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 an emerging interest in culture among economists. One set of studies showed why social groups' adherence to cultural beliefs can be rational for supporting trade over long distances and for adopting new technologies (Greif 1994; Fang 2001).[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 financial 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

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[1] 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. Bénabou and Tirole (2006), moreover, explore the role of beliefs in a just world in several policy contexts.

contributions to the study of culture, institutions more generally, and the effect of institutions on 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.

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 multi-faceted 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 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 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.

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 get workers 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 decision to provide job protection and employment benefits to its workers, 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 must 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 two reasons; they may not think the opposing set of beliefs and rules are necessary or appropriate, and also they may not be skilled or experienced in acting according to those contrary rules. 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 very different from those in their home country.

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 theoretical framework for why egalitarianism distance should have 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 control variables. Section V reports our results on the historical determinants of egalitarianism and the central variable's influence on cross-border transaction flows. Section V also identifies policy and industrial outcomes 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 and suggests possibilities for further research.

II. LITERATURE REVIEW

Both the international finance and global business strategy literatures relate cultural barriers to international investment flow. 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 peculiar patterns of international investment and legal and technological impediments to be the source of the barriers (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 informal social institutions 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."[2]

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[2] The international finance literature acknowledges two meanings of familiarity, (1) greater amounts of available information (Merton [1987]), and (2) a behavioral, or irrational, bias towards the familiar (Portes and Rey [2005], Sarkissian and Schill [2004, p. 770]). The latter meaning draws on Heath and Tversky [1991], who documented a preference for an event about which only irrelevant information is available over an equal-value but less familiar event. Hence, Huberman [2001] asserts that "familiarity breeds investment" and French and Poterba [1991, p. 225] blend the two views, citing Heath and Tversky [1991] in conjunction with the proposition that investors "may impute extra 'risk' to foreign investments because they know less about foreign markets, institutions, and firms."

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 (Sarkissian and Schill [2004], Pagano, Randl, Röell, and Zechner [2001], Pagano, Röell, and Zechner [2002]). Work on related aspects of international finance exhibits a similar trend. 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 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 market size, efficiency of the transaction technology, and distance are the most important drivers. These authors associate geographical distance with cultural affinities that contribute to informational frictions that hinder economic exchange.

Such studies trumpet the importance of culture and cultural distance, but make no attempt to identify the cultural factors that might be driving the results. Thus far, familiarity and cultural distance have been somewhat loosely defined and operationalized. 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. Likewise, 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, moreover, is insensitive to the existence of closely related but non-identical languages (cf. 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 literature has elaborated 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 (Richman and Copan [1972], Davidson [1980], Root [1982]), and is likely to increase transaction

costs (Kogut and Singh [1988]) and 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 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 highly transparent countries preferring to do business in countries with equivalent degrees of transparency. 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 theories of cultural distance and market entry 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, Griffin, 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" (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" (Hofstede [2001], Oyserman [2002]) much in line with the conception of societal common knowledge in economics.

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 (Guiso, Sapienza, and Zingales [2005a and b] and Tabellini [2005]).[3] Psychologists tend to agree that, once adopted, value preferences remain relatively fixed over time (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 (e.g., 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 most analyses, however, researchers account for culture by focusing on the dominant religion or percentage of followers of each religion (e.g., La Porta et al. [1999]).[4]

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

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[3] 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."

[4] An exception is the global business strategy literature surveyed above that relies on Hofstede [1980].

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], and it 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 is 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], and Hofstede [2001]). 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]). 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, and antitrust measures. 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 and, consequently, to have more competitive market structures in both products and finance (e.g., the banking sector). 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. 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 was our source for debt transactions. The Thomson database was searched for 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. The latter was searched for all cross-border equity listings, the former for all listings, current and expired, in both instances including listings that involved capital raisings as well as those that did not. The equity data was then crosschecked against the 1998 data set provided by Sarkissian and Schill [2004] and all their observations incorporated in our data set. The Securities Data Corporation (SDC) database was our source for a comprehensive set of global merger and acquisition transactions.[5] 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. Since 1992 the merger and acquisition database has included even smaller transactions, making it is the most comprehensive of its kind.

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

[5] The SDC database is a component of Thomson's research database; Thomson purchased SDC in 1988.

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, however, we replicate every table in the paper with the addition of the 1999-2004 data and obtain results that, if changed at all, are slightly stronger (available in an appendix from the authors).[6]

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

[6] Requests for the appendix may be directed to jsiegel@hbs.edu.

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.[7] 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. We refer to this variable in the tables as the signed egalitarianism distance.

IV.C. Formal and Informal Legal Distance

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. [2005] 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], including a sub-index of shareholder voting-related rights; and indices of private litigation rules and disclosure in securities regulation laws drawn from La Porta et al. [2005]. Furthermore, because legal origin is shown to be a powerful predictor of

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

financial development, we also test directly for the importance of legal origin. A dummy is set equal to 1 when origin and host countries are from different legal families (French civil law, Scandinavian civil law, German civil law, English common law, and Socialist) and equal to zero otherwise. Data are from Djankov, La Porta, Lopez-de-Silanes, and Shleifer [2003].

Next, we consider the manner in which the society regulates commercial dispute resolution. Examining how 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.[8] 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]).

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

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

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], 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 Ferrera [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, whatever their group affiliations, 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 (Batson and Ventis [1982], 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 (Easterly and Levine [1997]). Even in the United States, higher fractionalization has been associated with lower investment in public education (Goldin and Katz [1998]), 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 (Easterly and Levine [1997], 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 (Poterba [1997], Alesina, Baqir, and Easterly [1999]). Believing that others are taking advantage of one's investment in public goods can precipitate a vicious circle whereby economically impoverished groups become poorer still and even less well educated and wealthier groups attempt to minimize investment in public education and social welfare support (Lieberman [1993], Wilson [1987, 1996]). 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 (Brown [1988], Wilensky [2002], Woodhead [2004]). But since the late nineteenth century both Protestant and Catholic ideologies have been observed by numerous authors to have exerted a strong effect on the formation of egalitarian social beliefs across a wide range of societies (especially a subset of European and Latin American societies).[9] 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

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

individual from the 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 (Irving [1979], 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 (Irving [1979], Seiler [1980], 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 (Kersbergen [1995], Wilensky [2002]). Christian Democratic parties, by appealing across class lines for the support of both working class Catholic trade unionists and rural social conservatives (Fogarty [1957], van Kersbergen [1995]), have won major political victories even during a period of broad secularization (Conway [1996]).

A country's history with war 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, might have required actions that promoted national solidarity (see, for example, 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 (Lasswell [1941], Hurwitz [1949], Feldman [1966], Gouldner

[1970]).[10] Once enacted, these reforms often served as building blocks 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. 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.[11]

We estimate the following OLS regression.

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

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 and language fractionalization are shown to be significantly associated with egalitarianism, and the dominant religion to also be important. Protestant and

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[10] 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.

[11] Although it might at first seem possible that countries that already had higher levels of egalitarianism tended to enter into a higher 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, it is not the case that more egalitarian countries were also wealthier, which allowed them to enter into more 19th century wars. 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 newly enacted social protections that were pioneering in reach. Taken together, the evidence supports 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.

As shown in Model 7, 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 8 and 9 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.[12]

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[12] 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 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

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.[13] 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, in most cases 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 economically significant collinearity between egalitarianism and the other independent variables.

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

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

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association between Catholicism and the use of proportional representation systems.

[13] 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.

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 influence on the dependent variable. Using the coefficients from Model 8 and placing each variable at its mean, egalitarianism distance has the effect of reducing the number of annual transactions between an origin-host country pair by 0.92 transactions (361.9 percent of the mean number—0.25—of ultimate transactions between all origin-host pairs). In contrast, placing signed egalitarianism distance at its mean of zero has zero effect on the number of transactions. It is nevertheless of interest that for a tiny minority of transactions in which the origin country ranks slightly higher than host country, the effect of signed egalitarian distance can neutralize the effect of egalitarianism distance. 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 next perform a robustness check to see whether our results on egalitarianism would hold after inserting time dummies and substituting GDP levels for market capitalization. As shown in Model 9 of Table 4, inserting time dummies changed the results on egalitarianism distance only a little from those obtained in the comparable Model 3 that lacked such time dummies. In fact, the coefficient for egalitarianism distance is slightly larger when year dummies are included.

