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Law and capitalism: What corporate crises reveal about legal systems and economic development around the world by C. J. Milhaupt and K. Pistor

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Law & Capitalism: What Corporate Crises Reveal about Legal Systems and Economic Development around the World by *Curtis J. Milhaupt and Katharina Pistor*. Chicago, IL, University of Chicago Press, 2008. 272 pp. \$39.00.

This is a well-written and fascinating book on how legal systems vary across capitalist regimes. The authors, Curtis J. Milhaupt and Katharina Pistor, are two legal scholars who use corporate governance as the lens through which to observe the complex web of institutional dynamics that are woven together by law, economics, finance, firms, labor, and governments. Not surprisingly, these two legal scholars place law at the center of economic activity, but they do so motivated by the institutional challenges that increasing levels of globalization and the surge of high-profile corporate crises have placed on mostly two outcomes: corporate governance and economic growth.

Their key underlying assumption is that law does not function in the same fashion in every successful economy, but that multiple forms of law can lead to successful economies. In other words, unlike the classic legal families' literature, the authors allow for equifinality in the causality of events and lots of richness in the mechanisms by which law shapes society and, in turn, society shapes law—which they refer to as a “rolling relationship” between law and markets (p. 28).

The main contribution of the book is that the authors persuade scholars to look beyond the classic law and finance caricature of legal families, civil law, and common law. Instead, they encourage thinking about the differences in the organization of legal systems regarding market activities and the functions of law in supporting economic activity, in order to better understand how law actually shapes and twists markets. These two coordinates (organization and function) are used to categorize legal governance types around the world. Their categorization includes the endowment perspective, but focuses a lot more on the demand for law as a governance device. Their legal systems

matrix is an effective tool to synthesize their book thesis in a picture (see Figure 2.1 and Figure 9.1). The key dimensions of the legal systems matrix are the degrees to which different constituents are allowed to participate in lawmaking and in law enforcement. In one, the vertical vector, they propose *centralized* legal systems with high state intervention and regulation vis-à-vis a *decentralized* legal system, where the courts, as the ultimate demand-driven law, play an important role. In the horizontal vector, Milhaupt and Pistor suggest the spectrum for the demand for law as a *coordinative* tool among actors in the economy versus a demand for law as a *protective* tool, well beyond property rights protection, which is the conventional law function.

After three conceptual chapters in which the theoretical framework is discussed, the authors then apply their framework to study what might possibly have led to recent corporate governance scandals or controversies and what we learn from how these were handled. The cases are well-selected, depicting a wide range of market-oriented economies (and two economies transitioning into capitalism, China and Russia). The method of analysis is “institutional autopsies” or “the systematic analysis of a complex system to reveal its inner logic, weakness, and prospects for reform” (p. 9). The strength in their methodology is that there is always an explicit comparative analysis activated. The six institutional autopsies are: The Enron scandal in the United States, the Mannesmann Executive compensation trial in Germany, the Livedoor bid and hostile takeovers in Japan, the role of foreign institutional investors in the Korean SK, the insider trading and disclosure scandal of Chinese China Aviation Oil in Singapore, and the “renationalization” (p. 9) of Yukos in Russia. Interestingly, these cases span through industries and types of actors engaged in the event. Importantly, Milhaupt and Pistor continue the discussion on the demand for law by placing the different countries into their legal systems matrix by, for instance, placing Russia and the United States in opposite ends of the spectrum, with Russia being an example of the most centralized and the least protective and the United States being an example of the most decentralized and protective.

In sum, we would highly recommend this book to students of corporate governance, law, economics, and finance. It is a pleasure to read, because it combines a sophisticated and comprehensive conceptual model with very interesting and intricate case studies that nicely illustrate the different nuances of the authors’ proposed legal systems matrix.

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