta et al. (1999)	0.229 [1.003]	0.266 [0.442]	-0.044 [0.394]	0.266 [0.454]	0.247 [0.927]	0.260 [0.425]	-0.048 [0.849]
Scandinavian civil law origin, from La Porta et al. (1999)	-1.395 [1.790]	-0.616 [0.770]	-0.759 [0.882]	-0.822 [0.820]	-1.825 [1.774]	-0.790 [0.763]	-1.654 [1.803]
Federalism, the sum of five indicators for federalism averaged for 1975-1996, from Keefer (2002)	-0.043 [0.175]	-0.035 [0.079]	-0.047 [0.089]	-0.027 [0.081]	-0.097 [0.174]	-0.041 [0.077]	-0.063 [0.178]
Natural resource abundance, defined as the share of fuel, ore, and metal exports from the total merchandise exports, averaged for 1971-1996, from the World Development Indicators	-0.009 [0.013]	-0.006 [0.006]	-0.003 [0.007]	-0.007 [0.005]	-0.010 [0.012]	-0.006 [0.005]	-0.011 [0.012]
Distance from the equator, from You and Khagram (2005) as used in Treisman (2000)	-0.559 [3.372]	-0.368 [1.605]	-0.421 [1.509]	-0.194 [1.687]	-0.006 [3.409]	-0.106 [1.578]	-0.094 [3.473]
Constructed openness, defined as the natural logarithm of predicted trade shares from a bilateral trade equation with "pure" geography variables, computed by Rodrik et al.	0.291 [0.364]	0.053 [0.163]	0.162 [0.155]	0.085 [0.174]	0.321 [0.363]	0.057 [0.166]	0.311 [0.366]
Observations	40	41	40	41	40	41	40
P-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000
R-Squared	0.731	0.719	0.733	0.723	0.737	0.710	0.738

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Note: Control variables for studying anti-corruption levels in Panel B came from You and Khagram (2005).

Table 9. Regressions Showing the Effect of Egalitarianism on Policy Outcomes

Panel A. Legally-Mandated Worker Participation on Boards

DV: Legally-Mandated Worker Participation on Boards				
Variable	Model 1	Model 2	Model 3	Model 4
Egalitarianism	0.126 [0.212]	-0.021 [0.224]	-0.007 [0.113]	0.109 [0.121]
Interaction Effect of Egalitarianism and German law family		1.210*** [0.391]	1.196*** [0.351]	1.202*** [0.359]
Common law family member			-0.001 [0.023]	0.051 [0.049]
Socialist law family member			0.330* [0.173]	0.407 [0.258]
German law family member	0.256 [0.221]	-5.565*** [1.776]	-5.353*** [1.564]	-5.298*** [1.592]
Scandinavian law family member			0.751*** [0.239]	0.923*** [0.303]
POLCONIII Henisz political constraints index				-0.015 [0.013]
Geographic openness				-0.001 [0.003]
Union density				-0.226 [0.348]
Observations	46	46	46	42
P-value	0.478	0.001	0.001	0.004
R-Squared	0.053	0.149	0.507	0.570

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Panel B. Broader Employee Protections