We submit these results to a further series of robustness checks. We examine, for example, 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 10 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.

We then substitute in Models 11-13 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 and find that the coefficient for egalitarianism distance becomes larger while retaining the same statistical significance. We believe that because the flows we are studying are primarily financial it makes more sense to include market capitalization than GDP. Because the two variables for GDP and market capitalization are correlated at the relatively high level of .77, it makes sense to include only one. This evidence suggests that our results are not being determined by the choice between these variables.

Models 14 and 15 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 (Henisz [2000, 2002]) measures the feasibility of policy change within countries over time.[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 14 and 15 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

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[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/

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 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 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 18-23, which show our results to continue to be robust and significant.

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 21, carries no statistical significance is a strong sign that our basic linear specification is appropriate.

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 explain egalitarianism (Model 7), 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

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[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. Corporate tax rates should be of direct concern only to firms engaged in mergers and acquisitions, not to those cross-listing equity and debt. Checking for the effect of corporate taxation in all our samples, we find that our results on egalitarianism distance hold in every case.

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 16-17, 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, we present further evidence in Section V.C, using an augmented Durbin-Wu-Hausman test, 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 4 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 present both results, but because egalitarianism is shown to be exogenous, we subsequently focus on the single-stage results.

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 results suggest that cultural differences on fundamental issues of egalitarianism might be impossible to bridge leading market participants to find it worthwhile to navigate around them. We address possible reasons for this below. In terms of legal institutions, 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 as statistically significant in explaining cross-border merger and acquisitions as for explaining cross-border debt and equity. 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. The egalitarianism distance results are significant in every specification in Table 7 at the .01 level or better. 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 for mergers and acquisitions. The highly significant negative sign of rule of law distance indicates that foreign direct investment 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 modes of entry.

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 predicted, once we include all significant 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. Also, in smaller subsamples in which all variables are present, the collinearity between common language and common colonial tie is so great that one is automatically dropped from the sample. Still, it is important to note that the result for egalitarianism distance is highly robust through all of these alternative specifications. Also, these alternative specifications confirm that there is no collinearity driving the results shown in Models 24 and 25 of Table 4.

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 showing in Tables 6 and 7, the same is true when looking at cross-border debt or equity flows in isolation. Also, we tested 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 acquisition require even greater geographic coordination of people and resources. Yet among the institutional factors, egalitarianism distance ranks closely behind legal family and common language in terms of economic significance, and egalitarianism distance ranks significantly ahead of the remaining institutional variables in terms of economic significance.

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 main control variables. Identifying the legal origin of former communist countries has been the subject of frequent debate and 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 we find that 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 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 regardless of whether we use the student surveys. It is conceptually preferable to use the teacher surveys, as they represent a

[17] 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.

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.[18]

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 between egalitarianism and a host of policy and industrial outcomes 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,

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[18] We also find that egalitarianism distance continues to be statistically significant even if include both in the first and second stages of the zero-inflated negative binomial regression.

natural resource abundance, and constructed trade openness as constructed by Rodrik et al. [2004] using "pure" geography variables. Then, using available data on policy outcomes in OECD-member countries from Lindert [2004], we show in Table 9 that egalitarianism is a strong predictor of redistribution towards the elderly and of unemployment expenditures divided by GDP. We estimate the following pooled cross-section OLS regression, which preserves noncollinear variables advocated by Lindert [2004] and adds egalitarianism:

$$\begin{aligned}(3)\ \text{Policy Outcome}_{it} = {} & \beta_0 + \beta_1 * \text{Egalitarianism}_{it} + \beta_2 * \text{Voter turnout}_{it} \\ & + \beta_3 * \text{Executive turnover}_{it} + \beta_4 * \text{Percentage Catholic}_{it} \\ & + \beta_5 * \text{Ethnic fractionalization}_{it} + \beta_6 * \text{Share of population over age 65}_{it} \\ & + \varepsilon_{it},\end{aligned}$$

where the relevant social welfare policy outcome in country *i* in year *t* is determined by egalitarianism, voter turnout, executive turnover, the percent of the population that is Catholic, and the share of the population that is over age 65. The only exception is that we drop the variable for Protestant, as the countries covered in Lindert [2004] are typically only Protestant-dominanted or Catholic-dominated. These two variables being highly negatively collinear, we drop one. Lindert's [2004] data include observations for 20 OECD-member countries during the years 1978-1995. Because each observation represents the average of all variables during a given three-year period, there are six observations for each country. Standard errors are corrected for clustering at the individual country level.

Interestingly, our egalitarianism measure causes some of the measures previously advocated by Lindert to lose their statistical significance. This is likely because religion and ethnic fractionalization do not exercise a direct effect on these policy outcomes, but do so only via their effect on egalitarianism. The present framework thus allows us to advance a more complete account of the institutional mechanisms that might be driving such outcomes.

Table 10 shows egalitarianism to be strongly associated with the quality and transparency of financial disclosure within a society. Bushman, Piotrosky, 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 quality 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. We at first worried that the second measure (antitrust expenditures per staff member) would be confounded by GDP and/or differences in the cost of litigation. But Nicholson [2004] found (and we separately confirmed through our own analysis) 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.

Lastly, we ask whether egalitarianism influences the competitive market structure of the banking sector. Table 12 shows egalitarianism to be strongly correlated with two alternative measures of market power and competition in the banking sector (taken from Maudos and Nagore [2005]). We estimate the following cross-sectional OLS regression,

$$\text{(4) Lerner Index for Banking Sector (alternatively Banking Activity Restrictions)} = \beta_0 + \beta_1 * \text{Egalitarianism}_i + \beta_2 * \text{Banking freedom}_i + \beta_3 * \text{Property rights}_i + \beta_4 * \text{Economic freedom}_i + \varepsilon_i,$$

where the level of realized and policy-mandated competition in the banking sector is determined by egalitarianism, an overall measure of openness of the banking sector, the level of property rights protection, and the overall level of economic freedom within a given country.

We first consider the Lerner index, which is frequently used as the preferred measure of market power (see surveys by Freixas and Rochet [1997] and Maudos and Nagore [2005]). Using the Lerner index across countries as the dependent variable, we find that egalitarianism is associated with a banking sector that is closer to free competition. Second, we find that egalitarianism is associated with fewer activity restrictions, reflecting the degree to which

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

national authorities allow banks to engage in activities that generate non-interest income (including securities, insurance, real state, and bank ownership of non-financial firms).

Finally, we perform the augmented version of the Durbin-Wu-Hausman test suggested in Davidson and MacKinnon [1993], who observe that this test can be easily formed by including the residuals of each endogenous right-hand side variable, as a function of all exogenous variables, in a regression of the original model. Specifically, we take the first-stage regression of egalitarianism on its antecedents (religious fractionalization, dominant religion, and historical war experience) and the exogenous variables in the second-stage model, then regress egalitarianism on that full set of variables and include the residual from that regression as an additional regressor in the OLS models used to explain the Lerner Index for banking and the activity restrictions on banking. In both cases, we find the residual of egalitarianism to be insignificant (with p values of .40 or higher). This provides evidence that egalitarianism is an exogenous variable in the second-stage model and that the OLS estimates are consistent.

