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**The Power of Connections: Colonialism,
Nationalism, and Corporate Performance
in Egypt, 1890 - 1950**

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Abstract

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JEL Classification: F54, G38, N45

Keywords: Political Connections, Colonialism, Firm Dynamics, Nationalism

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June 28, 2022

Abstract

The impact of political connections on firm performance has been widely studied. It is less known though whether this effect varies under the colonial and post-independence eras. Inspired by a nationalist agenda aiming at establishing an indigenous business elite, post-independence regimes often used connections with the emerging national private sector to counter the influence of established larger colonial-era foreign corporations. Using novel fine-grained data covering the universe of corporations, founders, and members of parliament and cabinet in colonial (1890–1923) and post-independence Egypt (1924–1950), we demonstrate that connections to the Egyptian political class lowered firm value before independence but increased it afterwards. Connections became lucrative after independence because they lowered entry rates in the industry, expedited the state authorization of incorporation, and reduced the exit risk even after losses.

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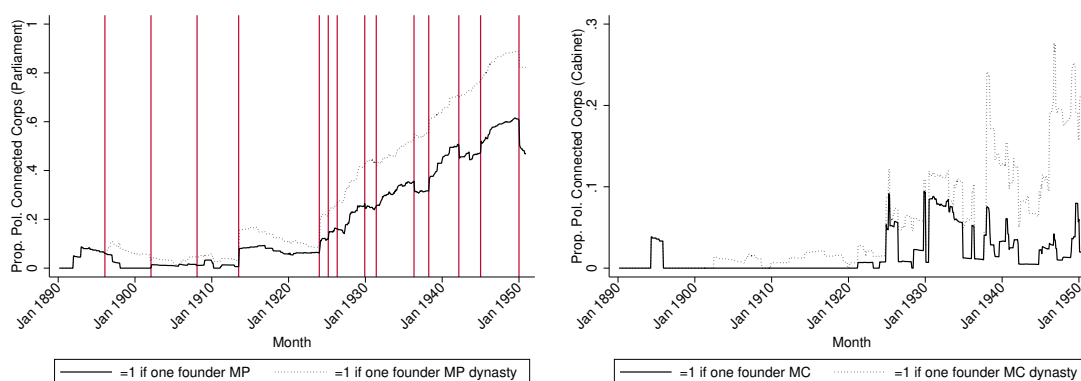
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Businesses can secure significant benefits from cultivating close ties with politicians. Connected firms might enjoy preferential access to government contracts, receive subsidies or tax exemptions, bypass red tape, or even create barriers to entry on potential competitors (Fisman 2001, Faccio 2006, Goldman, Rocholl and So 2009, Cingano and Pinotti 2013, Akey 2015, Acemoglu et al. 2016). But widespread connections can impose serious social costs by causing misallocation of resources (Johnson and Mitton 2003, Khwaja and Mian 2005) or by muting firm dynamism and creative destruction, thereby reducing productivity growth (Akcigit, Baslandze and Lotti 2018).

Despite the existence of a rich literature that investigates the economic implications of connections, whether the value of political connections varies under the colonial and postcolonial eras is less known. This question is crucial from a historical development perspective. In many late industrializers with colonial histories, politics and industrialization became intertwined after independence. Under colonial rule, the indigenous political institutions did not have much power, and the corporate sector was largely dominated by Europeans. Hence, it is not obvious whether establishing connections to the local political class would benefit firms. After independence, governments attempted to foster a “national” business elite that could simultaneously drive long-run growth and counter the influence of the older colonial-era firms. This often led governments to restrict access to the corporate form, and ramp their involvement in private corporations, leading to a surge in connections between firms and national politicians. The interlock between private firms and the state was also common among the late industrializers in Continental Europe, who faced similar challenges although they were not subject to the colonial experience.

We revisit this question in the context of Egypt between 1890 and 1950, which provide a compelling setting to investigate how the benefits of connections differed under colonialism and independence. First, Egypt experienced major political regime changes during this period. The British occupied the country from 1882 until 1922. Following the 1919 revolution, Britain recognized Egypt’s formal independence in 1922, while partially retaining de facto power. A new semi-parliamentary constitution was issued in 1923, and consequently the Egyptian parliament gained more power relative to the



(a) Founder-Members of Parliament

(b) Founder-Members of Cabinet

Figure 1: Proportion of Politically Connected Corporations in 1890–1950

Notes: Panel (a) shows the monthly proportion of corporations that have at least one founder who is a serving MP, or who belongs to the dynasty of a serving MP, during the month. Panel (b) shows the monthly proportion of corporations that have at least one founder who is a serving MC, or who belongs to the dynasty of a serving MC, during the month. The vertical lines in panel (a) indicate the general parliamentary election dates of the upper house in 1890–1913 (which are very close to those of the lower house), the unicameral house in 1913–1924, and the lower house in 1924–1950.

