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Laws vs. Contracts: Legal Origins, Shareholder Protections, and Ownership Concentration in Brazil, 1890–1950

by Aldo Musacchio

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Abstract

The early development of large multidivisional corporations in Latin America required much more than capable managers, new technologies, and large markets. Behind such corporations was a market for capital in which entrepreneurs had to attract investors to buy either debt or equity. This paper examines the investor protections included in corporate bylaws that enabled corporations in Brazil to attract investors in large numbers, thus generating a relatively low concentration of ownership and control in large firms before 1910. Archival evidence such as company statutes and shareholder lists document that in many Brazilian corporations voting rights provisions, in particular, maximum vote provisions and graduated voting scales (that provided for less than proportional votes as shareholdings increase), balanced the relative voting power of small and large investors. In companies with such provisions the concentration of ownership and control is shown to have been significantly lower than in the average company. Overall, from the sample of Brazilian companies studied it seems like the concentration of control was significantly lower before 1910 than what it is today.

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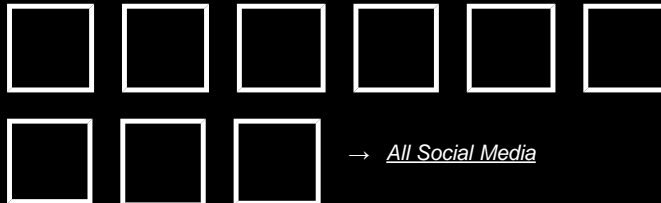
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