Variable	DV: Botero et al. Unemployment Benefits Index				DV: Botero et al. Social Security Laws Index			
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Egalitarianism	0.673*** [0.159]	0.681*** [0.164]	0.721*** [0.149]	0.659*** [0.166]	1.069*** [0.326]	1.066*** [0.325]	1.091*** [0.307]	1.001*** [0.337]
Common law family member	-0.022 [0.126]	0.028 [0.138]	-0.004 [0.120]	-0.021 [0.125]	-0.162 [0.251]	-0.186 [0.273]	-0.154 [0.247]	-0.156 [0.239]
Socialist law family member	0.701*** [0.115]	0.792*** [0.134]	0.808*** [0.127]	0.681*** [0.142]	1.025*** [0.222]	0.981*** [0.226]	1.074*** [0.225]	0.931*** [0.256]
German law family member	0.264 [0.186]	0.251 [0.174]	0.264 [0.170]	0.257 [0.183]	0.277 [0.341]	0.284 [0.348]	0.277 [0.337]	0.241 [0.328]
Scandinavian law family member	0.186 [0.137]	0.268 [0.165]	0.293* [0.166]	0.139 [0.189]	0.356 [0.237]	0.316 [0.282]	0.405 [0.269]	0.125 [0.317]
POLCONIII Henisz political constraints index	0.050 [0.034]	0.045 [0.035]	0.054* [0.031]	0.049 [0.035]	0.100 [0.072]	0.103 [0.074]	0.102 [0.073]	0.096 [0.069]
Geographic openness	-0.000 [0.003]	0.001 [0.003]	-0.001 [0.004]	-0.001 [0.004]	0.001 [0.005]	0.000 [0.005]	0.000 [0.006]	-0.001 [0.006]
Proportion of years chief executive of government came from a leftist party during 1928-1995		-0.226 [0.164]				0.110 [0.278]		
Proportion of years largest party in the legislature is a leftist party during 1928-1995			-0.226 [0.143]				-0.104 [0.260]	
Union density				0.093 [0.293]				0.453 [0.439]
Observations	42	42	42	42	42	42	42	42
P-value	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
R-Squared	0.595	0.620	0.623	0.597	0.610	0.612	0.612	0.621

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Table 10. Correlation Between Egalitarianism and Quality of Financial Disclosure

Variable	Variable Definition	[1]	[2]	[3]	[4]
[1] Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. <i>Source: Schwartz (1994) and authors' additional work.</i>	1			
[2] Financial Transparency	A factor variable produced by Bushman et al. (2003) after analyzing an extensive range of measures capturing countries' firm-specific information environments in 1995, This "Factor 1" is selected because it represents financial transparency. More specifically, this variable captures the intensity and timeliness of financial disclosures, and their interpretation and dissemination by analysts and the media. <i>Source: Bushman et al. (2003), who constructed this variable using primary data from the International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT).</i>	0.368**	1		
[3] Time	Average ranking of the answers to the following interim reporting questions in 1995: Ea (frequency of reports), Ed-Ef (count of disclosed items), and Eb (consolidation of interim reports). <i>Source: Bushman et al. (2003), who constructed this variable using primary data from the International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT).</i>	0.367**	0.629***	1	
[4] Audit	Variable indicating the percentage of firms in the country audited by the Big 5 accounting firms in 1995. Audit equals 1, 2, 3 or 4 if the percentage ranges between [0,25%], (25%,50%], (50%, 75%] and (75%, 100%], respectively. <i>Source: International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT) as used in Bushman et al. (2003).</i>	0.294*	0.470***	0.554***	1

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Note: The correlation between egalitarianism and the financial transparency variable is run for the 33 countries with available data. The correlation between egalitarianism and the time variable is run for the 34 countries with available data. The correlation between egalitarianism and the audit variable is run for the 33 countries with available data.

Table 11. Correlations Between Egalitarianism and Antitrust Enforcement

Panel A. An Examination of the Nicholson Variables on Comparative Antitrust Enforcement

Variable	Variable Definition	[1]	[2]	[3]
[1] Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. <i>Source: Schwartz (1994) and authors' additional work.</i>	1		
[2] Nicholson Antitrust Law Index	This indicator maps the presence of "laws on the books" into a numerical measure of competition regimes by assigning binomial scores for the presence of particular laws in a jurisdiction, and then sums the individual components to yield a total score. <i>Source: Nicholson (2004).</i>	0.464***	1	
[3] Antitrust Enforcement Expenditure	The ratio of budget and staff for the competition agencies in countries, indexed to the level of the United States. <i>Source: Nicholson (2004).</i>	0.463**	0.521***	1

Note: The correlation between egalitarianism and the Nicholson Antitrust Law Index is run for the 35 matching countries with available data from Nicholson [2004]. The correlation between egalitarianism and Antitrust Enforcement Expenditure is run for the 27 matching countries with available data from Nicholson [2004].

Panel B. An Examination of 3,000 Executives' Perceptions of Antitrust Policy

This table shows the correlation between a country's egalitarianism score and executives' perception of the effectiveness of antitrust policy in that country.