monarch until the 1952 military coup. Second, throughout the post-independence period until 1952, the Egyptian government did not nationalize private firms. Instead, it restricted incorporation and promoted a “national” private sector. Likely as a result of this state policy, the proportion of politically connected firms grew substantially after independence (Figure 1). Third, despite being a late industrializer, Egypt had an open and vibrant stock market throughout this period, with one of the non-Western world’s oldest stock markets in Alexandria (Tignor 1984).¹ Finally, like other historical settings, political connections were overt. Members of parliament or cabinet routinely served as members on a corporation’s board. Hence, we are able to directly observe the political connections of firms.²

To address this question, we hand-collected a novel, fine-grained dataset that spans

¹Egypt’s stock market capitalization to GDP was 0.40 and 0.44 in 1900 and 1913, respectively, after removing state debt. This is above the average of French civil law countries (0.32–0.37), higher than other countries in the periphery (0.02–0.03 for India, 0.14–0.17 for Italy), and not much lower than the ratio for France, 0.52–0.54 (Musacchio 2010, p. 58). Other estimates in the literature report similar figures (La Porta, Lopez-de Silanes and Shleifer 2008).

²Even in the industrialized economies of the late 19th century, there were no serious statutory restrictions on company directorates, or the internal governance of corporations, more generally (Turner 2018, Guinnane, Harris and Lamoreaux 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).

the universe of corporations and Egyptian politicians from 1890 to 1950. This dataset adds richness to previous studies. We cover a long period—six decades—which is unusual in this literature, allowing us to examine whether the effect of connections varies across the colonial and independence eras. We also observe both publicly traded and privately held corporations. Much of the previous literature focuses on the value of firm stock, and thus restricts the analysis to listed companies. The addition of private firms matters since most corporations are private and they can have systematically different financial outcomes and investment behavior than listed companies.³ We are also the first to measure the impact of connections on the time it takes to legally incorporate and the time to start operations.

Our empirical analysis relies on merging several new datasets: firm-level data on monthly security prices, annual dividends, and entry/exit; individual-level data on corporation founders; and individual-level monthly data on members of parliament (MPs), and members of cabinet (MCs). Our main regressor is whether a corporation is politically connected. We define a firm as connected to an MP during period t if at least one of its founders served in parliament during that period, provided that there is no MC among the founders at the same time. Similarly, we define a firm as politically connected to an MC during period t if at least one of its founders served in cabinet during that period.⁴ We alternatively measure connections to political dynasties by asking whether at least one founder belonged to the dynasty of a serving MP or MC. By construction, this nests our individual-level connection indicator. Although we observe founders and not directors, founders served as directors for at least 10 years in publicly listed firms, and even longer in privately held ones. We thus restrict our political connection measures to 20 years following entry.

Our connections measure is time-variant due to founders' entry into and exit out of politics. This allows us to identify the causal impact of connections on firm value.

³See, for example, [Asker, Farre-Mensa and Ljungqvist \(2015\)](#), who show that publicly traded corporations invest less and are less responsive to changes in investment opportunities compared to private firms with similar observable characteristics. That most corporations are not listed in the stock market is not an exclusively historical regularity, or an Egyptian peculiarity. In the latest available data on U.S. businesses, privately held corporations accounted for 77 percent of all corporations. Only for the largest firms, with more than 500 employees, public corporations become more dominant, accounting for 62 percent of all corporations (U.S. Census Bureau, 2018 USBS Annual Data).

⁴MCs were also MPs by law. Hence, we do not observe non-MP MCs.

We first use a two-way fixed effects model that controls for time-invariant firm heterogeneity and aggregate monthly shocks to market value. We then take advantage of MP-founder deaths in office by comparing connected corporations that lost one MP-founder to connected corporations that did not. Third, we conduct two event studies that compare monthly stock market returns of unconnected corporations that gained connections in the 1913 and 1924 elections to those that remained unconnected. These elections had special significance: The 1913 election was the last one under colonial rule; the 1924 the first after independence.

Our empirical evidence shows that connections to the Egyptian political class raised firm value and the likelihood of paying dividends after independence, but reduced it during the colonial period. We explore various mechanisms. First, we show that industries with a higher concentration of politically connected incumbents had lower entry rates after independence. Second, we document that connected companies enjoyed faster authorization relative to unconnected firms only after independence, but not before. Third, we find that connected corporations faced much less exit risk than unconnected firms. These results demonstrate that connections shielded firms from competitive pressures. Finally, we interpret the negative effect of connections on firm value under colonialism by the attachment of the MP-founders to the rising nationalist anticolonial movement—that resulted in the 1919 revolution—which may have sent negative signals to the investors.

The question of political connections has special significance in historical development. Restricting access to the corporate form could have negative consequences for growth ([Gregg 2020](#)), especially in the Middle East ([Kuran 2011](#)). But whether political connections raised firm value are 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 late Victorian Britain, firms in new technology industries enjoyed a boost in their share prices after a director's into Parliament; the value of old technology firms remained unaffected by their directors' electoral success ([Braggion and Moore 2013](#)). In Weimar Republic, connections had no impact on firm value despite the conventional view at the time ([Lehmann-Hasemeyer and Opitz 2019](#)). [Okazaki](#)

and Sawada (2017) show that, in prewar Japan, connections raised firm value only in unregulated industries, the opposite of what we observe in modern settings. Our paper goes beyond this literature by observing both publicly and closely held firms over a longer period of time, allowing us to examine key implications for historical development in colonial and post-independence contexts. Our finding that connections reduced firm value under colonialism is novel.

