

The Economic Effects of Legal Institutions from the Perspective of Business and Law

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Abstract

This study aims to present a business and legal viewpoint on how legal institutions affect the economy. By undertaking cross-disciplinary research between legal historians and economics or business historians, the study of law in business and vice versa could be better understood. It becomes clearer why historical empirical research is necessary when the legal system is seen as a distinct but dynamic entity that is intertwined with shifting socioeconomic circumstances and not isolated from economic and political matters. A substantial number of publications have been reviewed by the researchers. To prepare this article, secondary data and desk research were used. Academics and professionals can use the interesting insights from it.

Keywords: *Economic Effects, Legal Institutions, Economic Effects of Legal Institution, Legal Norms, Business and Law.*

Introduction

It is impossible to comprehend the purpose of law and how it affects the economy from a reductionist perspective that confines itself to seeing law as only legislation or jurisdiction. The historical implications of legal theories must also be overcome because they frequently make it difficult to understand how the law actually operates (Edelman and Suchman 1997). Instead, the focus of this article is on an evolutionary theory of law that considers the effects of social, political, and economic constraints in varied settings on legal systems. For instance, company law is a dynamic, non-static regime, of which a person who simply knows the written law would be unaware, according to Karl Geiler, a corporate lawyer and the founder of the Mannheim Commercial College (Handelshochschule), who made this observation in 1927. This is only one example of how past leaders often had a more complex view of the significance of rules (Geiler 1927). German business historians have examined businesses and their business plans in the context of specific legal frameworks (Reckendrees 2000; Roelevink 2015), but they have rarely systematically focused on the particulars of legal dimensions, such as conflict regulation or the conformity with legal matters outside of these undertakings. This is illustrated by the fact that in encyclopedic accounts of business histories, law is either not addressed at all or is only mentioned in relation to politics (Berghoff 2016; Plumpe 2018).

Aim of the Study

The purpose of this paper is to present the economic effects of legal institutions from the perspective of business and law.

Methodology

The scholars have examined a large number of documents. This article was created using desk-based research and secondary data.

The Economic Effects of Legal Institutions

There is still a dichotomy at the level of economic policy and the supporting legal framework. Because of the expansion of newly formed stock corporations and the government's endorsement of them, England, the so-called "mother country" of the Industrial Revolution, grappled with reform. Due to the liberalization of stock company regulation brought about by the Joint Stock Companies Act (1844), the Limited Liability Act (1855), and the Joint Stock Company Act, this reform backlog was not ultimately resolved until the middle of the 19th century (1856) (Harris, 2000). Surprisingly, industrialization and rapid economic growth had not previously been hindered by this. France, a nation that joined the industrial revolution later than most others, underwent major institutional transformation as a result of the Codifications of the Napoleonic era. The legal requirements for operating business were significantly amended by the Code civil of 1804, and the Code de commerce of 1807 (Acemoglu et al. 2011).

The Common Law System in England did not prevent industrialization, and once the Industrial Revolution "took off," changes were made to the law. However, France would not begin to industrialize until after civil and commercial law had been formed. It lagged economically behind England and subsequently Germany. This alleged issue cannot be answered just by researching legal precedent. As we can observe in England, the foundation documents of the organizations—statutes, contracts, or unwritten rules—were partially to blame for their financial success and adaptability in response to shifting market conditions. This raises the

question of whether and how far the legal system can be held accountable for a company's ability to operate and make a profit. Economic theory and historical studies of economics disagree on the importance of laws for this process (Hovenkamp 1991).

The Legal Origin Model, for instance, claims that common law systems (like those in England) encourage market-based expansion while continental legal systems typically prevent it (La Porta, Florencio, and Shleifer 2008). However, some historians have provided contradictory information (Musacchio and Turner 2013). According to legal-originated literature, Scottish partnership banks should not have had as much organizational freedom under a civil-law system. However, this is not the case in many other civil-law countries, where, for example, the Limited Liability Company created more organizational alternatives rather than fewer as suggested by legal-originated literature (Acheson, Hickson, and Turner 2011). The legal origins narrative has proven to be especially challenging to analyze in more depth on the founding dates of various legal institutions and their economic effects, according to Guinnane et al. in 2007.

The industrialization of Saxony, which did not have a civil code until 1865, was examined by Hubert Kiesewetter, who concluded that common law systems were not required for economic growth or for businesses to be creative and successful (Kiesewetter 2007). But Baden did not start industrializing until it ascended to membership in the "Zollverein" in 1840. In 1809, Baden did enact "Badisches Landrecht," a version of the French Civil Code. Selgert (2013). At least in part independently of the legislative definition of investor protection rights, the division of ownership and control appears to have occurred in the United States and the United Kingdom through "alternative institutional structures" (Hilt 2008) (Cheffins 2001, 460). In light of this, it becomes clear that the fundamental changes to legal institutions did not take place overnight, but rather as a result of a drawn-out, complex, and frequently convoluted process, the results of which were greatly influenced by the broader economic context. Additionally, it pertains to the "varieties of capitalism" that have recently acquired acceptance (Hall and Soskice 2001), whose legitimacy should not be overestimated (Deakin et al. 2017).

The economic repercussions of institutional changes cannot be quantified and attributed as precisely as the pertinent literature suggests, as criticism of several institutional economic assumptions has proven (Kopsidis, Bromley 2016). Instead, the evolution of legal doctrines and the procedures for applying them have often followed the growth of economic issues. In this issue, researchers demonstrate how legal forms for businesses can persist and grow in various commercial contexts, such as those for SMEs, where they were vulnerable to change and disassociated from their initial goals. Company law innovation was just one of several elements that affected how Quaker business was changed, and its influence would only grow over time and through a variety of avenues.

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