

# Political Connections and Corporation Performance in Egypt, 1890–1952

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## Abstract

A growing body of literature documents that political connections influence firm outcomes. We contribute to this literature by assembling two novel fine-grained datasets on corporations and Members of Parliament (MPs) in colonial and monarchical Egypt from 1890 to 1952. We define political connections of corporations as having at least one MP among its founders, and we examine the effect of connections on monthly Egyptian stock market returns of publicly traded firms in 1907–1930 and on monthly entry and exit dynamics in 1890–1952. We use a range of empirical methods to disentangle the cause effect on firm value. Our preliminary findings reveal that political connections had a positive effect on firm performance. Politically connected corporations had higher firm value, and were less likely to exit. But costly corporations negatively selected into adding MPs as founders. Politically connected industries have fewer entries, but conditional on entry, entrants are more politically connected than less connected industries. The evidence suggest that having political connections made incorporation easier for companies and the presence of political connections distorted competitive forces of creative destruction.

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# 1 Introduction

Close ties between private firms and politicians are ubiquitous in many countries. Political connections can allow firms to secure tax exemptions or subsidies, receive priority in government contracts, and enjoy lower costs in navigating bureaucracy. These advantages can have substantial value to investors (Faccio 2006). But the extent of corporate-political ties can impose economic and social costs. It can distort competition, slow down creative destruction, and reduce firm dynamism (Akcigit et al. 2018). Firms might be forced to invest in establishing political connections to out-compete incumbents or public funds might be preferentially directed to connected companies, leading to misallocation of resources. The question is especially significant in the context of late industrializers, which had to grapple with balancing ambitious economic modernization agendas with weak private sectors and financial markets that relied on personal connections.

This paper investigates the impact of political connections on firm value and entry-exit dynamics in Egypt between 1890 and 1952. This period in Egypt provides a compelling case to evaluate the implications of ties between politicians and corporations. As political power shifted between nationalist, royalist, and British factions, the attitudes towards businesses also changed. The interwar period was especially turbulent. As Egypt became gradually more independent, the government set out to support the formation of large-scale, modern enterprises. But it also remained suspicious of limited liability in big firms due to the experience of past financial panics. Establishing formal connections was seen as a solution; the state could now directly monitor the firms that it supported. The tension between these two objectives informed the evolution of the corporate sector during this period.

To study how political connections affected firm value and dynamics, we construct a new, detailed dataset on corporations and political connections, from 1890 to 1952. This dataset relies on combining firm-level data on security prices and entry/exit, and individual-level data on corporation founders and members of parliament (MP). We focus on three main outcomes: (1) monthly stock market returns which are available

for publicly traded corporations during the period 1908–1930,<sup>1</sup> (2) entry, which we define as the date of decree authorizing incorporation, and (3) exit, which we define as date of dissolution of corporations, or 1952 if never dissolved.

Our main regressor is the whether a corporation is politically connected. After matching founders and MPs, we define a firm as being politically connected during month  $m$  if at least one of its founders also serves in parliament during that month. We also use an alternative broader definition of political connections that takes the value of one if at least one of the corporation’s founders in month  $m$  is either an MP or belongs to a dynasty of a serving MP.

We start with descriptive regressions that investigate the association between connections between MPs and corporations connections and these corporations’ stock market returns. Our analysis is at the level of corporation, security type, and month between January 1908 and December 1929, which enables us to control for a full set of corporation security type fixed effects, a full set of month fixed effects, and a time-variant control variable: the monthly beta coefficient of each corporation. Alternatively, we control for the broader industry fixed effects, and an additional host of time-invariant control variables such as an indicator for corporations incorporated under British law, initial capital, and initial market capitalization. We find that politically connected corporations had lower firm value on average. This association can be due to selection; corporations with lower productivity might have sought MPs to more easily receive authorization decrees.

To disentangle the causal effect of political connections of corporations on stock market returns, we pursue two empirical strategies. The first exploits the fact that MPs often did not complete their parliamentary mandates due to exogenous reasons: death and illness. We do not know the timing of these events during the parliamentary session so we assume that they take place at the mid-point of the cycle (mid-term). These events enable us to compare a subset of corporations, which were politically connected at the beginning of the cycle but then lost a number of its founder-MPs mid-term, to another

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<sup>1</sup>The data report the minimum and maximum security price by corporation, security type, and month, which we use to compute the stock market return. We are currently digitizing security prices for the subsequent period up to 1941. We are also adding data on dividends which are available for larger universe of corporations.

subset of corporations that retained their connection through the entire cycle. We find that firms that lost a number of their founder-MPs mid-term witnessed a temporary loss in their firm value during the 6 months that follow the mid-term but that the firm value rebounded afterwards. This suggests that political connections had a positive effect on firm value, at least in the short run.

Our second empirical strategy exploits the Egyptian revolution that erupted against the British Occupation in March 1919. This revolution resulted in a reshuffling of Egypt's political class, as the Wafd Party rose to power and came to dominate the first post-revolution (short-lived) parliament in 1924. We implement a difference-in-differences analysis that compares the evolution of stock market returns during the months before and after March 1919 across corporations that were eventually politically connected, defined as having an MP among its founders in 1924, and corporations that were eventually unconnected. The rationale behind using the 1924 parliament, instead of the incumbent 1913–1923 parliament, is that the former better reflects the 1919 rising revolutionary class. We find that, following an aggregate drop in stock prices in March 1919, politically connected firms witnessed a faster growth in their stock returns during the few months post March 1919. This finding is consistent with the findings from the first empirical strategy.

Next, we examine the association between political connections of corporations and entry. We document two empirical facts. First, using an industry-year level analysis, we find that industries with more politically connected incumbent firms had lower firm entry. However, conditional on entry, entrants were more likely to be connected relative to other sectors. Second, we show that companies with connections at the time of filing for incorporation (defined as month of contract) enjoyed faster authorization. The latter effect is attributable to having at least one founder-MP during the month of contract, and not afterwards.

Finally, we examine the association between political connections of corporations and exit. We estimate Kaplan-Meier survival functions and a Cox proportional-hazards model over 10-year and 20-year survival windows, comparing histories of corporate businesses that had at least one political connection in their lifetime with corporations

that were never connected. Our survival analysis shows significant gaps in survival probabilities. Politically connected corporations faced 60 percent less exit risk than unconnected firms. While barely more than half of unconnected corporations reached the age of 20, compared to 85 percent of corporations that were ever connected.

Our findings show that political connections added to firm value, made incorporation easier, and granted these corporations distortionary market power by raising barriers to entry for unconnected firms, thereby also allowing connected corporations to live longer. But connected firms were negatively selected, as shown by their average lower market value compared to corporations that had no connections at entry. This was due to Egypt's authorization system of incorporation. Incorporators had to obtain a decree from the sovereign before they could operate. Most corporations were vigorously screened by the government. Having political connections at this stage allowed companies to ease the screening process, as we demonstrate by showing that firms with a connected founder enjoyed smaller delays between filing articles of association and getting a decree. Political connections added significant value for these negatively selected companies; they could block the incorporation of competitors, so faced less competitive pressure and had lower exit risk.