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 and actual market competition in the financial sector. 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 found that managers from a more egalitarian culture are not likely to accept the use of power, status or authority for denying information sought in a negotiation. 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 13, egalitarianism distance indeed continues to exercise a direct effect even after controlling for corruption distance, employers' mandated social security contribution rate distance, sickness and health benefits distance, and unemployment benefits distance (from Table 8), the financial transparency distance and audit distance (from Table 10), and antitrust distance (from Table 11). Egalitarianism distance has a direct effect in both the debt and equity transactions sample (Models 1-4) and in the mergers and acquisitions sample (Models 5-8). In summary, egalitarianism distance likely exercise its effect on cross-border investment both via its set of associated policies and through its direct effect on managers' everyday conduct.

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/cultural 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.

We argue for the following possible extensions of our study. 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	Model 11
Ethnic fractionalization	-0.434**		-0.300*								
	[0.180]		[0.165]								
Language fractionalization				-0.292*							
				[0.161]							
Religious fractionalization					-0.398***						
					[0.141]						
Religious heterogeneity						-0.089**	-0.080**	-0.082**	-0.083**	-0.085**	-0.081**
						[0.035]	[0.036]	[0.035]	[0.036]	[0.037]	[0.036]
Protestantism is the country's dominant religion		0.346***	0.337***	0.339***	0.355***	0.284***	0.297***	0.295***	0.302***	0.301***	0.305***
		[0.089]	[0.087]	[0.089]	[0.082]	[0.091]	[0.096]	[0.093]	[0.094]	[0.097]	[0.097]
Catholicism is country's dominant religion		0.270**	0.267**	0.231**	0.197**	0.204**	0.188*	0.160	0.210**	0.222*	0.219**
		[0.100]	[0.101]	[0.104]	[0.095]	[0.099]	[0.100]	[0.102]	[0.100]	[0.111]	[0.103]
Islam is the country's dominant religion		-0.056	0.018	0.000	-0.150	-0.058	-0.075	-0.089	-0.121	-0.055	-0.061
		[0.166]	[0.149]	[0.142]	[0.140]	[0.153]	[0.138]	[0.138]	[0.141]	[0.146]	[0.140]
Hinduism is the country's dominant religion		-0.103	-0.057	-0.004	-0.164**	-0.105	-0.066	-0.086	-0.085	-0.090	-0.064
		[0.107]	[0.133]	[0.136]	[0.075]	[0.090]	[0.099]	[0.095]	[0.095]	[0.098]	[0.103]
Number of times a country was at war in the 19th century							0.042***				
							[0.015]				
Total length in days of the wars that a country participated in during the 19th century								8.60e-05**			
								[3.64e-05]			
Number of battle-related deaths that a country suffered during the 19th century									8.45e-07**		
									[3.72e-07]		
Number of times a country participated in war during the 20th century (more specifically, 1901-1979)										0.008	
										[0.015]	
Number of times a country participated in war during 1823-1945											0.013
											[0.010]
Observations	51	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	0.000
R-Squared	0.100	0.313	0.355	0.354	0.388	0.385	0.459	0.433	0.418	0.390	0.410

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. *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.*	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. *Source: authors' calculations based on primary data from Global Financial Data (GFD) Database.*	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. *Source: authors' calculations based on primary data from the Economist Intelligence Unit Country Data.*	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. *Source: Authors' calculations based on Schwartz (1994) and authors' additional work*	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. *Source: Authors' calculations based on Schwartz (1994) and authors' additional work*	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. *Source: Djankov et al. (2003).*	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. *Source: Kaufmann, Kraay, and Mastruzzi (2003).*	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. *Source: La Porta et al. (1998).*	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. *Source: La Porta et al. (1998).*	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. *Source: La Porta et al. (2005).*	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. *Source: La Porta et al. (2005).*	0.804	1.000	0.397	0.000	1.000	50040.000

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

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	0.145***	1									
[3] Log of the product of origin and host country GDP	0.133***	0.772***	1								
[4] Egalitarianism distance	-0.031***	-0.070***	0.049***	1							
[5] Signed egalitarianism distance (origin country first)	0.016***	0.000	0.000	0.000	1						
[6] Procedural formalism distance	-0.022***	-0.041***	-0.020***	-0.127***	0.000	1					
[7] Rule of law distance	-0.038***	-0.091***	-0.027***	0.159***	0.000	0.207***	1				
[8] Creditor rights distance	-0.013	-0.062***	-0.109***	0.129***	0.000	0.044***	0.137***	1			
[9] Shareholder rights distance	0.003	0.124***	0.222***	-0.058***	0.000	0.156***	0.078***	0.007	1		
[10] Securities law private litigation distance	0.033***	0.092***	0.204***	-0.074***	0.000	0.149***	0.117***	0.006	0.406***	1	
[11] Different legal family	-0.059***	0.024***	-0.049***	0.062***	0.034***	0.141***	0.137***	0.041***	0.178***	0.195***	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 51 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		Model 8	
		Log of the product of origin and host market capitalization	0.462 *** [0.043]	Log of the product of origin and host market capitalization	0.446 *** [0.035]	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	0.468 *** [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	-4.569 *** [0.614]	Egalitarianism distance	-5.424 *** [0.767]	Egalitarianism distance	-5.187 *** [0.757]	Egalitarianism distance	-5.319 *** [0.688]	Egalitarianism distance	-5.319 *** [0.795]	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)	0.689 ** [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)	0.403 [0.293]	Signed egalitarianism distance (origin country first)	0.737 ** [0.343]
		Procedural formalism distance	-0.155 *** [0.056]	Different legal family	-0.826 *** [0.268]	Creditor rights distance	-0.048 [0.039]	Shareholder rights distance	-0.025 [0.025]	Rule of law distance	-0.106 ** [0.054]	Rule of law distance	-0.106 * [0.062]	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	-0.427 *** [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	-0.423 *** [0.035]	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 Countries?	Yes	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	42419	No. of observations	40065	No. of observations	35780	No. of observations	28259	No. of observations	29795	No. of observations	42419	No. of observations	42419	No. of observations	29795
Nonzero obs	1780	Nonzero obs	1776	Nonzero obs	1768	Nonzero obs	1666	Nonzero obs	1681	Nonzero obs	1780	Nonzero obs	1780	Nonzero obs	1681
Zero obs	40639	Zero obs	38289	Zero obs	34012	Zero obs	26593	Zero obs	28114	Zero obs	40639	Zero obs	40639	Zero obs	28114
Wald chi2	36.12(2)	Wald chi2	153.93(4)	Wald chi2	185.57(4)	Wald chi2	129.66(4)	Wald chi2	132.29(4)	Wald chi2	138.96(4)	Wald chi2	112.12(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	p value	0.000
Log pseudolikelihood	-10054.53	Log pseudolikelihood	-9527.63	Log pseudolikelihood	-9382.44	Log pseudolikelihood	-8834.97	Log pseudolikelihood	-8927.40	Log pseudolikelihood	-9560.92	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 in Model 12 is thus limited to a subset of European countries	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_2002 distance	Robustness Check: Testing for the Importance of POLCONV_2002 distance