Our results also highlight the significance of connections in different political configurations. Connections can raise firm value even in semi-authoritarian regimes with weak parliaments, where MPs could lend a “reputation boost” to their firms (Truex 2014). In semi-authoritarian settings, connections between could be explicit tools for legitimacy and co-optation. In Egypt, the monarch retained considerable, but not absolute, power after independence.⁵ Royalists, British loyalists, and the liberal nationalist movement (represented by Wafd) could co-opt different factions in the electorate by distributing political seats to corporation founders, or by lowering the barriers to incorporation that founders faced. The proportion of firms with connections fell after a Wafd electoral victory and soared following royalist victories. So, the benefits of having MP-founders became policy tools that the authoritarian coalition could muster to ensure its survival. While our paper stresses the impact of connections on firm outcomes, the historical context supports theories of authoritarian politics and how parliaments can function as institutions of co-optation and power-sharing (Boix and Svolik 2013, Svolik 2009, 2012, Bueno de Mesquita et al. 2003, Gandhi 2008, Morrow et al. 2008).

The paper proceeds as follows. Section 1 summarizes Egypt’s political and business history. Section 2 describes our datasets on the universe of corporations and political actors. Section 3 establishes our main empirical results on stock market returns and dividends, as well as the mechanisms of entry and exit dynamics. Section 4 concludes.

1 Historical Background

For much of the nineteenth century, Egypt was an autonomous vassal of the Ottoman Empire. Egyptian rulers at this time pursued ambitious development agendas,

⁵Egypt’s Polity IV score between 1923 and 1950 ranged from -6 to 4, where -10 describes an autocracy and 10 a full democracy. The Polity IV index is published by the Center for Systemic Peace.

transforming the country from a traditional agricultural economy to an export economy based on cotton production (Owen 1981, Tignor 1984). Egypt became a center of European economic activity, receiving significant European migration, capital, and business.⁶ The government also promulgated new court systems (1875 and 1881) that applied a new commercial code, itself a close transplant of the recently updated French code. These reforms formally 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 an authorization system, which mandated all companies to acquire an executive decree (Artunç and Guinnane 2019). At first, this was a formality. The government did not have much discretion during the British occupation and approved all companies usually within a few weeks.⁷

Given the precariousness of its nebulous political independence, the heavy export orientation of the economy, and its strategic position due to the Suez Canal, the Egyptian government had low bargaining power relative to its European creditors. After the bankruptcy of 1876, Egypt faced harsh terms. When a popular nationalist revolt challenged this increasing European influence, the British occupied Egypt in 1882. Egypt remained a British colony for nearly four decades. Until 1914, it was nominally a part of Ottoman Empire but, in fact, it was under total British control. With the outbreak of World War I, the British declared Egypt a British protectorate under a nominally-independent Sultan. The British did not interfere with the legal system, which was popular among Europeans. But the Egyptian government itself had little legislative or regulatory power. The authorization of corporations remained a rubber stamp, which led to the formation of many corporations during the 1904–06 boom (Artunç 2021).

The 1919 revolution against the British led to Britain's unilateral declaration of Egypt's independence in February 1922, followed by the promulgation of the first constitution in 1923. Egypt formally became an independent constitutional monarchy with

⁶The 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. See Egypt, *The Census of Egypt Taken in 1907*.

⁷House 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.

a semi-parliamentary system. Unlike full parliamentary systems, the monarch retained significant political power. However, the British continued to control the Suez Canal and still had extensive influence. Corresponding to these events, Egypt's parliament, which had existed since 1824, went through four main phases: the precolonial unicameral phase (1824–82), the colonial bicameral phase (1883–1913), the protectorate unicameral phase (1913–23), and the post-independence bicameral phase (1924–52). MPs were mostly elected, but a minority of MPs were appointed by the monarch. From 1883 to 1936, elections were held in two stages, where the general (male) population elected delegates in the first stage who then elected the MPs in the second stage, via a majoritarian electoral system in each constituency. After 1936, elections became direct.

As Egypt gained its formal independence, the state's discretionary power expanded. The conflict between the nationalist liberal Wafd party and the monarchy became central to the politics of this period. Wafd led the 1919 revolution and continued to win the majority of parliamentary seats in fair elections. The monarchy, relying on a number of royalist parties and large landowners, was decidedly more authoritarian, interfering in elections to maintain power. The British mainly backed the monarchy and the royalists. At the same time, the state became more involved in corporations. Businesspeople ran for office and joined the parliament. Political representatives joined the ranks of founders to establish new corporations. The authorization system of incorporation became a policy tool, which the government used to control who could form corporations. The state also adopted nationalist economic policies, which both political factions endorsed. In 1923, the government enacted an order that mandated each corporation to have at least two Egyptian nationals as directors. In 1927, another order imposed nationality quotas on hiring and equity ownership. The Company Law of 1947 raised both of these requirements. The law forced all 40 percent of all directors in each company to be Egyptian nationals and prohibited civil servants (including members of the parliament) from serving as directors in any corporation, or be founders of new corporations, unless they had special dispensation from the Council of Ministers ([Artunç 2019](#)).⁸ However, we find that this law was not enforced, as members of parliament and cabinet continued to serve in corporate boards after 1947. This political and economic

⁸*Journal Officiel* No. 74 Supplement, 11 Aug. 1947.

complex persisted until the military coup of 1952, which abolished the monarchy, declared Egypt a republic in 1953, nationalized the Suez Canal in 1956, and established a military regime that continues to rule the country until today.