That firms can reap important benefits from establishing political connections has received significant scholarly attention. [Fisman \(2001\)](#), [Faccio \(2006\)](#), [Akey \(2015\)](#), [Acemoglu et al. \(2016\)](#) demonstrate that connections between firms and politicians increase firm value and equity returns, especially in the context of a high degree of corruption. [Cingano and Pinotti \(2013\)](#) show that politically connected firms perform better thanks to shifts in public demand and not increases in productivity; the effects are, again, stronger in areas with more severe corruption. The market advantage that politically connected firms enjoy can imply large social and economic costs. [Johnson and Mitton \(2003\)](#) show that directing public demand toward firms with political connections for personal enrichment cause misallocation of resources, especially during crises when competition tightens. In the presence of heterogeneous firms, such misallocation has dismal implications for productivity growth ([Hsieh and Klenow 2009](#)), reaching up to 1.9 percent of GDP every year in some cases ([Khwaja and Mian 2005](#)).

Distortions in the competitive environment can allow connected firms to deter the more productive, innovative firms from entry ([Akcigit et al. 2018](#)).

The question of political connections takes on special significance in historical development. Even in the industrialized economies of the late nineteenth century, there were no serious statutory restrictions on company directorates, or the internal governance of corporations, more generally ([Turner 2018](#), [Guinnane et al. 2017](#)). Conflicts of interest in companies, interlocking directorates, or direct connections between corporate boards and investment banks were common in Britain, the U.S., and Germany ([Fohlin 1999](#), [Guinnane 2002](#), [Frydman and Hilt 2017](#)). While the state had an important but less direct role in British industrialization ([Harris 2004](#)), many governments in the Continent and beyond embarked on industrialization agendas that stressed the state's involvement in and oversight over corporations. In these settings, close relationships between corporations and political actors were widespread. These countries had to grapple with balancing what they saw as potentially deleterious effects of limited liability and promoting the formation of large-scale enterprises that could drive long-run growth ([Ağır and Artunç 2021](#)). Restricting access to the corporate form had negative consequences for development, especially in the Middle East ([Kuran 2011](#)). The empirical results on whether political connections raise firm value are also more mixed in history. [Grossman and Imai \(2016\)](#) show that banks with directors who also served as MPs had lower stock returns in Britain between 1879 and 1909. In Weimar Republic, political connections had no impact on firm value despite the conventional view that contemporaries shared ([Lehmann-Hasemeyer and Opitz 2019](#)). [Okazaki and Sawada \(2017\)](#) demonstrate that, in prewar Japan, political connections added to firm value only in unregulated industries, the opposite of what we observe in modern settings. Our findings contribute to this scholarship by showing that, in Egypt, political connections raised firm value and improved firm duration, deterred entry, and likely selected less productive firms, highlighting their distortionary effects on the market.

## 2 Historical Background

**Egyptian business history** By the late nineteenth century, Egypt was transformed from a traditional, agricultural economy to an export economy based on cotton production, financed by European investment (Tignor 1984). The expansion of European migrants, capital, and businesses necessitated a robust legal re-organization.<sup>2</sup> Thanks to the capitulations—the concessionary agreements signed between European powers and the Ottoman Empire—Europeans enjoyed extraterritorial privileges, allowing European nationals in the region, including Egypt, to use their consular courts, and their country’s law, for personal, civil, and commercial matters. As European presence grew, so did the number of different consular jurisdictions, causing judicial chaos by creating conflicts of law, forum shopping, and uncertainty about which law or even which procedure would apply to any contract or dispute (Hoyle 1991, Artunç and Saleh 2021). In 1875, the Egyptian government promulgated the Mixed Courts, which were staffed with European as well as Egyptian Muslim and non-Muslim judges, and had competence over a wide range of civil and commercial matters, including those involving Europeans.<sup>3</sup> The Mixed Courts put an end to the chaos created by overlapping consular jurisdictions, curbed the executive’s power on the judiciary, and thus were widely seen as successful (Wilner 1975, Brown 1993, Artunç 2019).

The Mixed Courts applied a close transplantation of the French commercial and civil codes. In doing so, the reform also introduced the corporation into Egyptian law. The only significant departure from the origin country was the lack of general incorporation statutes, which France passed in 1867 (Guinnane et al. 2007). Egypt maintained the authorization system, which mandated all companies to acquire a decree from the sovereign Artunç and Guinnane (2019). At first, this was merely a formality; as long as incorporators included certain governance rules, the government approved all compa-

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<sup>2</sup>The European population had grown to about 150,000 across the country by 1907; Europeans made up 20 percent of Alexandria’s population and 10 percent of Cairo, the cities where they were concentrated. See Egypt, *The Census of Egypt Taken in 1907*.

<sup>3</sup>In 1882, the government also introduced the Native Courts, which had competence only over matters involving Egyptian nationals. The Native Courts applied the same laws, but the bench did not include European judges.

nies, usually within seven days.<sup>4</sup>

At first, consistent with the capitulations, the Mixed Courts recognized the foreign status of European companies, allowing them to operate in Egypt as foreign persons. This allowed founders, even if they resided in Egypt, to incorporate under British law by setting up a head office in Britain. These “British” corporations held their general and board meetings in Egypt, and in fact, only retained a single employee in Britain to maintain the head office and file the annual paperwork.<sup>5</sup> The dual corporation regime continued until the global panic of 1907, as a result of which Egypt entered into a deep recession. Almost 50 percent of all corporations were liquidated within two years. The subsequent cascade of lawsuits against defunct British companies raised the issue of Egyptian courts’ competence. In 1908, the Mixed Court of Appeals in Alexandria repealed the “foreign” character of any company primarily operating in Egypt. After this point, all companies had to go incorporate under Egyptian law.

In the wake of the panic, the government also tightened the authorization system, making incorporation significantly more costly, especially after 1914 (Artunç 2021). As Egypt gained more autonomy from the British, they also started implementing more nationalist policies. In 1923, the government enacted an order that mandated each corporation to have at least two Egyptian nationals on its board of directors. In 1927, another order imposed quotas on hiring and equity ownership. The Company Law of 1947 raised these requirements significantly. Most significantly for our analysis, the law forced all 40 percent of all directors in each company to be Egyptian nationals, and prohibiting civil servants (including members of the parliament) from serving as directors in any private corporation, or be founders of new corporations, unless they had special dispensation from the Council of Ministers (Artunç 2019).<sup>6</sup>

**Egyptian political history** Egypt fell to the British Occupation in 1882. It remained officially an Ottoman vassal state, yet de facto a British colony, between 1882 and 1914.

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<sup>4</sup>House of Commons Parliamentary Papers, *Reports by Her Majesty’s agent and consul-general on the finances, administration, and condition of Egypt and the Soudan in 1899* (London: Harrison and Sons, 1900), p. 32. The number of days is our calculation from the data.

<sup>5</sup>Other European laws were also feasible but only a few French and Belgian corporations appear, but this is due to restrictions Continental European countries imposed on companies primarily operating abroad.

<sup>6</sup>*Journal Officiel* No. 74 Supplement, 11 Aug. 1947.

With the eruption of World War I, the British declared Egypt as a British protectorate under an (nominally) independent Sultan, between 1914 and 1922. The Egyptian 1919 revolution against the British resulted in the British one-sided declaration of Egypt's independence in February 1922, followed by the first Egyptian constitution in 1923. Throughout the following period, Egypt was officially an independent constitutional monarchy with a semi-parliamentary system. Unlike full parliamentary systems though, the monarch kept a lot of political power. However, the British continued to control the Suez Canal, and the British ambassador was to a large extent the de facto ruler of the country. This situation remained until the 1952 military coup that abolished the kingdom in 1953, declared the Egyptian republic, and resulted in a military regime that continues to rule the country until today.