Model 9		**Model 10**		**Model 11**		**Model 12**		**Model 13**		**Model 14**		**Model 15**	
Log of the product of origin and host market capitalization	0.693 *** [0.086]	Log of the product of origin and host market capitalization	0.486 *** [0.044]	Log of the product of origin and host country GDP	0.620 *** [0.059]	Log of the product of origin and host country GDP	0.593 *** [0.051]	Log of the product of origin and host country GDP	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	-5.075 *** [0.617]	Egalitarianism distance	-7.066 *** [1.278]	Egalitarianism distance	-6.551 *** [0.689]	Egalitarianism distance	-5.678 *** [0.616]	Egalitarianism distance	-6.314 *** [0.680]	Egalitarianism distance	-5.289 *** [0.690]	Egalitarianism distance	-5.360 *** [0.720]
Signed egalitarianism distance (origin country first)	0.756 *** [0.284]	Signed egalitarianism distance (origin country first)	3.503 *** [0.814]	Signed egalitarianism distance (origin country first)	0.537 * [0.285]	Signed egalitarianism distance (origin country first)	0.714 *** [0.265]	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	-0.728 ** [0.303]	Different legal family	-0.674 * [0.369]	Procedural formalism distance	-0.192 *** [0.052]	Different legal family	-0.873 *** [0.256]	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 in Europe	1.747 *** [0.399]										
Regressor in constant only model: Log of the product of origin and host market capitalization	-0.385 *** [0.039]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.283 *** [0.050]	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	-0.699 *** [0.062]	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	35780	No. of observations	6532	No. of observations	58148	No. of observations	49350	No. of observations	63136	No. of observations	41678	No. of observations	40942
Nonzero obs	1768	Nonzero obs	750	Nonzero obs	1850	Nonzero obs	1840	Nonzero obs	1854	Nonzero obs	1763	Nonzero obs	1763
Zero obs	34012	Zero obs	5782	Zero obs	56298	Zero obs	47510	Zero obs	61282	Zero obs	39915	Zero obs	39179
Wald chi2	405.84(32)	Wald chi2	212.34(5)	Wald chi2	153.11(4)	Wald chi2	194.34(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	-9091.20	Log pseudolikelihood	-3471.86	Log pseudolikelihood	-10028.79	Log pseudolikelihood	-9903.96	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 7 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 7 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: Controlling for Common Language and Common Colonial Tie	Robustness Check: Controlling for Corporate Taxation, Common Language, and Common Colonial Tie	Robustness Check: Controlling for Geographic Distance	Robustness Check: Also Controlling for Possible Nonlinearity of Egalitarianism

Model 16		**Model 17**		**Model 18**		**Model 19**		**Model 20**		**Model 21**	
Log of the product of origin and host market capitalization	0.446 *** [0.049]	Log of the product of origin and host market capitalization	0.421 *** [0.029]	Log of the product of origin and host market capitalization	0.453 *** [0.032]	Log of the product of origin and host market capitalization	0.497 *** [0.038]	Log of the product of origin and host market	0.478 *** [0.041]	Log of the product of origin and host market	0.477 *** [0.042]
Fitted egalitarianism distance (from Model 7 of Table 1)	-6.703 *** [1.137]	Fitted egalitarianism distance (from Model 7 of Table 1)	-6.340 *** [1.210]	Egalitarianism distance	-4.528 *** [0.615]	Egalitarianism distance	-4.102 *** [0.590]	Egalitarianism distance	-4.121 *** [0.651]	Egalitarianism distance	-4.187 *** [0.688]
Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.218 [0.476]	Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	0.135 [0.476]	Signed egalitarianism distance (origin country first)	0.700 *** [0.272]	Signed egalitarianism distance (origin country first)	0.674 ** [0.280]	Signed egalitarianism distance (origin country first)	0.643 ** [0.290]	Signed egalitarianism distance (origin country first)	0.811 *** [0.284]
Creditor rights distance	0.029 [0.043]	Different legal family	-1.178 *** [0.268]	Different legal family	-0.943 ** [0.370]	Different legal family	-0.628 ** [0.311]	Different legal family	-0.794 *** [0.260]	Different legal family	-0.758 *** [0.252]
				Common language	0.933 *** [0.295]	Common language	0.984 *** [0.326]	Log of geographic distance	-0.219 * [0.118]	Log of geographic distance	-0.292 ** [0.130]
				Common colonial tie	-1.114 *** [0.340]	Common colonial tie	-0.741 ** [0.355]			Sum of origin country's egalitarianism score and host country's egalitarianism score	-0.530 [0.333]
						Difference between origin country's corporate tax rate and host country's corporate tax rate	0.027 *** [0.006]				
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.415 *** [0.032]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.436 *** [0.037]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.421 *** [0.033]	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	-0.397 *** [0.037]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.396 *** [0.037]
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	35780	No. of observations	35780	No. of observations	31304	No. of observations	33721	No. of observations	33721
Nonzero obs	1666	Nonzero obs	1768	Nonzero obs	1768	Nonzero obs	1658	Nonzero obs	1729	Nonzero obs	1729
Zero obs	26593	Zero obs	34012	Zero obs	34012	Zero obs	29646	Zero obs	31992	Zero obs	31992
Wald chi2	119.19(4)	Wald chi2	293.57(4)	Wald chi2	238.33(6)	Wald chi2	221.75(7)	Wald chi2	194.72(5)	Wald chi2	190.24(6)
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	-8931.53	Log pseudolikelihood	-9430.05	Log pseudolikelihood	-9358.45	Log pseudolikelihood	-8623.99	Log pseudolikelihood	-9161.42	Log pseudolikelihood	-9153.82

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 7 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 7 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 7 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 standarized variables

Model 22		**Model 23**		**Model 24**		**Model 25**		**Model 26**		**Model 27**	
Log of the product of origin and host market capitalization	0.465 *** [0.040]	Log of the product of origin and host market capitalization	0.489 *** [0.039]	Log of the product of origin and host market capitalization	0.517 *** [0.048]	Log of the product of origin and host market capitalization	0.528 *** [0.047]	Standardized: Log of the product of origin and host market capitalization	2.109 *** [0.196]	Standardized: Log of the product of origin and host market capitalization	2.154 *** [0.183]
Fitted egalitarianism distance (from Model 7 of Table 1)	-6.309 *** [1.063]	Fitted egalitarianism distance (from Model 7 of Table 1)	-6.053 *** [0.967]	Egalitarianism distance	-3.619 *** [0.585]	Fitted egalitarianism distance (from Model 7 of Table 1)	-5.424 *** [1.015]	Standardized: Egalitarianism distance	-0.779 *** [0.126]	Standardized: Fitted egalitarianism distance (from Model 7 of Table 1)	-0.578 *** [0.112]
Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.227 [0.302]	Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.404 [0.425]	Signed egalitarianism distance (origin country first)	0.574 ** [0.274]	Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.642 * [0.390]	Standardized: Signed egalitarianism distance (origin country first)	0.239 ** [0.114]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.185 * [0.107]
Different legal family	-1.120 *** [0.306]	Different legal family	-0.628 ** [0.285]	Procedural formalism distance	-0.086 [0.057]	Procedural formalism distance	-0.053 [0.074]	Standardized: Procedural formalism distance	-0.222 [0.146]	Standardized: Procedural formalism distance	-0.137 [0.178]
Log of geographic distance	-0.314 ** [0.136]	Common language	0.469 [0.477]	Rule of law distance	0.003 [0.061]	Rule of law distance	-0.055 [0.071]	Standardized: Rule of law distance	0.009 [0.167]	Standardized: Rule of law distance	-0.151 [0.158]
		Common colonial tie	0.157 [0.450]	Different legal family	-0.149 [0.265]	Different legal family	-0.315 [0.261]	Standardized: Different legal family	-0.068 [0.121]	Standardized: Different legal family	-0.144 [0.139]
		Difference between origin country's corporate tax rate and host country's corporate tax rate	0.034 *** [0.007]	Log of geographic distance	-0.188 * [0.108]	Log of geographic distance	-0.282 ** [0.112]	Standardized: Log of geographic distance	-0.144 * [0.083]	Standardized: Log of geographic distance	-0.216 ** [0.085]
				Common language	0.806 ** [0.350]	Common language	0.889 ** [0.354]	Standardized: Common language	0.216 ** [0.094]	Standardized: Common language	0.239 ** [0.106]
				POLCONIII distance	-2.304 * [1.225]	POLCONIII distance	-0.307 [1.478]	Standardized: POLCONIII distance	-0.247 * [0.131]	Standardized: POLCONIII distance	-0.033 [0.176]
				Difference between origin country's corporate tax rate and host country's corporate tax rate	0.028 *** [0.006]	Difference between origin country's corporate tax rate and host country's corporate tax rate	0.031 *** [0.007]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.438 *** [0.100]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.491 *** [0.085]
Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.401 *** [0.034]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.413 *** [0.038]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.388 *** [0.042]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.377 *** [0.042]	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.581 *** [0.171]	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.537 *** [0.194]
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	33721	No. of observations	31304	No. of observations	28979	No. of observations	28979	No. of observations	28979	No. of observations	28979
Nonzero obs	1729	Nonzero obs	1658	Nonzero obs	1609	Nonzero obs	1609	Nonzero obs	1609	Nonzero obs	1609
Zero obs	31992	Zero obs	29646	Zero obs	27370	Zero obs	27370	Zero obs	27370	Zero obs	27370
Wald chi2	203.26(5)	Wald chi2	302.08(7)	Wald chi2	202.70(10)	Wald chi2	372.49(10)	Wald chi2	202.70(10)	Wald chi2	275.41(10)
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	-9176.27	Log pseudolikelihood	-8651.47	Log pseudolikelihood	-8289.57	Log pseudolikelihood	-8293.86	Log pseudolikelihood	-8289.57	Log pseudolikelihood	-8293.86

