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Law and social capital: Evidence from the Code Napoleon in Germany[☆]



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ABSTRACT

I test whether legal institutions crowd-in social cooperation in the long-run, using the introduction of the Code Napoleon in parts of 19th century Germany as a historical experiment. I find that the application of the Code Napoleon is associated with higher levels of trust and cooperation today. This finding is robust to an identification strategy that uses only individuals located around a discontinuity in the number of years the Code Civil was used. Results from a falsification test that moves this discontinuity artificially, as well as the comparison of pre-treatment characteristics support the interpretation of a causal effect. In addition, regions around the discontinuity are similar in post-treatment economic development and inequality. On the contrary, the positive social consequences of the Code Civil manifest themselves in less political fraud in elections from 1871 to 1900, and in more “bridging” social capital in the 1920s.

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1. Introduction

“If the laws are good, morality is good. If the laws are bad, morality's bad”-Diderot¹

At least since the work by Banfield (1967), Coleman (1988) and Putnam (2001), social capital has been associated with many beneficial economic and social outcomes. Trust, as one dimension of social capital, for example eases cooperation between individuals and collective action.² Why people trust each other and cooperate in some societies, but not in others, is therefore a pertinent question. In this paper, I research whether legal institutions that govern social interactions promote a culture of cooperation and trust. While there exists a strong correlation between the quality of legal institutions and trust

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¹ From the “Continuation of the Dialogue between A and B” (Diderot, 1992). The extended quote is: “A: What do you mean by morality? - B: I mean a general obedience to laws, either good or bad, and such conduct as follows from that obedience. If the laws are good, morality is good. If the laws are bad, morality's bad.”

² See Algan and Cahuc (2013) for a review of the literature on the impact of trust on economic outcomes.

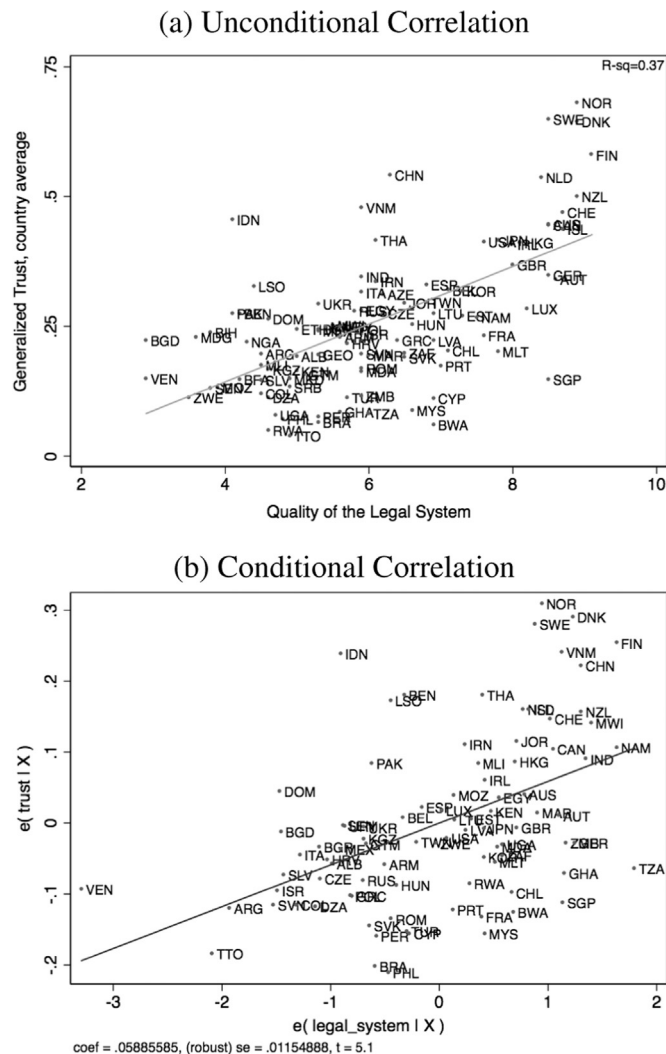


Fig. 1. Law and trust. (a) Unconditional correlation. (b) Conditional correlation. Notes: The figure shows cross-country correlation between legal quality and social trust. Countries with greater protection of individual property, and in which courts and judges are independent and impartial display higher levels of interpersonal trust. This does not merely mirror an income effect, since the positive association is robust to controlling for population, income per capita, education and ethnic fractionalization as shown in Fig. 1(b). Sources: World Values Survey, Economic Freedom of the World Index 2010.

across countries that seems to support Diderot's notion (see above Fig. 1), this association does not necessarily reflect a causal impact of the law.³

The identification of a causal link is made difficult by the endogeneity of legal institutions, which are themselves a function of cultural attitudes and preferences. To overcome this common identification problem, I make use of a historical experiment that is characterized by the imposition of a legal system on a society from outside. This historical experiment is the introduction of the Code Napoleon in parts of 19th century Germany, a dramatic positive shock to the quality of existing law. The Code Napoleon was the most modern legal code at that time, created to spread the ideas of the French Revolution and to modernize the pre-existing social order of European societies. Its most revolutionary concept was to treat all individuals as equals. This unprecedented degree of legal equality removed existing barriers to inter- and intra-class cooperation, and “encouraged the liberation of the individual from corporative bonds and the establishment of a civil society” (Fehrenbach, 2008). By showing that the application of the Napoleonic Civil Code throughout the 19th century goes along with higher levels of social trust today, I provide novel evidence on the relationship between the law and social cooperation from estimating on the micro-level within a country.⁴

³ An association between historical political institutions and cooperation has recently been shown by Putnam (1994); Tabellini (2008) and Tabellini (2010); as well as Guiso et al. (2008a).

⁴ The long-run consequences of the law for economic outcomes has been intensively described by scholars researching different legal origins. See for example López-de-Silanes et al. (1998) and La Porta et al. (2008).

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