2 Data

Our analysis relies on three novel datasets that span Egypt’s corporate sector, founders, and members of parliament and cabinet from 1890 to 1950. In this section, we describe our data sources and how we constructed our variables.

2.1 Corporations and Founders

We assembled the data on corporations from a wide range of archival sources, newspapers, official publications, and business directories. These sources provide rich information about all corporations, their founders, and allow us to construct firm histories for survival analysis.

Charters of Incorporation All companies incorporating under Egyptian law had to acquire an authorization decree from the government. These were executive orders and published in the official newspaper, *Journal Officiel*, along with the company’s charter.⁹ Before 1903, the authorization decrees and charters were also published in *Bulletin des lois et décrets*, an annual compilation of laws and decrees.¹⁰ 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, founders had to register their companies and file their articles of association. We collected these British charters at the U.K. National Archives, where the company files are preserved.¹¹

Corporate charters provide critical information. At the founder level, we observe each founder’s name and title. Founders include any natural person who was a signa-

⁹The official newspaper was 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.

¹⁰We consulted all published volumes at the Library of Congress.

¹¹BT 31, Board of Trade: Companies Registration Office: Files of Dissolved Companies, National Archives, Kew, United Kingdom.

tory in the application for incorporation (that is, a signatory in the contract) or a member in the first board of directors listed in the contract.¹² After 1913, the charters also report each founder's nationality. Regardless, we use founders' names to categorize each founder as either Egyptian or foreigner; the latter spans any founder with an English, French, German, or Italian name. At the corporation level, the charters report the company's initial authorized and paid-up capital, the number of shares, industry, the date of contract when the founders filed the articles of association of authorization, and the date of the authorization decree. We use charters and other official publications (described below) to construct our industry categories.¹³ All of these variables are time-invariant.

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. *Annuaire* provides a list of corporations (British law or Egyptian law) ever founded before the end of 1907. The 1925 volume has retrospective data on companies since 1908 or since their year of establishment if founded after 1908. All other volumes provide information for the preceding two years. For example, the 1934 volume has data on 1932, 1933, and 1934.

These statistical yearbooks allow us to build up firms' financial histories from 1908 to 1940. The following variables are annual: paid-up and authorized capital at the end of each year along with the number and type of securities in circulation, whether the

¹²Founders could be natural persons or legal entities, such as other corporations. Any legal entity had to be represented by a natural person, usually a director. We define political connections and nationality based on natural-person founders, including representatives of legal-person founders.

¹³For both consistency with the literature on firms, and to better capture the sectoral composition of the Egyptian economy, we develop a slightly modified version of NAICS codes, where we prioritize some sectors by using three or more digits in NAICS, and consolidate other sectors into two digits. Our industry categories, with corresponding NAICS codes in parentheses, are finance/insurance (52), land (531), transport (48), utilities (221), construction (23), food processing (311), cotton ginning (115111), textile manufacturing (313), metals manufacturing (331), chemical manufacturing (325), manufacturing of bricks and concrete products (327), tobacco and cigarette manufacturing (3122), other manufacturing (residual of 31), wholesale/retail of nondurables except petroleum (424, 448), wholesale/retail of durables (423, 441), wholesale/retail of petroleum (4247), information, including publishing and cinemas (511, 512), hotels and tourism (487, 721), mining, quarrying, oil and gas extraction (211, 212). Transport includes canals and warehousing but does not include cruises, which we categorize in hotels and tourism instead. Utilities include irrigation, water, and electricity.

company paid dividends, the amount of dividends paid out on each share, and profits (if any). The yearbooks also report the monthly maximum and minimum prices of securities traded in the Alexandria and Cairo Stock Exchanges from January 1908 until April 1940.¹⁴ There were four types of securities. First, all listed corporations issued ordinary shares, which made up the bulk of company equity. This was the most common type of security that gave voting rights but did not guarantee a dividend payment. Second, companies could issue preferred shares, which had guaranteed dividend payouts, enjoyed seniority over ordinary shares in payment order during liquidation, but did not always grant voting rights. Corporations could issue new ordinary or preferred shares, provided they received approval by the general meeting of shareholders. Third, 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.