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		Model 7--Full Model with Every Independent Variable Standardized in order to Assess Relative Economic Significance				Model 8--Same as Model 7 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	0.332 *** [0.040]	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	0.372 *** [0.052]	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	1.849 *** [0.201]	Standardized: Different legal family	0.011 [0.139]	Standardized: Log of the product of origin and host market capitalization	1.914 *** [0.194]	Standardized: Different legal family	-0.044 [0.135]
Egalitarianism distance	-6.016 *** [0.941]	Egalitarianism distance	-5.102 *** [0.821]	Egalitarianism distance	-5.534 *** [0.915]	Egalitarianism distance	-5.994 *** [1.051]	Egalitarianism distance	-5.669 *** [1.082]	Egalitarianism distance	-5.722 *** [1.111]	Standardized: Egalitarianism distance	-0.814 *** [0.135]	Standardized: Log of geographic distance	-0.211 ** [0.091]	Standardized: Fitted egalitarianism distance (from Model 7 of Table 1)	-0.638 *** [0.132]	Standardized: Log of geographic distance	-0.275 *** [0.094]
Signed egalitarianism distance (origin country first)	0.809 * [0.448]	Signed egalitarianism distance (origin country first)	0.964 *** [0.370]	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)	1.000 * [0.556]	Signed egalitarianism distance (origin country first)	1.007 * [0.552]	Standardized: Signed egalitarianism distance (origin country first)	0.351 *** [0.128]	Standardized: Common language	0.167 [0.114]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.035 [0.134]	Standardized: Common language	0.205 ** [0.104]
Procedural formalism distance	-0.165 *** [0.059]	Different legal family	-0.770 ** [0.364]	Rule of law distance	-0.156 ** [0.067]	Creditor rights distance	-0.082 ** [0.039]	Shareholder rights distance	-0.028 [0.029]	Securities law private litigation distance	-0.004 [0.918]	Standardized: Procedural formalism distance	-0.176 [0.137]	Standardized: POLCONIII distance	-0.170 [0.146]	Standardized: Procedural formalism distance	-0.129 [0.150]	Standardized: POLCONIII distance	0.047 [0.174]
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	-0.483 *** [0.037]	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	-0.462 *** [0.041]	Regressor in constant-only model: Log of the product of origin and host market capitalization	-0.464 *** [0.041]	Standardized: Rule of law distance	-0.060 [0.159]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.651 *** [0.117]	Standardized: Rule of law distance	-0.224 * [0.125]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.638 *** [0.105]
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	-1.605 *** [0.189]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.512 *** [0.204]	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	40065	No. of observations	35772	No. of observations	42419	No. of observations	28259	No. of observations	29795	No. of observations	29795	No. of observations	28983			No. of observations	28983		
Nonzero obs	1225	Nonzero obs	1226	Nonzero obs	1226	Nonzero obs	1159	Nonzero obs	1173	Nonzero obs	1173	Nonzero obs	1119			Nonzero obs	1119		
Zero obs	38840	Zero obs	34546	Zero obs	41193	Zero obs	27100	Zero obs	28622	Zero obs	28622	Zero obs	27864			Zero obs	27864		
Wald chi2	101.22(4)	Wald chi2	113.40(4)	Wald chi2	93.31(4)	Wald chi2	100.03(4)	Wald chi2	91.81(4)	Wald chi2	102.08(4)	Wald chi2	147.28(10)			Wald chi2	163.98(10)		
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	-6772.85	Log pseudolikelihood	-6710.49	Log pseudolikelihood	-6780.84	Log pseudolikelihood	-6338.57	Log pseudolikelihood	-6426.28	Log pseudolikelihood	-6430.56	Log pseudolikelihood	-5935.76			Log pseudolikelihood	-5936.35		

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		Model 7--Full Model with Every Independent Variable Standardized in order to Assess Relative Economic Significance				Model 8--Same as Model 7 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 *** [0.038]	Log of the product of origin and host market capitalization	0.535 *** [0.051]	Log of the product of origin and host market capitalization	0.511 *** [0.052]	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	2.156 *** [0.219]	Standardized: Different legal family	-0.132 [0.125]	Standardized: Log of the product of origin and host market capitalization	2.181 *** [0.301]	Standardized: Different legal family	-0.301 * [0.139]
Egalitarianism distance	-5.314 *** [0.909]	Egalitarianism distance	-3.944 *** [0.817]	Egalitarianism distance	-5.210 *** [0.884]	Egalitarianism distance	-4.980 *** [1.012]	Egalitarianism distance	-4.882 *** [0.979]	Egalitarianism distance	-5.085 *** [0.959]	Standardized: Egalitarianism distance	-0.690 *** [0.165]	Standardized: Log of geographic distance	-0.001 [0.087]	Standardized: Fitted egalitarianism distance (from Model 7 of Table 1)	-0.564 *** [0.170]	Standardized: Log of geographic distance	-0.059 [0.123]
Signed egalitarianism distance (origin country first)	0.355 [0.326]	Signed egalitarianism distance (origin country first)	0.423 [0.330]	Signed egalitarianism distance (origin country first)	0.173 [0.321]	Signed egalitarianism distance (origin country first)	0.549 [0.354]	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)	0.195 [0.131]	Standardized: Common language	0.317 *** [0.096]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	-0.369 ** [0.191]	Standardized: Common language	0.282 *** [0.097]
Procedural formalism distance	-0.137 ** [0.069]	Different legal family	-1.083 *** [0.261]	Rule of law distance	-0.071 [0.056]	Creditor rights distance	-0.007 [0.045]	Shareholder rights distance	-0.017 [0.027]	Securities law private litigation distance	0.795 [1.265]	Standardized: Procedural formalism	-0.248 [0.182]	Standardized: POLCONIII distance	-0.475 *** [0.154]	Standardized: Procedural formalism	-0.143 [0.186]	Standardized: POLCONIII distance	-0.355 ** [0.187]
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	-0.416 *** [0.055]	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	-0.427 *** [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: Rule of law distance	0.146 [0.206]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	-0.182 * [0.107]	Standardized: Rule of law distance	0.015 [0.227]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	-0.090 [0.116]
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	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.761 *** [0.291]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.726 *** [0.361]	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	40066	No. of observations	35773	No. of observations	42420	No. of observations	28260	No. of observations	29796	No. of observations	29796	No. of observations	28982			No. of observations	28982		
Nonzero obs	1071	Nonzero obs	1064	Nonzero obs	1074	Nonzero obs	993	Nonzero obs	1004	Nonzero obs	1004	Nonzero obs	959			Nonzero obs	959		
Zero obs	38995	Zero obs	34709	Zero obs	41346	Zero obs	27267	Zero obs	28792	Zero obs	28792	Zero obs	28023			Zero obs	28023		
Wald chi2	144.74(4)	Wald chi2	206.08(4)	Wald chi2	140.74(4)	Wald chi2	137.07(4)	Wald chi2	121.36(4)	Wald chi2	110.77(4)	Wald chi2	227.60(10)			Wald chi2	186.01(10)		
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	-5843.17	Log pseudolikelihood	-5706.56	Log pseudolikelihood	-5866.61	Log pseudolikelihood	-5388.25	Log pseudolikelihood	-5443.88	Log pseudolikelihood	-5442.55	Log pseudolikelihood	-4982.91			Log pseudolikelihood	-4986.85		

