Abstract

The "law matters" thesis implies countries will not develop a robust stock market or diffuse corporate ownership structures unless laws are in place that curtail the extraction of private benefits of control by large shareholders and address information asymmetries from which outside investors suffer. In Britain, however, the law did not provide extensive protection to shareholders when ownership separated from control, which suggests "investor friendly" corporate and securities law is not a necessary condition for a transition from family capitalism to a corporate economy characterized by widely held firms. If law did not provide the foundation for the unwinding of family ownership what did? This Article argues that the dividend policy of publicly quoted firms played a significant role. Essentially, dividends mimicked the role that the "law matters" thesis attributes to corporate and securities law, namely constraining corporate insiders and supplying information flow to investors. In so doing, dividends helped to provide the platform for ownership to separate from control when law did not provide substantial protection for outside shareholders.