Variable	Variable Definition	[1]
[1] Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. <i>Source: Schwartz (1994) and authors' additional work.</i>	1
[2] Perceived Effectiveness of Antitrust Policy 1994	Over 2,800 executives were asked each year by IMD to evaluate the effectiveness of their countries' antitrust policy. For a detailed description of how the IMD survey was conducted over time, see Appendix Table A1. <i>Source: IMD World Competitiveness Yearbook.</i>	0.339**
[3] Perceived Effectiveness of Antitrust Policy 1995		0.399**
[4] Perceived Effectiveness of Antitrust Policy 1996		0.432***
[5] Perceived Effectiveness of Antitrust Policy 1997		0.479***
[6] Perceived Effectiveness of Antitrust Policy 1998		0.481***
[7] Perceived Effectiveness of Antitrust Policy 1999		0.517***
[8] Perceived Effectiveness of Antitrust Policy 2000		0.524***
[9] Perceived Effectiveness of Antitrust Policy 2001		0.535***
[10] Perceived Effectiveness of Antitrust Policy 2002		0.477***
[11] Perceived Effectiveness of Antitrust Policy 2003		0.409***
[12] Perceived Effectiveness of Antitrust Policy 2004		0.389**
[13] Perceived Effectiveness of Antitrust Policy 2005		0.404***

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Note: The above set of correlations are run for the 38 matching countries with available IMD data in 1994, the 39 matching countries with available IMD data in years 1995-1998, the 40 matching countries with available IMD data in years 1999-2000, the 41 matching countries with available IMD data in 2001, and the 42 matching countries with available IMD data in years 2002-2005.

Table 12. The Direct Effect of Egalitarianism

This table returns to the full model of Table 4 and shows that egalitarianism continues to exercise a direct effect on cross-border investment flows even after controlling for formal policies associated with egalitarianism. Note that in order to carry out a more direct comparison across pairs of models, Model 4 is restricted to cover the same observations as are available for estimating Model 3. Similarly, Model 8 is restricted to cover the same observations as are available for estimating Model 7.

Models 1-3. Debt and Equity Flows				Model 4-6. Merger and Acquisition Flows											
Model 1	Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		
Log of the product of origin and host market capitalization	0.543 *** [0.049]	Log of the product of origin and host market capitalization	0.535 *** [0.053]	Log of the product of origin and host market capitalization	0.531 *** [0.055]	Log of the product of origin and host market capitalization	0.541 *** [0.052]	Log of the product of origin and host market capitalization	0.663 *** [0.014]	Log of the product of origin and host market capitalization	0.637 *** [0.030]	Log of the product of origin and host market capitalization	0.621 *** [0.024]	Log of the product of origin and host market capitalization	0.662 *** [0.026]
Egalitarianism distance	-3.155 *** [0.570]	Egalitarianism distance	-2.671 *** [0.667]	Egalitarianism distance	-2.739 *** [0.661]	Egalitarianism distance	-3.313 *** [0.687]	Egalitarianism distance	-1.127 *** [0.223]	Egalitarianism distance	-1.428 *** [0.288]	Egalitarianism distance	-2.148 *** [0.309]	Egalitarianism distance	-2.591 *** [0.323]
Signed egalitarianism distance (origin country first)	0.321 [0.261]	Signed egalitarianism distance (origin country first)	0.752 ** [0.302]	Signed egalitarianism distance (origin country first)	0.785 *** [0.276]	Signed egalitarianism distance (origin country first)	0.877 *** [0.298]	Signed egalitarianism distance (origin country first)	0.386 *** [0.105]	Signed egalitarianism distance (origin country first)	0.165 [0.145]	Signed egalitarianism distance (origin country first)	-0.380 *** [0.141]	Signed egalitarianism distance (origin country first)	-0.434 *** [0.146]
Political Risk Service Corruption ICRG Index 1996-2002 average	-0.149 *** [0.039]	Nicholson Antitrust Law Index distance	0.045 [0.064]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.175 *** [0.043]	Political Risk Service Corruption ICRG Index 1996-2002 average		Political Risk Service Corruption ICRG Index 1996-2002 average	-0.030 *** [0.011]	Nicholson Antitrust Law Index distance	0.000 [0.028]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.047 *** [0.016]		
				Sickness and Health Benefits Distance (from Table 8)	-2.755 *** [1.066]							Sickness and Health Benefits Distance (from Table 8)	-0.804 ** [0.336]		
				Unemployment Benefits distance (from Table 8)	-0.764 [0.575]							Unemployment Benefits distance (from Table 8)	-0.120 [0.219]		
				Audit distance (from Table 10)	-0.050 [0.039]							Audit distance (from Table 10)	-0.140 *** [0.016]		
All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes	All Control Variables from Full Model 24 of Table 4 are included	Yes
Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	35540	No. of observations	19982	No. of observations	22452	No. of observations	22452	No. of observations	35540	No. of observations	19982	No. of observations	22452	No. of observations	22452
Nonzero obs	1655	Nonzero obs	1371	Nonzero obs	1526	Nonzero obs	1526	Nonzero obs	5764	Nonzero obs	4472	Nonzero obs	4688	Nonzero obs	4688
Zero obs	33885	Zero obs	18611	Zero obs	20926	Zero obs	20926	Zero obs	29776	Zero obs	15510	Zero obs	17764	Zero obs	17764
Wald chi2	178.63(9)	Wald chi2	211.18(9)	Wald chi2	189.33(12)	Wald chi2	171.10(8)	Wald chi2	3466.43(9)	Wald chi2	927.55(9)	Wald chi2	1511.09(12)	Wald chi2	1239.92(8)
p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000	p value	0.000
Log pseudolikelihood	-8559.61	Log pseudolikelihood	-6951.95	Log pseudolikelihood	-7649.10	Log pseudolikelihood	-7753.50	Log pseudolikelihood	-21053.75	Log pseudolikelihood	-16270.22	Log pseudolikelihood	-16228.14	Log pseudolikelihood	-16529.54