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 M&A 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	0.469 *** [0.026]	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	2.717 *** [0.066]	Standardized: Different legal family	-0.235 *** [0.044]	Standardized: Log of the product of origin and host market capitalization	2.628 *** [0.121]	Standardized: Different legal family	-0.268 *** [0.040]
Egalitarianism distance	-3.539 *** [0.314]	Egalitarianism distance	-2.638 *** [0.302]	Egalitarianism distance	-2.959 *** [0.309]	Egalitarianism distance	-5.474 *** [0.411]	Egalitarianism distance	-5.334 *** [0.399]	Standardized: Egalitarianism distance	-0.194 *** [0.054]	Standardized: Log of geographic distance	-0.656 *** [0.029]	Standardized: Fitted egalitarianism distance (from Model 7 of Table 1)	-0.152 *** [0.041]	Standardized: Log of geographic distance	-0.650 *** [0.030]
Signed egalitarianism distance (origin country first)	0.476 *** [0.149]	Signed egalitarianism distance (origin country first)	0.521 *** [0.149]	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)	0.138 *** [0.049]	Standardized: Common language	0.232 *** [0.043]	Standardized: Fitted signed egalitarianism distance (origin country first) (from Model 7 of Table 1)	0.047 [0.035]	Standardized: Common language	0.229 *** [0.040]
Procedural formalism distance	-0.141 *** [0.027]	Different legal family	-0.742 ** [0.119]	Rule of law distance	-0.147 *** [0.023]	Creditor rights distance	-0.017 [0.015]	Shareholder rights distance	-0.014 [0.012]	Standardized: Procedural formalism distance	0.050 [0.059]	Standardized: POLCONIII distance	-0.145 ** [0.058]	Standardized: Procedural formalism distance	0.044 [0.060]	Standardized: POLCONIII distance	-0.119 ** [0.060]
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	-0.430 *** [0.029]	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: Rule of law distance	-0.074 [0.063]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.094 ** [0.047]	Standardized: Rule of law distance	-0.091 [0.061]	Standardized: Difference between origin country's corporate tax rate and host country's corporate tax rate	0.089 * [0.047]
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	-1.014 *** [0.177]	Clustered Standard Errors for Origin-Host Pairs?	Yes	Standardized: Regressor in constant-only model: Log of the product of origin and host market capitalization	-1.226 *** [0.267]	Clustered Standard Errors for Origin-Host Pairs?	Yes
No. of observations	40064	No. of observations	35798	No. of observations	42418	No. of observations	28258	No. of observations	29794	No. of observations	28982			No. of observations	28982		
Nonzero obs	6204	Nonzero obs	6115	Nonzero obs	6275	Nonzero obs	5324	Nonzero obs	5399	Nonzero obs	5462			Nonzero obs	5462		
Zero obs	33860	Zero obs	29683	Zero obs	36143	Zero obs	22934	Zero obs	24395	Zero obs	23520			Zero obs	23520		
Wald chi2	420.49(4)	Wald chi2	462.74(4)	Wald chi2	433.31(4)	Wald chi2	467.51(4)	Wald chi2	473.94(4)	Wald chi2	3752.55(10)			Wald chi2	2419.14(10		
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	-24410.17	Log pseudolikelihood	-25348.48	Log pseudolikelihood	-20560.21	Log pseudolikelihood	-20873.08	Log pseudolikelihood	-19799.78			Log pseudolikelihood	-19816.90		

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 : 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: 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: 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

Panel B. Determinants of Anti-Corruption Levels

	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 1996-1998 average	DV: Transparency International's Corruption Perceptions Index 1998
Variable	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**
Egalitarianism	4.774***	2.208***	1.502***	2.358***	4.523***	2.062***	4.648***
	[1.361]	[0.609]	[0.632]	[0.649]	[1.392]	[0.611]	[1.425]
Gini coefficient averaged over the years 1971-1996, from You and Khagram (2005)	-2.161	-2.503	-4.766**	-1.895	-1.001	-1.661	-0.173
	[3.976]	[1.830]	[2.159]	[1.904]	[3.820]	[1.768]	[3.878]
Percentage of Protestants in 1980, from La Porta et al. (1999)	3.285	1.458	2.647**	1.718	3.712	1.636	3.714
	[2.217]	[0.979]	[1.003]	[1.041]	[2.197]	[0.972]	[2.203]
Percentage of Catholics in 1980, from La Porta et al. (1999)	-0.658	-0.035	-0.009	-0.013	-0.535	-0.014	-0.477
	[0.824]	[0.363]	[0.497]	[0.416]	[0.796]	[0.380]	[0.789]
Percentage of Muslims in 1980, from La Porta et al. (1999)	-1.301	-0.332	-1.012	-0.232	-1.355	-0.147	-1.379
	[1.024]	[0.497]	[0.743]	[0.593]	[0.974]	[0.517]	[0.984]
French civil law origin, from La Porta et al. (1999)	-1.663*	-0.592	0.063	-0.670	-1.753*	-0.637	-1.822*
	[0.912]	[0.397]	[0.488]	[0.436]	[0.931]	[0.408]	[0.948]
German civil law origin, from La Porta et al. (1999)	0.229	0.266	-0.044	0.266	0.247	0.260	-0.048
	[1.003]	[0.442]	[0.394]	[0.454]	[0.927]	[0.425]	[0.849]
Scandinavian civil law origin, from La Porta et al. (1999)	-1.395	-0.616	-0.759	-0.822	-1.825	-0.790	-1.654
	[1.790]	[0.770]	[0.882]	[0.820]	[1.774]	[0.763]	[1.803]
Federalism, the sum of five indicators for federalism averaged for 1975-1996, from Keefer (2002)	-0.043	-0.035	-0.047	-0.027	-0.097	-0.041	-0.063
	[0.175]	[0.079]	[0.089]	[0.081]	[0.174]	[0.077]	[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	-0.006	-0.003	-0.007	-0.010	-0.006	-0.011
	[0.013]	[0.006]	[0.007]	[0.005]	[0.012]	[0.005]	[0.012]
Distance from the equator, from You and Khagram (2005) as used in Treisman (2000)	-0.559	-0.368	-0.421	-0.194	-0.006	-0.106	-0.094
	[3.372]	[1.605]	[1.509]	[1.687]	[3.409]	[1.578]	[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	0.053	0.162	0.085	0.321	0.057	0.311
	[0.364]	[0.163]	[0.155]	[0.174]	[0.363]	[0.166]	[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

This table present the results of OLS regressions for 20 OECD countries covered in Lindert (2004). Here, public pension expenditure and unemployment expenditure serve as the alternative dependent variables. We start with Lindert's main explanatory variables and then examine whether egalitarianism plays an independent role in explaining the level of government aid for retirees and the unemployeed. Robust standard errors are reported below the coefficients in brackets.