Despite being under an authoritarian regime throughout most of the last two centuries, Egypt had a long-standing parliament dating back to 1824. After a period of an experimental parliamentary body in 1824–1837, the Egyptian parliament continued to exist (almost) continuously in various formats from 1866 to 2020. Throughout the period of our study between 1890 and 1952, the parliament went through two main phases: the colonial phase from 1890 to 1923, and the Egyptian Kingdom phase from 1924 to 1952. In both phases, Members of Parliament were either appointed by the monarch or “elected.” The election process either meant selection by local elites in each electoral constituency in 1890–1923, or starting from 1924, indirect elections, in which the population elects delegates who then elect MPs.

The first phase did not have political parties in the modern sense; MPs were elected or appointed as individuals. The second phase was centered around the conflict between three powers: (1) the Wafd party, the nationalist liberal party that led the 1919 revolution, had the majority of seats in 1924, and continued to have the majority of parliamentary seats in most (fair) elections up to 1952, (2) the monarch, who depended on a number of minority parties, mainly large landholders, to maintain his power by rigging votes against Wafd (starting from the 1925 elections), and (3) the British. A major force during this episode was the call for the Egyptianization of the economy, which was endorsed by the Wafd and had its impact on Egypt's corporate history.

## 3 Data

This paper relies on two novel data sets that span Egypt’s almost entire corporate sector before 1950, and members of of (the two chambers of) the parliament from 1824 to 2020. In this section, we describe our data sources, the extent of our data, and the details of how we constructed our variables.

### 3.1 Corporations

We assembled the data on corporations and founders from a wide range of archival sources, newspapers, official publications, and business directories.

**Charters of incorporation** Corporate charters provide critical information for our datasets: each founders’ name, titles, nationality, location, their initial subscription in the company, the date at which the founders submitted the articles of association for authorization, the date of the authorization decree (which is also the legal establishment date of the company), the company’s sector, its initial authorized and paid-up capital, number of shares, and its first appointed board of directors (almost always, a subset of the founders).

All companies incorporating under Egyptian law had to acquire an authorization decree from the government. These authorizations were executive orders and were published either in the supplement of the official newspaper *Journal officiel du gouvernement égyptienne* (from now on, *Journal officiel*) along with the company’s charter.<sup>7</sup> Before 1903, the authorization decrees and charters were also published in *Bulletin des lois et décrets*, an annual compilation of laws and decrees promulgated in Egypt.<sup>8</sup> Companies that incorporated under British law—possible only before 1908—did not go through this procedure so they are not represented in *Journal Officiel*. But, under the Companies Act, incorporators were required to register their company and file their articles of association. We collected these British charters at the U.K. National Archives,

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<sup>7</sup>The official newspaper is published in Arabic and French. The Arabic language edition is al-Waqā‘i’ al-Miṣrīyah. In our data collection, we used the French editions in the Hoover Institution, the Bibliothèque nationale de France, the British Library, and the New York Public Library.

<sup>8</sup>1898 and 1901 are available online in the Center for Research Libraries. We consulted the volume of 1902 at the New York Public Library.

where the company files are preserved.<sup>9</sup>

**Statistical yearbooks** The Egyptian Ministry of Finance published several statistical yearbooks on corporations throughout the 1900s: *Annuaire de la finance égyptienne* (from now on, *Annuaire*) for 1907, and *Statistique des sociétés anonymes travaillant principalement en Égypte* (from now on, *Statistique*) for 1911, 1925, 1928, 1931, 1934, 1937, 1939, and 1940. The volumes of *Statistique* between 1925 and 1940 provide information for the preceding two years as well. For example, the 1934 volume has data on 1932, 1933, and 1934. The 1925 volume has data on companies since 1908 or their establishment if founded after 1908. In addition, the 1907 volume of *Annuaire* provides a list of corporations (British law or Egyptian law) ever founded before the end of 1907.

These statistical yearbooks provide important data on corporation histories. For each year between 1923 and 1940, as well as 1911, they report every incumbent company's equity, outstanding bonds, dividend payments, retained earnings, reserves, and profits or losses. From 1925 onward, they also report the maximum and minimum security prices in each month quoted at the Alexandria and Cairo Stock Exchanges. Listed corporations could potentially have four types of securities. All issued ordinary shares, which are voting shares that made up the bulk of company equity. Companies could also issue preferred shares, which had guaranteed dividend payouts, enjoyed seniority over ordinary shares in payment order during liquidation, but did not grant voting rights. Corporations could issue new ordinary or preferred shares, and so raise their capital, provided they received approval by the general meeting of shareholders as prescribed in the company's articles of association. Some companies issued founders shares, which could only be issued at the time of establishment, almost always had zero par value—that is, they did not count towards the company's book capital and owners received no payout in bankruptcy—and granted various privileges such as high dividend payments when the corporation earned profits. Finally, corporations could also issue bonds of various terms. The 1925 volume includes all security prices going back to January 1908 for all companies that were alive in 1925. We then construct two cat-

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<sup>9</sup>BT 31, Board of Trade: Companies Registration Office: Files of Dissolved Companies, National Archives, Kew, United Kingdom.

egories of stock market returns;  $SMR_{max}$ , which is based on the highest quoted price each month, and  $SMR_{min}$ , which is based on the lowest quoted price each month. Either way, the monthly stock market return is the percent change in the corresponding security price (percent change in maxima or minima), or the average monthly percent change if there are gaps between two consecutive price quotations.<sup>10</sup> As a descriptive example, Figure 1 plots the return on the ordinary shares of the four largest corporations in terms of market capitalization:<sup>11</sup> The Agricultural Bank of Egypt and the Land Bank of Egypt, both mortgage companies that financed enormous land investment and development; the National Bank of Egypt, which was a quasi-central bank during our period of interest; and Société Anonyme de Wadi Kom-Ombo, a massive agricultural company in Aswan. Even though, over the course of our period, returns on ordinary shares of these companies fluctuated around similar long-run levels, there was considerable variation in volatility. We also find that the month-over-month percent change on maximum market value fluctuated more widely than the minimum market value. These observations hold for the other listed companies in our dataset.

**Exits** We assemble exit dates for each company from a variety of sources. All British company folders contained their liquidation filing at the end. Similarly, companies incorporated under Egyptian law had to publish notices of their liquidation in *Journal des tribunaux mixtes*, which is the official newspaper of the Mixed Courts. In either case, both sources identify a company’s dissolution date as the day in which the company’s general meeting approved a resolution of winding up. We have also consulted all volumes covering the years 1908 through 1950 of the *Egyptian Directory*, which is a business directory that lists all incumbent businesses and their addresses each year. We cross-checked every corporation without a dissolution notice with the business directory to verify that they were still alive in 1950. We do not know the exact date of dissolution for a few corporations. The relevant issues of the newspapers might simply be missing in the archives, or that these defunct companies might have published their notices in a

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<sup>10</sup>These gaps usually came about due to war-related disruptions in either stock exchange between 1914 and 1918.

