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Corporate governance, accounting transparency and stock exchange sizes in Germany, Japan and «Anglo-Saxon» economies, 1870–1950

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Published/Copyright: September 11, 2019

From the journal



Zeitschrift für Unternehmensgeschichte

Volume 64 Issue 2

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Abstract

Modern discussions of corporate governance have focused on convergence of «varieties of capitalism», particularly the recent «Americanisation» of laws and voluntary codes in Germany, Japan, and other civil law countries. However German and Japanese legal and business historians have suggested that corporate governance, accounting transparency or other favourable factors in their countries were historically a match for – or even superior to – those in the US. An alleged consequence was deeper penetration by the Berlin and Tokyo stock exchanges of their domestic economies than of the US by the New York Stock Exchange (NYSE), using measures such as market capitalization/GDP ratios. This paper reviews the classic Rajan and Zingales data on the sizes of stock exchanges. It concludes that the evidence for Japanese historical precocity relative to the US, after the necessary allowance is made for regional stock exchanges and corporate bond finance, stands up better to this closer examination than that for Germany.

Many financial historians now agree that stock exchange development was not historically determined by legal origins («Anglo-Saxon» common vs Euro-Japanese civil law), though today it appears to be driven by legal rules protecting shareholders and/or bondholders and limiting directorial autocracy and information asymmetry. However, both today and historically in some cultures private order rules (voluntary codes, bourse listing requirements, bankers as trusted intermediaries, block-holder monitoring, etc) offered substitute protections, or at least complemented protective laws. This paper reviews the plausibility of these determinants of historical stock exchange sizes – and others that have been neglected – in Japan, Germany, and elsewhere, before 1950.

Keywords: legal origins; corporate governance; stock exchanges; auditing; OTC markets

JEL Classification: F21; G10; G30; N20

Published Online: 2019-09-11
Published in Print: 2019-09-01

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https://doi.org/10.1515/zug-2018-0042

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