		DV: Public Pension Expenditure/GDP	DV: Public Pension Expenditure/GDP	DV: Unemployment Expenditure/GDP	DV: Unemployment Expenditure/GDP
Variable	**Variable Definition**	**Model 1**	**Model 2**	**Model 3**	**Model 4**
Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. *Source: Schwartz (1994) and authors' additional work.*		3.282* [1.698]		1.575** [0.692]
Voter Turnout	The ratio of voters to population over the age of 20, as of the general election just prior to this date. The source for the numerator is Mackie and Rose (1991, 1997). *Source: Lindert (2004).*	6.432* [3.474]	5.918** [2.832]	1.695 [1.381]	0.941 [1.396]
Executive Turnover	The number of changes in the chief executive in the preceding 10 years. This variable is used together with the other three-year time average variables from Lindert (2004) described above. *Source: Bienen and van de Walle (1991).*	-0.114 [0.207]	-0.107 [0.186]	-0.163 [0.095]	-0.196** [0.084]
Percentage declaring themselves Catholic in the 1930s	Shares of those declaring any religion who called themselves Catholic. *Source: Lindert (1994) using mostly primary data from Annuaire Statistique de la France for the 1930s.*	0.705 [0.994]		0.284 [0.606]	
Index of ethnic fractionalization, from the Soviet *Atlas Narodov Mira*	Index of ethnic fractionalization, from the Soviet *Atlas Narodov Mira* . *Source: Lindert (2004).*	-1.580 [2.121]		0.015 [0.920]	
Share of total population that is in the over-65 age group	Share of total population that is in the over-65 age group. *Source: Lindert (2004) using primary data from the OECD.*	0.863*** [0.181]	0.804*** [0.162]	0.036 [0.075]	-0.019 [0.072]
Observations		120	120	120	120
P-value		0.000	0.000	0.626	0.030
R-Squared		0.572	0.595	0.073	0.120

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

Note: Of the 21 OECD countries studied in Lindert, one of them (Belgium) does not have available egalitarianism data. Hence, the above results are for 20 of Lindert's 21 countr

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. *Source: Schwartz (1994) and authors' additional work.*	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. *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).*	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). *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).*	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. *Source: International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT) as used in Bushman et al. (2003).*	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

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.*Source: Schwartz (1994) and authors' additional work.*	1		
[2] 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 sums the individual components to yield a total score.*Source: Nicholson (2004).*	0.357**	1	
[3] Antritrust Enforcement Expenditure	The ratio of budget and staff for the competition agencies in countries.*Source: Nicholson (2004).*	0.385*	0.401**	1

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. *Source: Schwartz (1994) and authors' additional work.*	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. *Source: IMD World Competitiveness Yearbook.*	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

Table 12. The Effect of Egalitarianism on Competition in the Banking Sector

This table presents the results of OLS regressions with proxies for competition in the banking sector as dependent variables.
Robust standard errors are reported below the coefficients in brackets.

		DV: Lerner Index for Banking	DV: Lerner Index for Banking	DV: Banking Activity Restrictions
Variable	**Variable Definition**	**Model 1**	**Model 2**	**Model 3**
Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. *Source: Schwartz (1994) and authors' additional work.*	-11.250*** [2.586]	-9.632*** [3.211]	-3.992** [1.516]
Banking Freedom	A measure of the degree to which national authorities allow banks to engage in activities that generate non-interest income (securities, insurance, real state, and bank ownership of non-financial firms). *Source: Economic Freedom Index of the Heritage Foundation as used in Maudos and Nagore (2005).*		-0.756 [1.722]	-1.935*** [0.528]
Property Rights	An indicator of the protection of private property rights. The indicator ranges from 1 to 5, higher values indicating better protection of property rights. It is calculated as 6 minus the property freedom index of the Heritage Foundation. *Source: Economic Freedom Index of the Heritage Foundation as used in Maudos and Nagore (2005).*		0.076 [0.904]	1.364*** [0.313]
Economic Freedom	An overall indicator of economic freedom that captures the degree individuals and firms feel free to conduct their business. The indicator ranges from 1 to 5. *Source: Economic Freedom Index of the Heritage Foundation.*		-0.007 [0.174]	0.075* [0.043]
Observations		36	31	31
P-value		0.000	0.044	0.000
R-Squared		0.197	0.186	0.599

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

Table 13. The Direct Effect of Egalitarianism

This table returns to the full models of Table 4 and shows that egalitarianism continues to exercise a direct effect on cross-border investment flows even after controlling for the associated policies through which egalitarianism also exercises its indirect effect.

Models 1-4. Debt and Equity Flows

Model 5-8. Mergers and Acquisitions Flow

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	0.529 *** [0.048]	Log of the product of origin and host market capitalization	0.722 *** [0.080]	Log of the product of origin and host market capitalization	0.757 *** [0.079]	Log of the product of origin and host market capitalization	0.514 *** [0.054]	Log of the product of origin and host market capitalization	0.666 *** [0.016]	Log of the product of origin and host market capitalization	0.646 *** [0.029]	Log of the product of origin and host market capitalization	0.648 *** [0.027]	Log of the product of origin and host market capitalization	0.625 *** [0.025]
Egalitarianism distance	-3.054 *** [0.581]	Egalitarianism distance	-4.210 *** [0.961]	Egalitarianism distance	-4.275 *** [0.936]	Egalitarianism distance	-2.435 *** [0.695]	Egalitarianism distance	-0.869 *** [0.247]	Egalitarianism distance	-1.329 *** [0.237]	Egalitarianism distance	-1.509 *** [0.239]	Egalitarianism distance	-2.057 *** [0.350]
Signed egalitarianism distance (origin country first)	0.547 ** [0.268]	Signed egalitarianism distance (origin country first)	1.041 *** [0.368]	Signed egalitarianism distance (origin country first)	1.179 *** [0.364]	Signed egalitarianism distance (origin country first)	0.891 *** [0.267]	Signed egalitarianism distance (origin country first)	0.331 *** [0.117]	Signed egalitarianism distance (origin country first)	0.593 *** [0.114]	Signed egalitarianism distance (origin country first)	0.558 *** [0.114]	Signed egalitarianism distance (origin country first)	-0.416 *** [0.158]
Political Risk Service Corruption ICRG Index 1996-2002 average	-0.204 *** [0.042]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.307 *** [0.061]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.308 *** [0.061]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.200 *** [0.044]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.031 ** [0.015]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.047 *** [0.015]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.054 *** [0.015]	Political Risk Service Corruption ICRG Index 1996-2002 average	-0.036 * [0.019]
		Employers' Mandated Social Security Contribution Rate Distance	0.000 [0.000]	Employers' Mandated Social Security Contribution Rate	0.000 [0.000]	Sickness and Health Benefits Distance (from Table 8)	-3.507 *** [1.162]			Employers' Mandated Social Security Contribution Rate Distance	0.000 [0.000]	Employers' Mandated Social Security Contribution Rate	0.000 [0.000]	Sickness and Health Benefits Distance (from Table 8)	-0.694 * [0.370]
				IMD Antitrust Distance	0.119 *** [0.035]	Unemployment Benefits distance (from Table 8)	-1.110 ** [0.524]					IMD Antitrust Distance	0.051 *** [0.013]	Unemployment Benefits distance (from Table 8)	-0.362 [0.248]
						Financial transparency distance (from Table 10)	0.114 [0.073]							Financial transparency distance (from Table 10)	0.017 [0.034]
						Audit distance (from Table 10)	-0.109 ** [0.045]							Audit distance (from Table 10)	-0.140 *** [0.018]
All Control Variables from Full Model 24 of Table 4 are	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	Yes	All Control Variables from Full Model 24 of Table 4 are	Yes	All Control Variables from Full Model 24 of Table 4 are	Yes	All Control Variables from Full Model 24 of Table 4 are	Yes
Clustered Standard Errors for Origin-Host	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	Yes	Clustered Standard Errors for Origin-Host	Yes	Clustered Standard Errors for Origin-Host	Yes	Clustered Standard Errors for Origin-Host	Yes
No. of observations	28979	No. of observations	7489	No. of observations	7489	No. of observations	20356	No. of observations	28982	No. of observations	7490	No. of observations	7490	No. of observations	20358
Nonzero obs	1609	Nonzero obs	470	Nonzero obs	470	Nonzero obs	1500	Nonzero obs	5462	Nonzero obs	2502	Nonzero obs	2502	Nonzero obs	4591
Zero obs	27370	Zero obs	7019	Zero obs	7019	Zero obs	18856	Zero obs	23520	Zero obs	4988	Zero obs	4988	Zero obs	15767
Wald chi2	237.64(11)	Wald chi2	190.82(12)	Wald chi2	189.49(13)	Wald chi2	275.41(15)	Wald chi2	3892.41(1	Wald chi2	1545.60(1	Wald chi2	1601.90(1	Wald chi2	1943.38(1
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	-8227.02	Log pseudolikelihood	-2457.22	Log pseudolikelihood	-2447.72	Log pseudolikelihood	-7427.38	Log pseudolikelihood	-19787.25	Log pseudolikelihood	-8664.03	Log pseudolikelihood	-8639.32	Log pseudolikelihood	-15874.06

