

**Table 1: Description of the variables (with variable names)**

This table describes the variables collected for the 71 countries included in our study.

**1. Dependent variables:**

Property rights index: **f\_prop97**

A rating of property rights in each country in 1997 (on a scale from 1 to 5). The more protection private property receives, the higher the score. The score is based, broadly, on the degree of legal protection of private property, the extent to which the government protects and enforces laws that protect private property, the probability that the government will expropriate private property, and the country's legal protection of private property. Source: *Holmes et al. (1997)*.

Number of procedures: **proc\_99**

This variable measures the number of different steps that a start-up has to comply with in order to obtain a legal status, i.e. to start operating as a legal entity. The number of procedures ranges in the sample from 2 to 19. Source: *Djankov et al. (2002)*.

Employment laws index: **index\_labor1**

This index measures the level of worker protection through labor and employment laws. The employment laws index ranges from 0.77 to 2.31. Source: *Botero et al. (2003)*.

Government ownership of banks in 1995: **gb\_per**

Share of the assets of the top 10 banks in a given country owned by the government of that country in 1995.

Ranges from 0 to 1. Source: La Porta et al. (2002).

Democracy index: **P\_dem94**

Democracy score for the year 1994, except for Liberia where the latest available year (1989) was used. Ranges from 0 to 10, with lower values indicating a less democratic environment. Source: *Gurr and Jagers (1996)*.

Political rights index: **pright**

Index of political rights in 1996 (on a scale from 1 to 7). Higher ratings indicate countries that come closer to the ideals suggested by the checklist questions of: (1) free and fair elections; (2) those elected rule; (3) there are competitive parties or other competitive political groupings; (4) the opposition has an important role and power; and (5) the entities have self-determination or an extremely high degree of autonomy. Source: *Freedom House (1996)*.

Human rights index: **humana\_9**

A measure of 37 criteria based on the rights enumerated in the three major UN treaties: 1948 Universal Declaration of Human Rights, 1966 International Covenant on Civil and Political Rights, International Covenant on Economics, Social, and Cultural Rights. Ranges from 17 to 99 in the sample, with higher scores indicating better human rights. Source: *Humana (1992)*.

**2. Independent Variables:**

Tenure of Supreme Court judges: **sc\_ten**

This variable measures the tenure of Supreme Court judges (highest court in any country). The variable takes three possible values: 2 - if tenure is lifelong, 1 - if tenure is more than six years but not lifelong, 0 - if tenure is less than six years. Source: collected mainly from the constitutions of countries as well as secondary sources.

Tenure of administrative court judges: **ac\_ten**

This variable measures the tenure of the highest ranked judges ruling on administrative cases. The variable takes three possible values: 2 - if tenure is lifelong, 1 - if tenure is more than six years but not lifelong, 0 - if tenure is less than six years. Source: collected mainly from the constitutions of countries as well as secondary sources.

Case law: **caselaw**

This variable is a dummy taking value 1 if judicial decisions in a given country are a source of law, 0 otherwise. Source: *David (1973)*.

Judicial independence: **new\_independence**

Judicial independence is computed as the normalized sum of: (i) the tenure of Supreme Court judges (ii) the tenure of administrative Court judges (iii) the case law variable. Source: *Authors' calculations based on sources mentioned above*.

Rigidity of constitution: **rigid**

This variable measures (on a scale from 1 to 4) how hard it is to change the constitution in a given country. One point each is given if the approval of the majority of the legislature, the chief of state and a referendum is necessary in order to change the constitution. An additional point is given for each of the following: if a supermajority in the legislature (more than 66% of votes) is needed, if both houses of the legislature have to approve, if the legislature has to approve the amendment in two consecutive legislative terms or if the approval of a majority of state legislature is required. Source: *Maddex (1995)*.

Judicial review: **jud\_rev**

This variable measures the extent to which judges (either Supreme Court or constitutional court) have the power to review the constitutionality of laws in a given country. The variable takes three values: 2- if there is full review of constitutionality of laws, 1 - if there is limited review of constitutionality of, 0 - if there is no review of constitutionality of laws. Source: *Maddex (1995)*.

Constitutional review: **new\_constitutional**

Constitutional review is computed as the normalized sum of: (i) the judiciary review index (ii) the rigidity of the constitution index. Source: *Authors' calculations based on sources mentioned above*.

Legal origin (LO): **legor\_uk legor\_fr legor\_so legor\_ge legor\_sc**

Identifies the legal origin of the Company Law or Commercial Code of each country. There are five possible origins: (1) English Common Law; (2) French Commercial Code; (3) German Commercial Code; (4) Scandinavian Commercial Code; and (5) Socialist/Communist laws. Source: *La Porta et al. (1998)*, extended using *Reynolds and Flores (1989)*; and *Central Intelligence Agency (1996)*.

Ethnolinguistic fractionalization: **avelf**

Average value of five different indices of ethnolinguistic fractionalization. Its value ranges from 0 to 1. The five component indices are: (1) index of ethnolinguistic fractionalization in 1960, which measures the probability that two randomly selected people from a given country will not belong to the same ethnolinguistic group (the index is based on the number and size of population groups as distinguished by their ethnic and linguistic status); (2) and (3) probability of two randomly selected individuals speaking different languages; (4) percent of the population not speaking the official language; and (5) percent of the population not speaking the most widely used language. Sources: *Easterly and Levine (1997)*.

Latitude: **lat\_abst**

The absolute value of the latitude of the country, scaled to take values between 0 and 1. Source: *Central Intelligence Agency (1996)*.

Ln GDP per capita: **lgdp\_98**

Logarithm of gross domestic product per capita in US dollars for 1998. Ranges from 4.5 to 10.5 in the sample. Source: *United Nations (2000)*.