<sup>11</sup>For this example, we define market capitalization as the market value of ordinary shares times the number of ordinary shares issued at inception

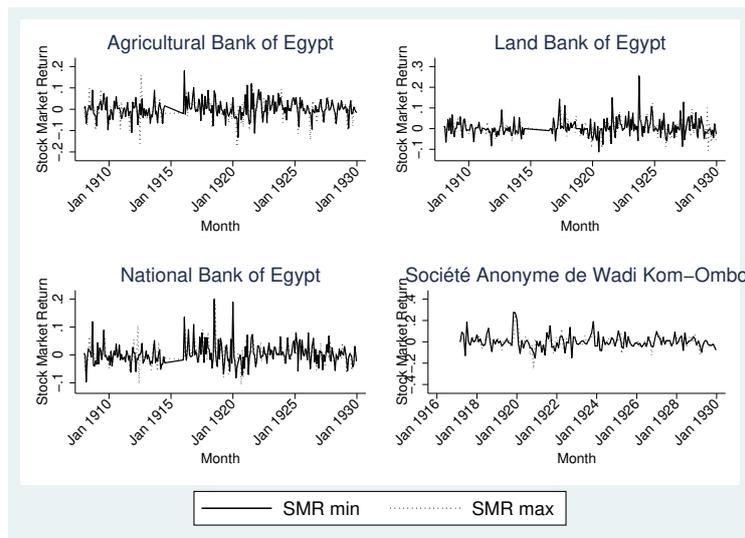


Figure 1: Monthly Stock Market Returns for the Four Largest Corporations

The figure shows the monthly maximum and minimum stock market return on ordinary shares. The four largest corporations have the highest monthly market capitalization, averaged throughout the period. Monthly market capitalization of each corporation is equal to the sum of the monthly price of its ordinary shares times the number of ordinary shares it initially issued. We use the minimum price in the definition of market capitalization in this figure.

newspaper besides *Journal Officiel* or *Journal des tribunaux mixtes*, especially before 1911, when all company notices were consolidated in the Mixed Courts' official publications (Artunç and Guinnane 2019). It is also possible that defunct companies simply did not notify the authorities and publish notices of dissolution, but in these cases, the Ministry of Finance or the Mixed Courts announced these companies' dissolution themselves. Whatever the reason may be, we impute the year of these companies' dissolution from the *Statistique* and the *Egyptian Directory*, both of which report all companies alive at the end of each year.

Figure 2 shows the evolution of the number of incorporations and exits each year between 1890 and 1945 based on these data. Several observations emerge that support the historical narrative. First, the significant spike in new corporations between 1904 and 1907, and the subsequent crash—the jump in the number of exits—in 1908–09 demonstrate the economic and financial exuberance that gave way to the Panic of 1907. Entry only picked up again during the brief boom after World War I. Otherwise, authorization remained strict, incorporation numbers modest, and so entry rates relatively low, suggesting sluggish firm dynamics and muted creative destruction.

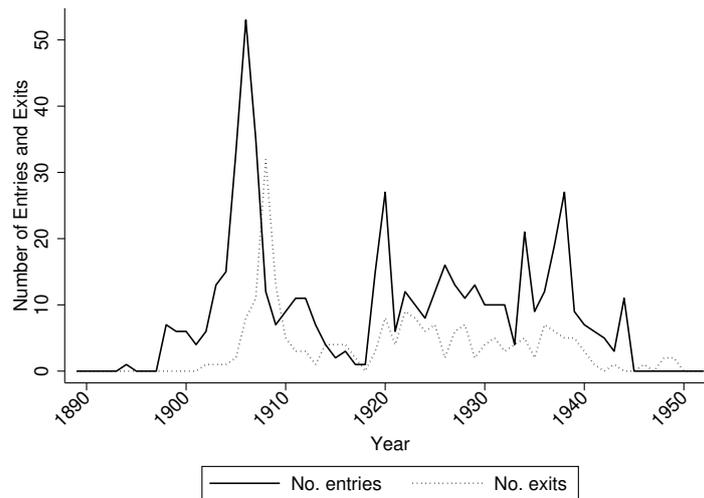


Figure 2: Yearly Number of Entrants and Exits in 1890–1952

### 3.2 Members of Parliament

We constructed a dataset that spans the universe of Egyptian Members of Parliament (MPs) from its inception in 1824 until 2020. For the purpose of this paper, we restrict the data to MPs during the parliamentary cycles from 1890 to 1952, which matches the period of the corporation dataset. We describe below the data sources, and the main variables in this dataset.

**Source** For the period before 1952, we employed a secondary (published) source in Arabic, *History of Parliamentary Life in Egypt since the Era of Muhammad Ali Pasha* compiled by Subhi (1947) from the primary lists of MPs at the Egyptian Parliament.<sup>12</sup> Volume 6, published in 1939, includes the list of MPs up to 1939. Subhi published an addendum in 1947 that includes the list of MPs from 1939 to 1947.

**Variables** The data on MPs has a wide range of variables including dates of parliamentary cycle, type of chamber (upper, lower, or single house), official name of chamber, full name of MP, occupation, whether the MP is elected or appointed, place of permanent residence or electoral constituency, the executive position that the MP held in parliament if any (e.g., president of parliament), whether the MP completed his mandate

<sup>12</sup>Subhi was the director of the House of Representatives' administration in 1939–1947, and hence he had access to the primary lists of MPs.

or not, and the reason for not completing the mandate (e.g., death, illness, resignation, promotion to governmental position, assassination, election results nullification).

The original dataset is at the level of MP, chamber, and parliamentary session. We constructed a unique identifier for each MP by matching MPs' names across chambers and parliamentary sessions.<sup>13</sup> We then created a unique dynasty identifier that traces the family name of each MP across MPs, chambers, and sessions.<sup>14</sup>

### 3.3 Measuring Corporation's Political Connections

**Matching MPs to founders** The charter data include full names and full titles of all founders as well as directors who served on the first board. The first board usually served for three to five years; beyond that, there does not seem to be much turnover in the board, at least in the first decade following the firm's establishment.<sup>15</sup> This is consistent with the fact that most corporations were closely held, so the founders were also the owners.

We matched MPs to founders using full names manually to minimize any measurement error arising from transliterating Arabic names in French in the charter data, and the potentially different spelling of the same name in the MPs' dataset. Our current matching methodology is conservative based on matching the full name, and hence we should think of our political connection measure as a lower bound.

We define a corporation "politically connected" in a given month if at least one of its founders served as an MP in that month. We also consider a broader form of political connection, defined as having at least one founder as an MP or as sharing a last name (so, in the same "dynasty") with a serving MP during the month. By construction, the dynasty-based measure of political connections nests the MP-based measure.

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<sup>13</sup>We removed titles from MPs' names (e.g., Sheikh, Pasha, Bey). We followed certain rules in creating the MP's identifier. First, an MP cannot be matched to two sessions that are more than 30 years apart. Second, an MP cannot be matched to another MP with an identical name in the same chamber and session. Third, an MP with a missing family name (i.e. having only one name) cannot be matched to any other MP.

<sup>14</sup>Egyptian names are series of first names along the paternal line: X son of Y son of Z son of L. Family name is the last name of an MP's full name excluding title(s), conditional on having at least two names.

<sup>15</sup>This observation is based on widely-held, publicly-traded corporations, which disclosed their directors' names in the *Egyptian Directory*. In closely-held companies, which make most of our data, founders likely served as directors even longer.