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
	International Investment
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. *Source: Thomson Financial Securities Data*.
Equity transaction flows	The number of all cross-border equity issuances and listings between 1975-2003. *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.*
M&A transaction flows	The number of all cross-border mergers and acquisitions between 1978-2003. *Source: Securities Data Corporation (SDC) database, which is in turn a data product of Thomson Financial Securities Data.*
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. *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.*
Informal Institutions	
Egalitarianism	Countries' scores on the Schwartz cultural egalitarianism orientation. *Source: Schwartz (1994) and authors' additional work.*
Egalitarianism distance	The squared difference between a country pair on their cultural egalitarianism score. *Source: Authors' calculations based on Schwartz (1994) and authors' additional work*
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. *Source: Authors' calculations based on Schwartz (1994) and authors' additional work*
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. *Source: La Porta et al. (1998).*
Creditor rights distance	The squared difference between each of two countries' scores on certain creditor legal rights under countries' company law or commercial codes. *Source: La Porta et al. (1998).*
Securities law disclosure distance	The squared difference between each of two countries' scores on an aggregate measure of legal securities disclosure requirements. *Source: La Porta et al. (2005).*
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. *Source: La Porta et al. (2005).*
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. *Source: Djankov et al. (2003).*
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. *Source: La Porta et al. (2005).*
POLCONIII_2002 distance	The squared difference between each of two countries' scores on Henisz's (2002) 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. *Source: Henisz (2002), with the variable described on page363, and the data downloaded in January 2006 from http://www-management.wharton.upenn.edu/henisz/POLCON/ContactInfo.html.*

POLCONV_2002 distance	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). *Source: Henisz (2000), with data downloaded from http://www-management.wharton.upenn.edu/henisz/POLCON/ContactInfo.html.*
Sickness and health benefits	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).*
Unemployment benefits	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).*
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. *Source: Botero et al. (2004).*
Social Outcomes	
Guiso, Sapienza, and Zingales' [2005] Eurobarometer measure of Inter-Country Trust in Europe	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). *Source: Eurobometer surveys sponsored by the European union, as reported in Guiso, Sapienza, and Zingales (2005).*
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. *Source: Lambsdorff (2006) as also used in You and Khagram (2005).* Second, we use the World Bank Control of Corruption Index 1996-2002. *Source: Kaufmann, Kray, and Mastruzzi (2003).* Third, we use the Political Risk Service ICRG Index 1996-2002. *Source, Political Risk Service's ICRG Index, used previously in You and Khagram (2005).*
Public pension expenditure/GDP	The ratio of public pension expenditure and GDP for years 1978-1995. For the purposes of regression we follow Lindert's (2004) methodology in using three-year averages from this 1978-1995 time period. *Source:*

	Lindert (2004).
Unemployment expenditure/GDP	The ratio of unemployment benfits expenditure and GDP for years 1978-1995. For the purposes of regression we follow Lindert's (2004) methodology in using three-year averages from this 1978-1995 time period. *Source: Lindert (2004).*
Voter turnout	The ratio of voters to population over the age of 20, determined at the time of the prior general election. This variable is measured at three year intervals between 1978 and 1995. The source for the numerator is Mackie and Rose (1991, 1997). *Source: Lindert (2004).*
Executive turnover	The number of changes in the chief executive in the preceding 10 years. This variable is used together with the other three-year time average variables from Lindert (2004) described above. *Source: Bienen and van de Walle (1991).*
Percentage declaring themselves Catholic in the 1930s	Shares of those declaring any religion who called themselves Catholic. *Source: Lindert (1994), using mostly primary data from Annuaire Statistique de la France for the 1930s.*
Percentage declaring themselves Protestant in the 1930s	Shares of those declaring any religion who called themselves Protestant. *Source: Lindert (1994,) using mostly primary data from Annuaire Statistique de la France for the 1930s.*
Index of ethnic fractionalization, from the Soviet *Atlas Narodov Mira*	Index of ethnic fractionalization; this index was compiled by ethnographers around the world and appeared in the 1964 Soviet *Atlas Narodov Mira*. *Source: Lindert (2004).*
Share of total population that is in the over-65 age group	Share of total population that is in the over-65 age group. *Source: Lindert (2004) using primary data from the OECD.*
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. *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).*
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). *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).*

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. *Source: International Accounting and Auditing Trends, Center for Financial Analysis and Research, Inc. (IAAT) as used in Bushman et al. (2003).*
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. *Source: Nicholson (2004).*
Antitrust enforcement expenditure	The ratio of budget and staff for the competition agencies in countries. *Source: Nicholson (2004).*
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.*
Lerner index for banking	The Lerner index of closeness of a country's banking sector to free competition. *Source: Maudos and Nagore (2005).*
Banking Activity Restrictions	A measure of the degree to which national authorities allow banks to engage in activities that generate non-interest income (securities, insurance, real state, and bank ownership of nonfinancial firms). The measure varies from 4 to 16, where higher values indicate greater restrictions. Source: Barth et al (2001) database as used in Maudos and Nagore (2005).
Banking freedom	An indicator that provides an overall measure of openness of the banking sector and the extent to which banks are free to operate their businesses. It ranges from 1 to 5. Higher values signify more freedom. The indicator is calculated by Maudos and Nagore (2005) as 6 minus the banking freedom index of the Heritage Foundation. *Source: Economic Freedom Index of the Heritage Foundation, as used in Maudos and Nagore (2005).*

Property rights	An indicator of the protection of private property rights. The indicator ranges from 1 to 5, higher values indicating better protection of property rights. It is calculated as 6 minus the property freedom index of the Heritage Foundation. *Source: Economic Freedom Index of the Heritage Foundation as used in Maudos and Nagore (2005).*
Economic freedom	An overall indicator of economic freedom that captures the degree individuals and firms feel free to conduct their business. The indicator ranges from 1 to 5. *Source: Economic Freedom Index of the Heritage Foundation.*
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).*
Religious heterogeneity	The number of religious groups whose size exceeds 5% of the population in 1990. *Sources: Encyclopedia Britannica and other almanacs.*
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. *Source: Sarkees (2000).*
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. *Source: Sarkees (2000).*
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. *Source: Sarkees (2000).*
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. *Source: Sarkees (2000).*
Common language	This indicator variable equals 1 if an origin-host country pair shares a dominant language in common. Set equal to zero otherwise *Source: CIA – The World Factbook, accessed in October 2005 from http://www.cia.gov/cia/publications/factbook/index.html*
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. *Source: CIA – The World Factbook, accessed in October 2005 from http://www.cia.gov/cia/publications/factbook/index.html*
Log of geographic distance	Log of geographic distance. *Source: Andrew Rose Bilateral Trade Data Set, accessed in October 2005 from http://faculty.haas.berkeley.edu/arose/RecRes.htm#Software*
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. *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*
Gini coefficient	Averaged over the years 1971-1996 and adjusted by the source for differences in hoursehold-based ginis, person-based ginis, gross income-based ginis, and net income-based ginis. *Source: You and Khagram (2005).*

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. *Source: World Development Indicators, as used in You and Khagram (2005).*
Distance from the equator	Absolute value of latitude. *Source: You and Khagram (2005) as also used in Treisman (2000).*
Constructed openness	The natural logarithm of predicted trade shares from a bilateral trade equation with "pure" geography variables. *Source: Rodrik et al. (2004), as used in You and Khagram (2005).*