Because we only observe the minimum and maximum security prices during the month, we construct upper and lower bounds of monthly stock market returns. We measure the upper bound by the percent change between the maximum price in the current month and the minimum price the month before, that is, the return from buying the share at its cheapest last month and selling at the highest price this month. We measure the lower bound by the percent change between the minimum price in the current month and the maximum price the month before.¹⁵ As descriptive examples, Figure 2 plots the return on the ordinary shares of the four largest corporations in terms of average monthly market capitalization: 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 Crédit Foncier Egyptien, which was a significant lender to the

¹⁴The 1911 volume does not have stock price data. The 1925 volume reports all security prices since January 1908 for all listed companies that were alive in 1925. No publicly trading company dissolved between 1908 and 1925, so the data published in 1925 is complete.

¹⁵If there are gaps between two consecutive price quotations, we calculated the average monthly percent change for each of the upper and lower bounds. These gaps usually came about due to war-related disruptions in the Cairo and Alexandria stock exchange between 1914 and 1918.

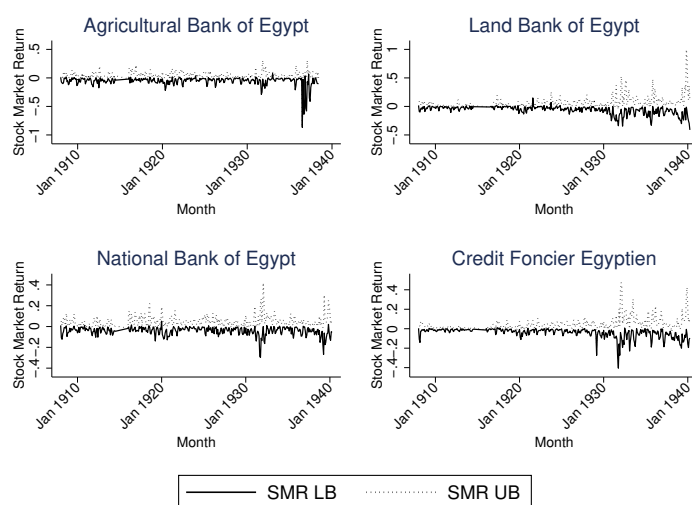


Figure 2: Monthly Stock Market Returns for the Four Largest Corporations in 1908–1940

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. We define each firm’s monthly market capitalization as the lowest quoted monthly price of the firm’s ordinary shares times the number of ordinary shares issued by the firm at its inception.

large landed elite and one of the oldest mortgage banks in Egypt (Cannon 2001).

Exits We assembled the exit dates for each company from several sources. British company folders contained liquidation filings. 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 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 for winding up. We have also consulted the *Egyptian Directory* or *Indicateur égyptien administratif et commercial*, which listed all existing businesses and their addresses each year, 1890 through 1950. We cross-checked every corporation without a dissolution notice with the business directory to verify that they were still alive in 1950. Out of 781 corporations in the dataset, 339 were dissolved before 1950. We know the exact date—day, month, year—of dissolution for 233 of them. For the rest, we know the year they dissolved but not the month because the dissolution notice was missing.¹⁶ We obtained the year of these companies’ exit using the *Statistique*, the

¹⁶This is because either the relevant newspaper issues were missing, or these defunct companies might have published their notices in a newspaper other than the *Journal Officiel* or *Journal des tribunaux*

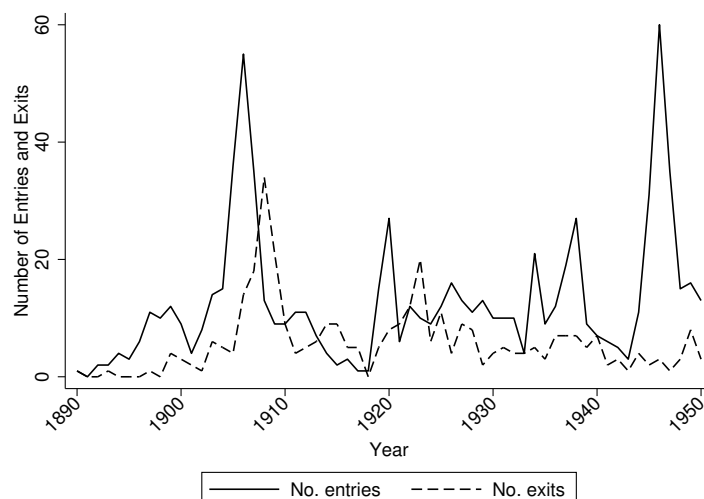


Figure 3: Yearly Number of Entrants and Exits in 1890–1950

Egyptian Directory, and the *Indicateur*, which reported all companies alive at the end of each year. Our dissolution dates indicate genuine exits; we do not consider a firm to have dissolved if they reorganized or reconstituted, perhaps following a bankruptcy.

Figure 3 shows the evolution of entry and exit between 1890 and 1950 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 jump in exits in 1908 and 1909 demonstrate the financial exuberance that led to the Panic of 1907. Entry only picked up again during the brief boom after World War I. Entry slowed down again during World War II, followed by another significant spike in 1946 and 1947. This was likely a result of pent-up demand that was curtailed during the war.