Note: *** means significance at the .01 level, ** means significance at the .05 level, and * means significance at the .10 level

Appendix Table A1. The Variables

This appendix provides brief descriptions of the variables used in this paper. Distance measures consist of the square of the difference between each two countries' scores on the underlying variable.

Variable	Description
<i>International Investment</i>	
Debt transaction flows	The number of all Euro and foreign issues, as well as for all Yankee bonds and all cross-border syndicated loans between 1975-2003. <i>Source: Thomson Financial Securities Data.</i>
Equity transaction flows	The number of all cross-border equity issuances and listings between 1975-2003. <i>Source: Citibank ADR database and Thomson Financial Securities Data. This equity data set was crosschecked with the data set provided by Sarkissian and Schill (2004) to make sure it included all their observations.</i>
M&A transaction flows	The number of all cross-border mergers and acquisitions between 1978-2003. <i>Source: Securities Data Corporation (SDC) database, which is in turn a data product of Thomson Financial Securities Data.</i>
Number of Annual Transactions Between a Origin Country-Host Country Pair	We utilize the collected data sets on cross-border debt and equity and add them together by origin country-host country pair and the year. The origin country is the one where the firm is domiciled, and the host country is the one where the firm is doing a cross-border debt or equity listing. <i>Source: Thomson Financial Securities Data and Citibank ADR database. This equity data set was crosschecked with the data set provided by Sarkissian and Schill (2004) to make sure it included all their observations.</i>
<i>Informal Institutions</i>	
Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. <i>Source: Schwartz (1994) and authors' additional work.</i>
Egalitarianism distance	The squared difference between a country pair on their cultural egalitarianism score. <i>Source: Authors' calculations based on Schwartz (1994) and authors' additional work</i>
Signed egalitarianism distance (origin country first)	The signed difference between each of two countries' scores on cultural egalitarianism, with the origin country first for each transaction. <i>Source: Authors' calculations based on Schwartz (1994) and authors' additional work</i>
Rule of law distance	The squared difference between each of two countries' scores on the Rule of Law (legality) index for 1998, the latter being an index of perceived compliance with protection of legal entitlements (property and contractual