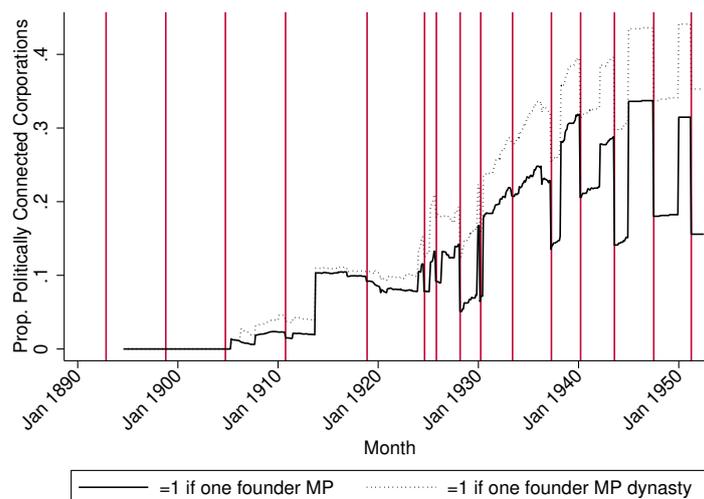


Figure 3: Proportion of Politically Connected Corporations in 1890–1952

There are two ways through which a firm can gain and lose political connections in a given month in our definition. If established without a connection, one of the founders can be elected or appointed into one of the chambers of the parliament during the election month of the following parliamentary session. Then the firm would gain political connection. If the firm is politically connected, it might lose its connection if the founder ceases to be an MP during the month of the following parliamentary session. Alternatively, a firm can lose its political connection *during* the parliamentary session if an MP does not complete his mandate for any reason. These reasons, which are listed in our MP database, include death, illness, appointment to a governmental position, nullification of election results, resignation, rejection of MP mandate, and dismissal.<sup>16</sup> Because we do not know the timing of the end of the MP’s term in case of non-completion of mandate, we assume that the MP’s term ends during the month that lies in the middle of the chamber’s parliamentary session (henceforth, mid-term).

Figure 3 shows the evolution of political connections in the corporate sector each month by plotting the proportion of connected corporations each month using both MP and dynasty definitions. The vertical lines indicate elections. The data reveal several

<sup>16</sup>In principle, the Law of 1947 severed the political connection of all incumbent corporations, by banning MPs from being board members. We prefer to keep our (founder-based) definition of political connections as is in the post-1947 period, instead of assigning a zero to all firms, because the enforcement of the 1947 law is an empirical question that need to be tested.

patterns about the close ties between corporations and political representatives. Before World War I, almost no corporations were politically connected, though there is some modest increase after 1907. Shortly after the outbreak of the war, political connections immediately became more widespread, precipitated by the entry of new corporations with MP founders. The share of connected corporations increased steadily after the mid-1920s, barring sharp but brief declines due to short election cycles. By 1945, about 30 percent of all corporate incumbents had a political connection.

The data support several observations regarding the process of incorporation and the value of adding MPs as founders, or having founders elected into office. Before the Panic of 1907, the authorization system of incorporation was largely symbolic. In this period, most charters were approved within a few weeks and incorporators must have found seeking political connections unproductive. The significant uptick in new corporations, shown in Figure 2, demonstrates just how easy setting up a corporation had become. After the Panic of 1907, the government revised its oversight over corporations and started tightening the authorization process. But barriers to incorporation became more severe pronounced only after World War I, which allowed the government to exercise more discretionary policy. Restrictions ramped up after Egypt gained formal independence in 1923, marking the beginning of a more nationalist agenda. As securing authorizations became more costly and political connections more valuable.

## 4 Empirical Analysis

### 4.1 Stock Market Returns

**Descriptive Regression** We examine the impact of political connections of corporations on stock market returns in two steps. We begin with estimating the following two-way fixed effects OLS regression at the level of corporation, security type, and month:

$$SMR_{scm} = \alpha_{sc} + \beta_m + \gamma_{connected}d_{cm} + X_{cm}\delta + \epsilon_{scm}$$

where  $SMR_{scm}$  denotes the minimum or maximum stock market return on security type

$s$  issued by corporation  $c$  in month  $m$ ,  $connected_{cm}$  is a dummy variable that takes the value 1 if at least one of the founders of the corporation is an MP. We also use an alternative broader measure that takes value 1 if at least one founder is an MP or belongs to an MP's dynasty. We control for  $\alpha_{sc}$ , a full set of corporation security type fixed effects, and  $\beta_m$ , a full set of month fixed effects. The error term is  $\varepsilon_{scm}$ . In an alternative specification, we control for the broader industry fixed effects.<sup>17</sup> Standard errors are clustered at the corporation level.

The vector  $X_{cm}$  includes two types of control variables. The first type is time-invariant controls which we are able to include only when we control for the broader industry fixed effects. These are the natural logarithm of initial capital, the natural logarithm of the initial market capitalization, and a dummy variable that indicates if the firm was incorporated under British law. The second type of control variables is time-variant which we are able to include even when we control for the corporation security type fixed effects. This includes the corporation's beta, which is calculated in each parliamentary cycle by regressing the corporation's monthly stock market returns on the average stock return in the Egyptian market during the cycle.

Table 1 shows the results of this regression. Contrary to the previous literature, we find a negative association between political connections and stock market returns. The coefficient on political connections is systematically negative across specifications, and is statistically significant when we control for corporation security type fixed effects. We obtain similar results when we use the dynasty-based measure of political connections.

The identification assumption of this regression is that the political connections of a given corporation change exogenously over time. This assumption may be violated though due to reverse causality. For example, MPs may choose to be founders of corporations that are highly valued in the stock market or firms with low productivity (and thus with lower market value) may add MPs as founders in order to get around the

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<sup>17</sup>Industries are classified according to the Egyptian Ministry of Finance's classification of corporations. We employ the following industries: (1) Finance, (2) Land, (3) Transport, (4) Water Public Works, (5) Ginning, Pressing, Refinery, (6) Construction, (7) Food Processing, (8) Other Manufacturing, (9) Commerce, (10) Hotels, (11) Mining, and (12) Other. We are currently re-classifying corporations according to the North American Industry Classification System (NAICS).

costly authorization process. Alternatively, it may be violated due to omitted variables that are driving both political connections and corporations' market values. We thus think of this regression as descriptive, probably reflecting the sum of the selection of MPs across corporations as well as the causal effect of political connections on corporation's market value. Hence, we now turn to the causal evidence.

Table 1: Political Connections of Corporations and Stock Market Returns

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Min	Max	Min	Max	Min	Max	Min	Max
=1 if at least one founder MP	-0.00 (0.00)	-0.00 (0.00)	-0.01 (0.00)**	-0.02 (0.00)***				
=1 if at least one founder MP dynasty					-0.00 (0.00)	-0.00 (0.00)	-0.01 (0.00)	-0.01 (0.01)
Time-invariant controls	Yes	Yes	No	No	Yes	Yes	No	No
Time-variant controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	No	Yes	Yes	No	No
Corporation-Security FE	No	No	Yes	Yes	No	No	Yes	Yes
Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	9901	9904	9901	9904	9901	9904	9901	9904
Clusters (Corporations)	37	37	37	37	37	37	37	37
$R^2$	0.07	0.06	0.07	0.06	0.07	0.06	0.07	0.06
Mean dep. var.	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Notes: The sample is at the level of corporation, security type, and month. Time-invariant controls are  $\log(\text{initial capital})$ ,  $\log(\text{initial market capitalization})$ , and =1 if British corporation. Time-variant control is corporation's beta in each parliamentary cycle. Standard errors are clustered at the corporation level. \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

**Causal Inference: MPs' Non-Completion of Mandate** In order to identify the causal effect of political connections on corporation's market value, we first exploit an arguably exogenous variation in political connections of corporations. Specifically, we take advantage of the fact that some MPs did not complete their full term for various reasons, two of which are plausibly exogenous: death and illness. Armed with these turning points, we restrict our data on each corporation and security type to 3, 6, 9, or 12 months both before and after the mid-term of each parliamentary cycle.<sup>18</sup> We define our treatment group as corporations that had at least one MP among its founders during the months that preceded the mid-term of the parliamentary cycle, but that then lost

<sup>18</sup>Recall that we assume that MPs who do not complete their mandate end their term in the middle of the parliamentary cycle.

a number of its founder-MPs in the mid-term due to death or illness. We restrict the analysis to the treated and control corporations: We define our control group as corporations that had at least one MP among its founders during the months that preceded the mid-term but did not witness a loss of MPs. We then estimate the following OLS regression separately for the 3-months, 6-months, 9-months, and 12-months windows:

$$SMR_{scmp} = \alpha_{sc} + \beta_p + \gamma(MPloss_c \times PostMidTerm_m) + \delta PostMidTerm_m + \epsilon_{scmp}$$

where  $SMR_{scmp}$  is the minimum and maximum stock market return of security type  $s$  of corporation  $c$  in month  $m$  in parliamentary cycle  $p$ . The regressor  $PostMidTerm_m$  is a dummy variable that equals 1 for the 3, 6, 9, or 12 months that follow the mid-term of the parliamentary cycle. The variable  $MPloss_c$  is the number of founder-MPs who did not complete their parliamentary mandate due to death or illness. This variable is equal to 0 for corporations in the control group, i.e. politically connected corporations that did not witness any loss in the number of their founder-MPs. We control for the full set of corporation security type fixed effects and for parliamentary cycle fixed effects. Standard errors are clustered at the corporation level.