2.2 Members of Parliament and Cabinet

We constructed two datasets that span the universe of the Members of Parliament (MPs) from the parliament’s inception in 1824 until 2020, and of the Members of Cabinet (MCs) from the cabinet’s inception in 1878 until 1952. For the purpose of this paper, we restrict the two datasets to the period from 1890 to 1950, which matches the

mixtes, especially before 1911. Starting from 1911, all company notices were consolidated in the Mixed Courts’ official publications (Artunç and Guinnane 2019). It is also possible that defunct companies did not notify the authorities or publish notices of dissolution, but in these cases, the Ministry of Finance or the Mixed Courts announced these companies’ dissolution themselves.

period of the corporation dataset.

Source We use a secondary 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 and MCs.¹⁷ Volume 6, published in 1939, includes the list of MPs and MCs up to 1939. Subhi published an addendum in 1947 that includes the list of MPs and MCs from 1939 to 1947. For 1947–50, we complemented this source with primary lists of MPs from the Egyptian Parliamentary Library, and with data on MCs from Rizk (1975).

Variables The data on MPs are at the MP, chamber, and parliamentary cycle level. They include a wide range of variables including dates of parliamentary cycle (general election and dissolution dates), type of chamber (upper, lower, or single house), official name of chamber, full name of MP, title, occupation, whether the MP was elected or appointed, the MP's date of election or appointment, 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 or not, the exact date of exit from parliament (if mandate not completed), and the reason for not completing the mandate (e.g., death, illness, resignation, promotion to an executive position, election results nullification).¹⁸ An MP's entry and exit date may differ from the parliament's general election and dissolution dates. Some MPs entered the parliament later than the general election date in order to replace another MP who left office (for one of the reasons cited above).

The data on MCs are at the MC and cabinet level. They include the dates of formation and dissolution of cabinet, full name of MC, title, ministry held in cabinet, whether the MC completed his mandate or not, and the MC's dates of appointment and exit (if different from the general cabinet dates). Throughout our period of study, almost all MCs were also MPs.

We constructed a unique identifier for each MP (MC) by matching their names

¹⁷Subhi was the director of the House of Representatives' administration in 1939–1947, and hence he had access to the primary lists of MPs.

¹⁸In some cases, especially in the long-serving 1936–1952 Upper House, we observe interruptions in the MP's mandate, meaning an MP exits the parliament (for example, due to promotion to a governmental position), and then gets re-appointed or re-elected for a vacant parliamentary seat. In this paper, we focus only on the initial and last date of the MP's mandate.

across chambers and parliamentary cycles (cabinets).¹⁹ We then created a unique dynasty identifier that traces the family name of each MP (MC) across chambers and parliamentary cycles (cabinets).²⁰

2.3 Measuring Political Connections

Matching Founders to MPs and MCs The charter data include the full name (transliterated in French) of all founders, as well as the directors who served on the first board. We matched founders to MPs and MCs using the full name. We did the matching manually to minimize any measurement error arising from transliterating Arabic names and the potentially different spelling of the same (Arabic) name in the MPs' and MCs' datasets. Since our matching method requires matching full names, our political connection measure is a lower bound.

We define a corporation to be politically connected to an MP (MC) in a given month if at least one of its founders served as an MP (MC) during that month, and to be non-politically connected to an MP (MC) otherwise. We limit the span of both the MP and MC political connection variables to 20 years following the corporation's year of entry, under the presumption that founders are less likely to remain board members more than 20 years after incorporation. After that, these corporations are dropped from the sample (except in the industry-level analysis). Two pieces of evidence justify the 20-year cutoff. The first board, composed of founders, usually served for five years; after that, there was not much turnover in the boards of publicly-traded corporations, which disclosed their directors' names in the *Egyptian Directory*. In privately-held companies, which make up most of our data, founders likely served as directors and remained as owners even longer. Furthermore, the male life expectancy in Egypt at age 40 was 22.82 during 1917–27, and 23.9 years in 1927–37.²¹ Assuming that founders were 40 years old, on

¹⁹We followed certain rules in creating the MP's identifier. First, an MP cannot be matched to two sessions more than 30 years apart. Second, an MP cannot be matched to another MP with an identical name in the same chamber and cycle. Third, an MP with a missing family name (i.e. having only one name) cannot be matched to any other MP. We followed similar rules for MCs, although most of these matching issues did not arise owing to the smaller number of MCs.

²⁰The Egyptian naming system consists of the person's first name, father's first name, paternal grandfather's first name, and so on (X son of Y son of Z). We define the family name as the last name of an MP's (MC's) full name excluding title(s), conditional on having at least two names.

²¹These figures are taken from Egypt's first constructed life tables that are based on comparing the

average, at the time of incorporation, founders likely stayed in the firm for twenty years before their heirs took over.

As a robustness check, we restrict our political connections measure to 10 years after entry. Because this restriction substantially reduces the number of observations, and because most of the listed companies were founded during the colonial period, we are not able to conduct this robustness check for stock market returns. However, we are able to use this check for dividends payments, which has a larger sample size.

We also consider broader dynastic connections to an MP (MC), defined as having at least one founder as a serving MP (MC), or as sharing a last name (hence, belongs to the same “dynasty”) with a serving MP (MC) during the month. By construction, the dynasty-based measure nests the individual-based measure.