rights), law and order, etc. *Source: Kaufmann, Kraay, and Mastruzzi (2003).*

Formal Institutions

Shareholder rights distance	The squared difference between each of two countries' scores on certain shareholder legal rights under countries' company law or commercial codes. <i>Source: La Porta et al. (1998).</i>
Creditor rights distance	The squared difference between each of two countries' scores on certain creditor legal rights under countries' company law or commercial codes. <i>Source: La Porta et al. (1998).</i>
Securities law disclosure distance	The squared difference between each of two countries' scores on an aggregate measure of legal securities disclosure requirements. <i>Source: La Porta et al. (2006).</i>
Securities law private litigation distance	The squared difference between each of two countries' scores on an aggregate measure of private enforcement of securities laws, consisting of the mean of disclosure index and burden of proof index. <i>Source: La Porta et al. (2006).</i>
Procedural formalism distance	The squared difference between each of two countries' scores on an aggregate measure of substantive and procedural intervention in lower-court proceedings for evicting a non-paying private residence tenant. <i>Source: Djankov et al. (2003).</i>
Different legal family	A dummy set equal to 1 if origin and host countries come from different legal families. The dummy is set equal to zero otherwise. We started with the data on legal family reported in La Porta et al. [1999] and then did an enlarged survey of recent changes in civil and commercial code taken by former socialist countries. Classifying some countries' legal systems by legal family has become complicated since the demise of the soviet bloc and the consequent obsolescence of the socialist legal family (see, for example, Van Hoescke and Warrington [1998] and Zweigert and Kötz [1998]). Since the present sample includes transactions through the year 2003, we conducted an extensive survey to identify the year in which each former socialist country adapted its civil or commercial code to market economy principles, sometimes by reverting to and revamping old pre-socialist versions of the particular country's legal code. We also traced the main source of influence in these reforms, which in most cases was either German or French civil law. Our main sources were Ajani [1996], Maggs [2003], and Pistor [2000]. Our variable for different legal family is therefore time-contingent, taking into account the year of change in legal code for these countries formerly belonging to the socialist legal family. Specifically, Bulgaria was influenced by French civil law in the renovation of its legal code in 1991; China was influenced by German civil law in the renovation of its legal code in 1986; the Czech Republic was influenced by German civil law in the renovation of its legal code in 1992; Estonia was influenced by German civil law in the renovation of its legal code in 2002; Georgia was influenced by German civil law in the renovation of its legal code in 1997; Hungary was influenced by German civil law in the renovation of its legal

	<p>code in 1991; Macedonia was influenced by French civil law at the time of its post-socialist independence; Poland was influenced by German civil law in the renovation of its legal code in 1990; and Russia was influenced by German civil law in the renovation of its legal code in 1994. <i>Sources: La Porta et al. [1999], Ajani [1996], Maggs [2003], and Pistor [2000].</i></p>
POLCONIII distance	<p>The squared difference between each of two countries' scores on Henisz's (2000) measure of political constraints. The measure estimates the feasibility of policy change (the extent to which a change in the preferences of any one political actor may lead to a change in government policy) using the following methodology. First, extracting data from political science databases, Henisz identifies the number of independent branches of government (executive, lower and upper legislative chambers) with veto power over policy change in countries for every year. The preferences of each of these independent governmental branches and the status quo policy are then assumed to be independently and identically drawn from a uniform, unidimensional policy space. This assumption allows for the derivation of a quantitative measure of institutional hazards using a simple spatial model of political interaction. This initial measure is then modified to take into account the extent of alignment across branches of government using data on the party composition of the executive and legislative branches. Such alignment increases the feasibility of policy change. The measure is then further modified to capture the extent of preference heterogeneity within each legislative branch which increases (decreases) decision costs of overturning policy for aligned (opposed) executive branches. <i>Source: Henisz (2000), with the variable described on page 363, and the data downloaded in January 2006 from http://www-management.wharton.upenn.edu/henisz/POLCON/ContactInfo.html.</i></p>
POLCONV distance	<p>This variable follows the same logic as POLCONIII_2002 distance, but also reflects Henisz' (2000) addition of two more potential veto points (the judiciary and sub-federal entities). <i>Source: Henisz (2000), with data downloaded from http://www-management.wharton.upenn.edu/henisz/POLCON/ContactInfo.html.</i></p>
Sickness and health benefits	<p>An aggregate measure of the level of sickness and health legal benefits, computed as the normalized sum of the following four variables: (1) the number of months of contributions or employment required to qualify for sickness benefits by law; (2) the percentage of the worker's monthly salary deducted by law to cover sickness and health benefits; (3) the waiting period for sickness benefits; and (4) the percentage of the net salary covered by the net sickness cash benefit for a two-month sickness spell. <i>Source: Botero et al. (2004).</i></p>
Unemployment benefits	<p>This index measures the level of protection of unemployment benefits. Four factors are taken into account: (a) the months of contributions or employment required to qualify for unemployment benefits by law; (b) the percentage of the worker's monthly salary deducted by law to cover unemployment benefits; (c) the waiting period for unemployment benefits; and (d) the percentage of salary covered by unemployment benefits for one year. <i>Source: Botero et al. (2004).</i></p>