The main regressor is the interaction term of  $MPloss_c$  and  $PostMidTerm_m$ .<sup>19</sup> This regressor captures the marginal effect of a founder-MP's non-completion of parliamentary term on the the corresponding corporation's stock market return. It compares the stock market returns before and after the mid-term of the parliamentary cycle across politically connected corporations that witnessed various losses of their founder-MPs.

The results are shown in Table 2. The findings reveal that a loss of a founder-MP temporarily reduces the stock market returns of the corporation during the first six months that follow the mid-term. However, the stock market returns of the corporation rebounds after these six months. This suggests that the loss of political connections has a temporary negative effect on the market value of the corporation.

**Causal Inference: The 1919 Revolution** Second, we exploit the fact that the 1919 revolution erupted against the British Occupation during the period of our study of stock

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<sup>19</sup>Notice that we cannot include the baseline variable  $MPloss_c$  in the regression because it is absorbed in the corporation security type fixed effects.

Table 2: Political Connections of Corporations and Stock Market Returns: MP's  
Non-Completion of Mandate for Exogenous Reasons

	3 Months		6 Months		9 Months		12 Months	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Min	Max	Min	Max	Min	Max	Min	Max
N. MPs lost in mid-term $\times$ after mid-term	-0.25	-0.13	-0.20	0.09	0.21	0.41	0.20	0.25
	(0.13)*	(0.13)	(0.08)**	(0.23)	(0.14)	(0.08)***	(0.11)	(0.10)**
=1 if after mid-term	-0.00	-0.00	-0.01	-0.00	-0.00	-0.00	-0.01	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)
Corporation-Security FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Parliament Cycle FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	193	193	356	356	469	469	571	571
Clusters (Corporations)	9	9	9	9	9	9	9	9
$R^2$	0.08	0.07	0.15	0.13	0.08	0.09	0.06	0.07
Mean dep. var.	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Notes: The sample is restricted to the (3, 6, 9, or 12) months before and after the mid-term of the parliamentary cycles in which at least one corporation lost an MP-founder who did not complete his parliamentary mandate due to death or illness. The mid-terms that satisfy this criterion occur during the following months: October 1910, August 1924, October 1925, and March 1928. The sample is further restricted to corporations that had at least one founder-MP during the parliamentary cycle, and that either lost a number of its founder-MPs (treatment) or remained without change (control). Standard errors are clustered at the corporation level. \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

market returns. The 1919 revolution started in March 1919 and led to a change in the political class, as the leaders of the 1919 revolution began, and the Wafd party, came to dominate Egyptian politics in the interwar period, despite strong counterrevolutionary opposition from the King and his political loyalist parties. The uprising resulted in the British declaration of Egypt's (nominal) independence in February 1922, officially turning Egypt into an independent kingdom, the first Egyptian constitution in 1923. The rise of the new political class was manifested in the first revolutionary parliament in the aftermath of the 1919 revolution, the 1924 parliament. We thus compare the evolution before and after the 1919 revolution of stock market returns between the (eventually) politically corporations that had at least one MP among their founders in 1924, and the (eventually) unconnected corporations that did not have any MP among their founders in 1924. The rationale behind using the 1924 parliament to define the political connections post-1919 is that the 1924 parliament arguably represents the 1919 revolutionary powers more than the incumbent parliament in 1913–1923. We thus estimate the following difference-in-differences model:

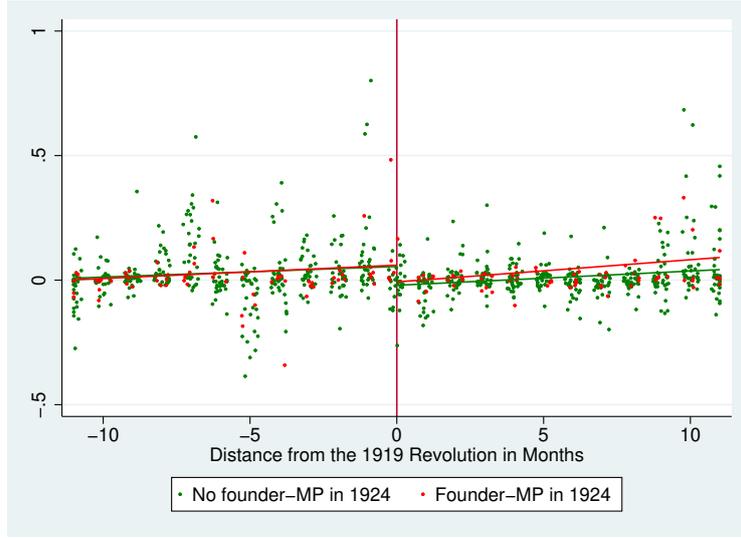


Figure 4: Stock Market Returns before and after the 1919 Revolution by Political Connection Status in 1924

$$SMR_{scm} = \alpha_{sc} + \beta_m + \gamma_{connected1924_c} \times post1919_m + \varepsilon_{scm}$$

where  $connected1924_c = 1$  if at least one founder of corporation  $c$  is an MP in the 1924 parliament,  $post1919_m = 1$  for the months that follow March 1919, the date of eruption of the 1919 revolution. We restrict the analysis to 3, 6, 9, and 12 months before and after March 1919.

Figure 4 shows the evolution of the minimum stock market returns before and after March 1919 among politically connected and unconnected corporations in 1924. The figure reveals that both types of corporations were on parallel trends during the months leading to the 1919 revolution. The uprising led to drop in stock market returns, but corporations who had among their founders members of the new revolutionary elite (as of 1924) witnessed a larger growth of their stock market returns. Table 3 confirms these results, for the maximum, not the minimum stock returns.

## 4.2 Entry

**Industry-Year Level Analysis** Next, we investigate the impact of political connections on corporation entry. We address two questions. First, we document whether

Table 3: Political Connections of Corporations and Stock Market Returns: The 1919 Revolution and the 1924 Parliament

	3 Months		6 Months		9 Months		12 Months	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Min	Max	Min	Max	Min	Max	Min	Max
Founder-MP in 1924 $\times$ Post-1919	-0.00 (0.04)	0.12 (0.06)*	0.03 (0.02)	0.07 (0.03)**	0.00 (0.04)	0.03 (0.02)*	0.02 (0.04)	0.05 (0.02)**
Corporation-Security FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	205	205	446	448	689	691	931	933
Clusters (Corporations)	24	24	24	24	24	24	24	24
$R^2$	0.26	0.39	0.17	0.20	0.08	0.19	0.08	0.17
Mean dep. var.	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Notes: The sample is restricted to the (3, 6, 9, or 12) months before and after the 1919 revolution. Politically connected corporations are those that have at least one MP in the first revolutionary parliament in 1924. Standard errors are clustered at the corporation level. \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

more politically connected industries have fewer entries every year. Second, we examine whether politically connected corporations have lower delay between the time of signing the corporation contract and the decree.