Our political connections measures are time-variant. A corporation can gain or lose its connection status in a given month, due to the entry (exit) of its founders into (out of) the parliament or cabinet. If established without a connection, one of the corporation’s founders can be later elected (or appointed) into one of the chambers of the parliament, or appointed as a minister in the cabinet; in this case, the firm would gain political connection. If a firm is politically connected at foundation, it might lose its connection in any month if its founder(s) exit the parliament or the cabinet. Most changes in parliamentary connections occur during the months of general parliamentary elections, but changes can also happen other times due to idiosyncratic entries and exits.

Figure 1 shows the evolution of political connections by plotting the proportion of MP- and MC-connected corporations each month using the individual- and dynasty-based definitions. Before 1913, almost no corporation was connected to MPs, except in the mid-1890s. Political connections became more widespread following the 1913 elections that introduced more founders into the 1913–24 unicameral parliament. The share of connected corporations increased steadily after the 1924 election, barring sharp but brief declines due to short election cycles. By 1950, about 60 percent of all corporate incumbents were connected to an MP and 88 percent had a political connection to the

age distributions by sex of the 1917 and 1927 censuses ([El-Shanawany 1936](#)) and the 1927 and 1937 censuses ([Kiser 1944](#)).

dynasty of a serving MP.²² The proportion of corporations that were connected to MCs was much smaller, and that it fluctuated more over time because of the high turnover rate of cabinets.

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 1913, the British largely monopolized political power and the authorization system of incorporation was symbolic. In this period, most charters were approved within a few weeks; seeking MPs, who had little political capital, was unproductive. As Figure 3 demonstrates, there was significant entry during this period. The barriers to incorporation became severe only after World War I. The 1924 election marked a major turning point. Following independence, political power shifted away from the British occupation. Both the liberal and royalist blocs started pursuing more nationalist agendas, which also tightened the authorization process. Political connections became more valuable. In the empirical analysis, we exploit the 1913 and 1924 elections as turning points to identify the impact of political connections on stock market returns. Our results on both stock market returns and dividends show that connections to the parliament offered benefits only after independence when the British influence waned.

2.4 Summary Statistics

Table 1 shows the summary statistics of the main variables in our data. Our analysis relies on the population of corporations established between 1890 and 1950 ($N = 796$), and two samples: The dividends sample in 1898–1939 ($N = 374$), and the publicly traded corporations ($N = 50$).²³ Firms in the dividends sample have similar characteristics to those in the full sample, suggesting that the sample is nationally representative of the Egyptian corporate sector. The main exceptions are that they are more likely to survive until 1950, older, have more foreign founders, and have lower initial capital than the average corporation in the full sample.

²²Although the Law of 1947 ostensibly severed the political connections of all incumbent corporations, by banning MPs from being board members, Figure 1a suggests that the law was not enforced; the proportion of connected corporations continued to grow after 1947.

²³There are 837 firms in our database. We excluded 38 stillborn firms, which incorporated but never operated, and three firms that exited before 1890. This leaves us with 796 firms.

Publicly traded firms were systematically different. Compared to the typical corporation, publicly traded firms were much more likely to survive until 1950, more than three times older, had a higher proportion of foreign founders, and had more than twice as large initial capital. In terms of industrial composition, they were more likely to be in land, transportation, and finance, and less likely to be in manufacturing, trade, construction, and mining. Furthermore, publicly traded firms were much less likely to be connected to MPs, far more likely to be connected to MCs, and more likely to pay any dividends.

Panel (b) shows the industry-level variables, which are based on the full sample of firms. Here, we show the statistics for the whole period, as well as for 1890–1923 and 1924–50 separately. We report important differences between the two periods. The entry rate decreased after independence, whereas the proportions of connected incumbents and entrants increased. Furthermore, the proportion of old firms increased (mechanically, due to lower entry), the proportion of firms with large paid-up capital decreased, as did the proportion of foreign founders and the proportion of publicly traded firms.

3 Empirical Analysis

We begin with examining the effect of political connections on stock market returns and dividends payments. Next, we investigate several mechanisms as to why connections increased firm value and dividends after independence. These include the effects of connected incumbents on the entry dynamics at the industry level, the delay of authorization and operation, and the difference in survival between ever-connected and never-connected firms throughout the whole period.

3.1 Stock Market Returns

We employ three empirical strategies to examine the impact of connections on stock market returns in 1908–40. The first strategy uses a two-way fixed effects OLS model that controls for firm and period fixed effects. The advantage of this strategy is the large sample size, consisting of all listed firms and the full duration of security price data. However, the identification assumption may be violated due to reverse causality