Social security laws	An aggregate measure of social security benefits as the average of: (1) Old age, disability and death benefits; (2) Sickness and health benefits; and (3) Unemployment benefits. <i>Source: Botero et al. (2004).</i>
Legally-mandated worker participation on boards	This variable equals one if the law gives workers and/or unions the right to appoint members to the boards of directors of individual companies, and zero otherwise. <i>Source: Botero et al. (2004).</i>

Social Outcomes

Guiso, Sapienza, and Zingales' [2005] Eurobarometer measure of Inter-Country Trust	This measure reflects the average trust from citizens of a given country to citizens of other countries. Trust is calculated by taking the average response to the following question: "I would like to ask you a question about how much trust you have in people from various countries. For each, please tell me whether you have a lot of trust, some trust, not very much trust or no trust at all." The answers are coded in the following way: =1 (no trust at all), = 2 (not very much trust), =3 (some trust), and =4 (a lot of trust). The data set includes views of European countries towards the United States and Japan. We get substantively identical results with or without the inclusion of Europeans' views towards the United States and Japan. <i>Source: Eurobarometer surveys sponsored by the European union, as reported in Guiso, Sapienza, and Zingales (2005a).</i>
Freedom from Corruption	We use the following three indexes, each of which represents freedom from corruption because a higher number indicates a lower level of corruption. First, we use Transparency International's Corruption Perceptions Index 1996-2002. <i>Source: Lambsdorff (2006) as also used in You and Khagram (2005).</i> Second, we use the World Bank Control of Corruption Index 1996-2002. <i>Source: Kaufmann, Kray, and Mastruzzi (2003).</i> Third, we use the Political Risk Service ICRG Index 1996-2002. <i>Source, Political Risk Service's ICRG Index, used previously in You and Khagram (2005).</i>
Union density	This variable measures the percentage of the workforce affiliated to labor unions. <i>Source: ILO, Laborista, and World Bank; as used in Botero et al. (2004).</i>
Proportion of years chief executive of government came from a leftist party during 1928-1995	This variable measures the percentage of years between 1928 and 1995 during which the party of the country's chief executive was of left orientation. The variable was constructed by Botero et al. (2004) assigning a value of 1 to each year during which the party of the chief executive of the country was of left orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, Botero et al. (2004) calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period and subsequently broke-up during the period Botero et al. (2004) considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, Botero et al. (2004) classified the regime based on its policies. <i>Source: Botero et al. (2004).</i>
Proportion of years largest party in the	This variable measures the percentage of years between 1928 and 1995 during which the largest party in congress was of left orientation. The