To examine the first question, we estimate the following descriptive two-way fixed effects OLS regression at the industry-year level:

$$n_{entrants_{dy}} = \alpha_d + \beta_y + \gamma propconnected_{dy} + \varepsilon_{dy}$$

where  $n_{entrants_{dy}}$  is the number of new corporations in industry  $d$  in year  $y$ ,  $\alpha_d$  and  $\beta_y$  are full sets of industry and year fixed effects, respectively. The main regressor is  $propconnected_{dy}$ , the proportion of incumbent corporations that are politically connected, i.e. have at least one founder as MP in the preceding year. Standard errors are clustered at the industry level.

We then analyze the extent of political connections among entrants; that is, conditional on entry, do more politically connected industries have more politically connected entrants? To do so, we re-estimate the above equation with the dependent variable being the proportion of politically connected entrants in the industry.

The results are shown in Table 4. We document in column (1) that industries with

higher proportions of politically connected incumbents have fewer entrants, but the effect disappears when we control for year fixed effects in column (2). Column (3) shows that conditional on entry, more politically connected industries have more politically connected entrants, although the effect again disappears when we control for year fixed effects. This suggests that politically connected incumbents block entry and that entrants into these industries are more politically connected. However, this correlation may be driven by global economic shocks. To address this concern, we are currently constructing a finer grained industry classification that will enable us to disentangle the effect of political connections of incumbents at the industry level from aggregate economic shocks that affect all industries.

Table 4: Political Connections of Corporations and Entry: Industry-Year Level

	N. Entrants		Prop. Connected Entrants	
	(1)	(2)	(3)	(4)
Prop. connected incumbents	-1.10 (0.51)*	0.29 (0.61)	1.12 (0.23)***	0.03 (0.13)
Industry FE	Yes	Yes	Yes	Yes
Year FE	No	Yes	No	Yes
Obs (Industry-Year)	631	631	229	229
Clusters (Industries)	12	12	12	12
$R^2$	0.16	0.38	0.23	0.48
Mean dep. var.	0.72	0.72	0.19	0.19

Notes: The sample is at the industry-year level. Industries are (1) Finance, (2) Land, (3) Transport, (4) Water Public Works, (5) Ginning, Pressing, Refinery, (6) Construction, (7) Food Processing, (8) Other Manufacturing, (9) Commerce, (10) Hotels, (11) Mining, and (12) Other. Columns (3) and (4) are restricted to industries and years in which there is at least one new corporation. Standard errors are clustered at the industry level. \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

**Delay of Authorization** The second question is the effect of political connections of corporations on the delay between formally signing the equity contract and filing the company statutes, and the issuance of the decree that authorizes incorporation. We analyze this question by estimating the following cross-sectional OLS regression on the universe of Egyptian corporations:

$$delay_{cd} = \alpha_d + \gamma connected_c + X_c \delta + \varepsilon_{cd}$$

where  $delay_{cd}$  is the duration between signing the contract and the decree authorization in months of corporation  $c$  in industry  $d$ ,  $\alpha_d$  is a full set of industry fixed effects,  $X_c$  is a vector of controls, which includes the logarithm of initial capital and a full set of contract month fixed effects that capture aggregate shocks to delay of authorization. Standard errors are White-Huber heteroskedasticity robust.

The main regressor is  $connected_c$  which is a dummy variable that equals 1 if a corporation has at least one MP among its founders during the month of contract, and equals 0 if a corporation does not have any founder-MP throughout its life cycle. Column (1) of Table 5 shows that politically connected corporations during the month of contract witness a significantly shorter delay between the contract and decree by around 3 months on average, which is a large magnitude compared to the average delay (=3.66 months).

To provide further evidence on whether the negative correlation between political connections and authorization delay is indeed attributable to a causal effect of having a political connection at the time of the contract, we conduct two placebo tests. First, we redefine the control group to include only corporations that did not have any MP among their founders during the month of contract, but gained at least one founder-MP after the decree was issued. The results of this placebo test are shown in column (2). We document that politically connected corporations at the time of contracting still witnessed a significantly gap between filing and decree relative to politically connected corporations that gained their connection only after the decree.

The second placebo test redefines the treatment group. Now, we compare the delay of authorization across corporations that did not have any MP among their founders during the month of contract, but gained at least one founder-MP between contracting and receiving the decree, to corporations that did not have any founder-MP throughout their lifetime. Column (3) shows that the coefficient on political connections turns positive and is statistically significant. Overall, both placebo tests suggest that having an MP among the founders during the month of contract, but not afterwards, significantly reduces the delay in authorization.

Table 5: Political Connections of Corporations and Delay between Contract and Decree

	(1)	(2)	(3)
=1 if at least one founder MP at contract	-3.03 (1.04) <sup>***</sup>	-4.34 (2.27) <sup>*</sup>	
=1 if at least one founder MP only between contract and decree			4.76 (0.87) <sup>***</sup>
Industry FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes
Contract date FE	Yes	Yes	Yes
Obs (Corporations)	535	112	435
$R^2$	0.82	0.90	0.90
Mean dep. var.	3.66	3.66	3.66

Notes: Sample is restricted to Egyptian corporations. The dependent variable is the delay between signing the contract and the issuance of the decree in months. The regressions are at the corporation level. Column (1) is restricted to corporations that have at least one founder-MP during the month of the contract and those that did not have any founder-MP throughout their life cycle. Column (2) is restricted to corporations that have at least one founder-MP during the month of contract and those that did not have any founder-MP during the month of contract and gained at least one founder-MP after the issuance of the decree. Column (3) is restricted to corporations that do not have any founder-MP throughout their life cycle and those that do not have a founder-MP during the month of contract but gained at least one founder-MP between signing the contract and the decree. White-Huber heteroskedasticity robust standard errors are in parentheses. Controls are the logarithm of initial capital. Industry fixed effects are (1) Finance, (2) Land, (3) Transport, (4) Water Public Works, (5) Ginning, Pressing, Refinery, (6) Construction, (7) Food Processing, (8) Other Manufacturing, (9) Commerce, (10) Hotels, (11) Mining, and (12) Other.  $*p < 0.10$ ,  $**p < 0.05$ ,  $***p < 0.01$ .

### 4.3 Exit

Finally, we turn to firm survival. If political connections are effective in staving off competitive pressure from entrants, we should expect politically connected firms to face less exit risk and so be more persistent.

Our survival analysis requires dates of incorporation and dissolution. Our data span corporate businesses from January 1, 1890 to December 31, 1950, when all firm histories are censored. Many corporations dissolved after December 31, 1950, but we do not know the exact date. Some businesses incorporated only a few years before the censoring date. Furthermore, while we know some corporations' year of dissolution, we do not observe the exact date at which some their general meeting approved liquidation. We resolve the question of corporations that exited after our period of interest by applying a consistent censoring strategy: 10-year and 20-year spans. In the 10-year span, we only

corporations that can be potentially observed for at least 10 years; we remove all corporations that were established on January 1, 1941 or later. We then estimate survival over 10 years. In the 20-year span, we remove all corporations that were established on January 1, 1931 or later, to compare survival between firms over 20 years.<sup>20</sup> We will contend with the second problem of unknown exit dates within our period by running two sets of analyses in a future iteration of this paper: continuous-time survival on a restricted sample that removes corporations with unknown dates, and a discrete-time survival on our entire sample (subject to consistent censoring) where the unit of time analysis is one year.