legislature is a leftist party during 1928-1995	variable was constructed by Botero et al. (2004) assigning a value of 1 to each year during which the largest party in congress in the country was of left orientation, and then dividing by the number of years in the period of analysis. If the country was not independent in the initial year of the period, Botero et al. (2004) calculated the variable for the number of years since it became independent. For the countries that were part of a larger country in the initial year of the period, and subsequently broke-up during the period Botero et al. (2004) considered the political orientation of the larger country until the breakup. In the case of military regimes, where political affiliations were not clear, Botero et al. (2004) classified the regime based on its policies. <i>Source: Botero et al. (2004).</i>
Financial transparency	A factor variable produced by Bushman et al. (2003) after analyzing an extensive range of measures capturing countries' firm-specific information environments in 1995, This "Factor 1" is selected because it represents financial transparency. More specifically, this variable captures the intensity and timeliness of financial disclosures, and their interpretation and dissemination by analysts and the media. <i>Source: Source: Bushman et al. (2003), who constructed this variable using primary data from the International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT).</i>
Time	Average ranking of the answers to the following interim reporting questions in 1995: Ea (frequency of reports), Ed-Ef (count of disclosed items), and Eb (consolidation of interim reports). <i>Source: Bushman et al. (2003), who constructed this variable using primary data from the International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT).</i>
Audit	Variable indicating the percentage of firms in the country audited by the Big 5 accounting firms in 1995. Audit equals 1, 2, 3 or 4 if the percentage ranges between [0,25%], (25%,50%], (50%, 75%] and (75%, 100%], respectively. <i>Source: International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT) as used in Bushman et al. (2003).</i>
Nicholson Antitrust Law Index	This indicator maps the presence of "laws on the book" into a numerical measure of competition regimes by assigning binomial scores for the presence of particular laws in a jurisdiction, and then adds the individual components to yield a total score. <i>Source: Nicholson (2004).</i>
Antitrust enforcement expenditure	The ratio of budget and staff for the competition agencies in countries, indexed to the level of the United States. <i>Source: Nicholson (2004).</i>
Perceived effectiveness of antitrust policy	A group of senior executives and economic leaders was surveyed for the IMD World Competitive Yearbook on the perceived effectiveness of antitrust policy in their country. This group of senior executives and economic leaders grew from 2,800 in 1994 to 4,000 in 2005. From 1994 to 1996, these respondents answered the following survey question: "Do anti-trust laws prevent unfair competition in your country?" From 1997 to 2001, these respondents answered a slightly different question: "Do competition laws prevent unfair competition in your country?" In 2002, these

respondents answered the following question: “Does competition legislation in your country prevent unfair competition?” From 2003 to 2005, these respondents answered a slightly different question: “Does competition legislation in your economy prevent unfair competition?” For all years these respondents assessed the effectiveness of antitrust policy on a scale of 1-6, with the response 1 indicating the most negative perception of the effectiveness of antitrust policy and the response 6 indicated the most positive perception. The responses were then averaged by country and subsequently converted to a 0-10 scale. *Source: IMD World Competitiveness Yearbook.*

Financial transparency A measure of transparency concerning financial data on public corporations, covering the extensiveness of disclosed data the quality of disclosures and auditing, and information dissemination level. *Source: Bushman et al. (2004).*

Other Variables

Log of the product of Origin and Host Market Capitalization We take the product of the equity market capitalization of any two origin country-host country pairs for each year. We then take the natural log of that product. *Source: authors’ calculations based on primary data from Global Financial Data (GFD) Database.*

Log of the product of Origin and Host Country GDP We take the product of the gross domestic product of any two origin country-host country pairs for each year. We then take the natural log of that product. *Source: authors’ calculations based on primary data from the Economist Intelligence Unit Country Data.*

Ethnic fractionalization A measure of the probability that two randomly selected individuals from a population belonged to different ethnic groups. *Source: Alesina et al. (2003).*

Language fractionalization A measure of the probability that two randomly selected individuals from a population spoke different languages as "mother tongues." *Source: Alesina et al. (2003).*

Religious fractionalization A measure of the probability that two randomly selected individuals from a population belonged to different religious groups. *Source: Alesina et al. (2003).*

Dominant religion A set of dummy indices denoting the historically dominant religion in a country, in most cases determined by the largest religious group. The indices take a value of 1 if the dominant religion is Protestantism, Catholicism, Islam, Hinduism or Buddhism; 0 otherwise. The omitted religious denomination is Christian Orthodox. *Sources: Encyclopedia Britannica and other almanacs.*