Our survival and hazard estimations also apply a time-invariant definition of political connections. We compare corporations that had at least one political connection in its lifetime with corporations that were never connected. Adopting a time-invariant definition here is necessary for estimating Kaplan-Meier survival functions. In a hazards model like Cox, we can use time-variant connections, but this will also create noise. Elections were far too frequent, repeating almost every two years between 1924 and 1945. But corporations, by construction, have long lives; losing a political connection would not likely raise exit risk in a way that can push a significant swath of businesses into bankruptcy within two years, after which these companies can regain their political connections.

We start by using the Kaplan-Meier estimator to estimate the survival functions of connected and unconnected corporations without making parametric assumptions and using the information from firm histories alone. At the outset, we find large disparities in the survival probabilities. Figure 5 demonstrates this evidence by plotting Kaplan-Meier survival estimates over 10-year and 20-year windows. 90 percent of connected corporations survived their first ten years; in comparison, only 60 percent of unconnected corporation reached age 10. The gap became wider over a longer time span. Almost 50 percent of corporation with no connections died before 20 years, whereas political corporations had a survival rate of 85 percent in the same period. We expect to

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<sup>20</sup>Although Cox regressions can deal with “incomplete follow-up,” we still need to restrict our survival window to fixed spans since businesses in our data also enter at different points in time. This would make, say 50-year survival to be driven by a handful of companies founded in 1900.

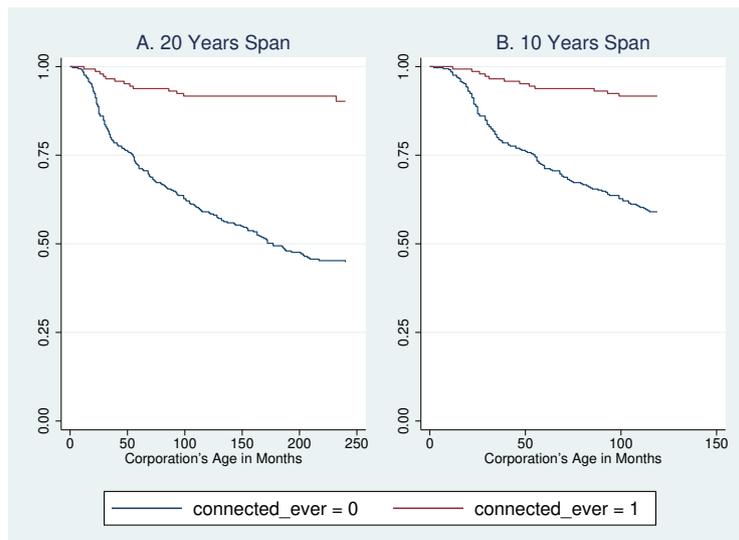


Figure 5: Political Connections of Corporations and Exit: Kaplan-Meier Survival Function

see the same effects in our discrete survival estimates.

We dig deeper into the effectiveness of political connections by estimating a Cox proportional-hazards model over 10-year and 20-year windows. This approach has the advantage of introducing controls to disentangle selection effects especially due to size, at the cost of assuming constant hazard ratios between connected and unconnected corporations over time. The variable of interest is a dummy that indicates whether a corporation was ever connected in its lifetime. Table 6 reports the hazard-ratio estimates for political connections. If the hazard-ratio estimate is greater than 1, then being politically connected is association with a greater exit hazard (risk) and thus, shorter survival. If it is less than 1, then connected corporations have lower hazard, and so longer survival, relative to unconnected corporations. Our estimations also add controls for firm capital, British-law dummy, industry fixed effects (columns 2 and 5), as well as chamber-session (i.e. cycle) fixed effects (columns 3 and 6). Our estimates reveal that connected corporations enjoyed 0.18 times the hazard of exit that unconnected corporations did. In other words, political connections were associated with a 82-percent lower exit risk relative to unconnected firms. Adding controls makes these gaps somewhat smaller, suggesting there is selection along capital and industry choices, but the magnitude remains substantial and statistically significant. Political firms had 52 to 69

percent lower dissolution risk than unconnected firms. We expect to see similar results in our estimations of proportional-hazards in discrete time.

Table 6: Political Connections of Corporations and Exit: Cox Proportional-Hazards Model

	20 years span			10 years span		
	(1) Hazard Ratio	(2) Hazard Ratio	(3) Hazard Ratio	(4) Hazard Ratio	(5) Hazard Ratio	(6) Hazard Ratio
=1 if has at least one founder MP in any month	0.18 (0.06)***	0.30 (0.11)***	0.31 (0.12)***	0.18 (0.05)***	0.37 (0.12)***	0.48 (0.17)**
Time-invariant controls	No	Yes	Yes	No	Yes	Yes
Industry FE	No	Yes	Yes	No	Yes	Yes
Cycle FE	No	No	Yes	No	No	Yes
N (Corporation-Month)	51877	51877	51877	43987	43987	43987
N Subjects	340	340	340	457	457	457
N Failures	181	181	181	147	147	147
Pseudo $R^2$	0.02	0.07	0.09	0.03	0.09	0.11
Log-likelihood	-972.35	-921.32	-908.68	-848.07	-799.02	-777.46

Notes: The regressions are at the corporation-month level. Table reports the hazard ratios. Columns (1)–(3) are restricted to a period of 20 years span after the month of entry, whereas columns (4)–(6) are restricted to a period of 10 years span after the month of entry. White-Huber heteroskedasticity robust standard errors are in parentheses. \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$ .

## 5 Conclusion

Close relationships between political actors and corporate entities have important implications on business outcomes. In this paper, we have provided evidence from Egypt’s colonial and monarchical periods, covering a rich and turbulent political and economic history. We assembled novel, finely-grained datasets on corporations and members of parliament to reveal the impact of political connections on corporations and the industries in which these firms operated. Political connections were not exceptions. 20 to 30 percent of corporate incumbents were politically connected from the 1920s to 1950. We show that these connections benefit corporations in significant ways. MP-founders added to firm value and significantly improved the firm’s survival. The fact that connected corporations were more successful in these dimensions were not due to higher productivity. If anything, firms were negatively selected into establish-

ing connections. Incorporation involved a long and costly screening process. Having political connections allowed incorporators to obtain authorization much more easily. In an environment with ex ante heterogeneous firms, lower entry costs due to connections selected corporation from the lower tail of the productive distribution. This is why connected firms had lower market value on average, but losing connections hurt market value even more. The success of political corporation were due to the distortionary benefits connections granted: industries with a higher proportion of connected firms also had higher entry costs overall, and subsequent entrants were more also more likely to be connected. Other companies had to invest in political connections themselves in order to compete with connected corporations.

Political connections had severe economic costs. It distorted the competitive forces of creative destruction, gave market power to connected corporations, led to a misallocation of resources by directing capital to negatively-selected businesses and inducing other potential entrants to invest in setting up their own connections to out-compete politically connected incumbents instead of investing in more productive aspects of the business. However, one might argue, in the presence of a costly authorization system, it might have improved aggregate productivity by lowering an inefficiently high bar, allowing more firms to incorporate and take advantage of the corporate form to pool capital and set up large-scale establishments. Future work on the political connections of businesses in historical development will need to take into account these effect to evaluate the full impact on welfare.

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