Number of times a country was at war in the 19th century This measure of the number of times a country participated in a 19th century war is from the Correlates of War (COW) database. The COW data starts in 1823, and we focus on the period during 1823-1900. *Source: Sarkees (2000).*

Total length in days of the wars that a country participated in during the 19th century	This measure of the number of days a country spent devoted to wars in the 19th century is from the Correlates of War (COW) database. The COW data starts in 1823, and we focus on the period during 1823-1900. <i>Source: Sarkees (2000).</i>
Number of battle-related deaths that a country suffered during the 19th century	This measure of the number of war dead from war that a country itself initiated during the 19th century is from the Correlates of War (COW) database. The COW data starts in 1823, and we focus on the period during 1823-1900. <i>Source: Sarkees (2000).</i>
Number of times a country participated in war during the 20th century (1901-1979)	This measure of the number of times a country participated in war in the 20th century is from the Correlates of War (COW) database. For this variable we focus on the period 1901-1997. <i>Source: Sarkees (2000).</i>
Number of times a country participated in war during 1823-1945	This measure of the number of times a country participated in war is from the Correlates of War (COW) database. The COW data starts in 1823, and for this variable we focus on the period during 1823-1945. <i>Source: Sarkees (2000).</i>
Common language	This indicator variable equals 1 if an origin-host country pair shares a dominant language in common. Set equal to zero otherwise <i>Source: CIA – The World Factbook, accessed in October 2005 from http://www.cia.gov/cia/publications/factbook/index.html</i>
Common colonial tie	This indicator variable equals 1 if an origin-host country pair are both members of the same colonial family. For example, Great Britain and all the countries it colonized have a value of 1 when paired in the data set. Set equal to zero otherwise. <i>Source: CIA – The World Factbook, accessed in October 2005 from http://www.cia.gov/cia/publications/factbook/index.html</i>
Log of geographic distance	Log of geographic distance. <i>Source: Gleditsch-Ward Data Set on Great Circle Distance Between Capital Cities, accessed in January 2006 from http://dss.ucsd.edu/~kgledits/capdist.html; distance data for any missing country pairs was accessed in January 2006 from http://www.airport-accommodation.co.uk/worlddistances.php</i>
Difference between origin country's corporate tax rate and host country's corporate tax rate	We take the origin country's top corporate statutory tax rate and subtract from it the host country's top corporate statutory tax rate. <i>Source: World Tax Database of the University Michigan Office of Tax Policy Research, accessed in October 2005 from http://www.bus.umich.edu/otpr/otpr/default.asp</i>
Gini coefficient	Averaged over the years 1971-1996 and adjusted by the source for differences in household-based ginis, person-based ginis, gross income-based ginis, and net income-based ginis. <i>Source: You and Khagram (2005).</i>
Federalism	The sum of five indicators for federalism averaged for 1975-1996: (1) the existence of autonomous regions; (2) whether municipal governments

were locally elected; (3) whether state/province governments were locally elected; (4) whether the state/provinces had authority over taxing, spending, or legislating; and (5) whether the constituencies of the senators were the states/provinces. *Source: Keefer (2002), as used in You and Khagram (2005).*

Natural resource abundance	The share of fuel, ore, and metal exports from the total merchandise exports, averaged for 1971-1996. <i>Source: World Development Indicators, as used in You and Khagram (2005).</i>
Distance from the equator	Absolute value of latitude. <i>Source: You and Khagram (2005) as also used in Treisman (2000).</i>
Geographic openness	Trade share as a proportion of GDP in each country in 1985 calculated using bilateral trade data and adjusted by the geographic component of each country's overall trade share. The estimate of the geographic component of a country's trade is the sum of the estimated geographic components of its bilateral trade with each other country in the world. <i>Source: Frankel and Romer (1999) as used in Botero et al. (2004)..</i>
Constructed openness	The natural logarithm of predicted trade shares from a bilateral trade equation with "pure" geography variables. <i>Source: Rodrik et al. (2004), as used in You and Khagram (2005).</i>