Table 1: Summary Statistics

(a) Firm-Level Variables

	(1) All			(2) Dividends Sample			(3) Publicly Traded		
	Mean	SD	N	Mean	SD	N	Mean	SD	N
=1 if alive in 1950	0.56	0.50	796	0.64	0.48	374	0.88	0.33	50
Age at exit (non-survivors)	9.57	9.28	349	14.84	10.44	135	31.17	10.36	6
Age in 1950 (survivors)	16.96	15.73	447	27.06	14.10	239	41.02	10.67	44
Prop. foreign founders	0.46	0.36	796	0.50	0.31	374	0.53	0.31	50
Initial capital	125041.42	257680.15	791	117741.68	254614.36	374	296262.42	462404.85	50
=1 if manufacturing	0.27	0.44	796	0.24	0.43	374	0.24	0.43	50
=1 if trade	0.21	0.41	796	0.21	0.41	374	0.08	0.27	50
=1 if land	0.14	0.35	796	0.17	0.37	374	0.22	0.42	50
=1 if transportation	0.12	0.33	796	0.11	0.32	374	0.20	0.40	50
=1 if construction	0.03	0.18	796	0.04	0.20	374	0.00	0.00	50
=1 if mining	0.08	0.27	796	0.04	0.19	374	0.02	0.14	50
=1 if finance	0.09	0.29	796	0.11	0.32	374	0.16	0.37	50
=1 if other	0.07	0.25	796	0.07	0.26	374	0.08	0.27	50
=1 if ever MP-founder & No MC-founder	0.25	0.43	796	0.20	0.40	374	0.08	0.27	50
=1 if ever MC-founder	0.11	0.32	796	0.13	0.34	374	0.20	0.40	50
=1 if MP-founder at contract & No MC-founder	0.28	0.45	796	0.21	0.40	374	0.10	0.30	50
=1 if paid any dividends	0.70	0.46	331	0.70	0.46	331	0.94	0.24	49
Av. Stock market return (LB)	-0.04	0.03	48	-0.04	0.03	47	-0.04	0.03	48
Av. Stock market return (UB)	0.06	0.04	48	0.06	0.04	47	0.06	0.04	48
Av. Log(initial market capitalization)	11.73	1.71	50	11.74	1.73	49	11.73	1.71	50
Observations	796			374			50		

(b) Industry-Level Variables

	Pooled			1890–1923			1924–1950		
	Mean	SD	N	Mean	SD	N	Mean	SD	N
Entry rate	0.11	0.27	930	0.14	0.35	471	0.08	0.15	459
Prop. connected incumbents	0.16	0.22	930	0.03	0.08	471	0.29	0.23	459
Prop. connected entrants	0.32	0.47	391	0.02	0.14	178	0.58	0.50	213
Prop. old firms	0.40	0.30	940	0.30	0.32	481	0.52	0.24	459
Prop. firms with large paid-up capital	0.46	0.34	609	0.53	0.36	337	0.37	0.29	272
Prop. foreign founders	0.55	0.22	940	0.65	0.20	481	0.45	0.19	459
Prop. publicly traded firms	0.23	0.23	940	0.25	0.25	481	0.21	0.20	459
Observations (industry)	17			17			17		
Observations (industry-year)	943			484			459		

Notes: The corporation's market capitalization is defined during the first month of observed stock market prices (calculated at the minimum security price).

from stock market returns to political connections, or time-varying firm-specific omitted variables that may affect both its stock market returns and political connections. As a second empirical strategy, we use MP-founders deaths in office as exogenous shocks by comparing connected firms, which lost one MP-founder due to death, with firms that were also connected before but did not experience any of its MP-founders' deaths. Finally, as a third strategy, we use two event studies of the 1913 and 1924 parliamentary elections, comparing firms that were unconnected before the elections but gained a connection due to the election, with firms that remained unconnected.

Two-Way Fixed Effects Model We begin by estimating a two-way fixed effects OLS regression at the level of corporation, security type, and month, controlling for both unobserved time-invariant heterogeneity in stock market returns across firms (and security types) and monthly aggregate shocks to the stock market. We estimate separate regressions for the colonial period (1908–1923) and the independence period (1924–40):

$$SMR_{scmt} = \gamma_1 MP_{cm} + \gamma_2 MC_{cm} + \theta Beta_{ct} + \alpha_{sc} + \delta_m + \epsilon_{scm}$$

where SMR_{scmt} denotes the lower or upper bound on the monthly stock market return on security type s of corporation c during month m in parliamentary cycle t , MP_{cm} is a dummy variable that equals 1 if at least one founder serves as an MP in month m , provided that there are no active MCs among founder during that month, MC_{cm} is a dummy variable that equals 1 if at least one founder is an MC in month m . The omitted group thus consists of firms that have no serving MP or MC among their founders during month m . We also use the dynasty-based measures. In this case, MP_{cm} indicates if one founder is an MP or belongs to the dynasty of an MP, provided that there is no founder who is an MC or belongs to an MC’s dynasty; MC_{cm} indicates if one founder is a serving MC or belongs to an MC’s dynasty. Standard errors are clustered at the corporation level.

We control for a full set of corporation by security type fixed effects (α_{sc}) that account for unobserved time-invariant heterogeneity in market value across firms and security types, which may be driving the selection of firms into political connections. We also control for a full set of month fixed effects (δ_m) to account for aggregate shocks to the stock market in a given month. Finally, we control for the market beta of each corporation over each parliamentary cycle ($Beta_{ct}$), to account for the corporation’s volatility relative to the market.²⁴

²⁴Beta is the ratio between the covariance of the rate of return of a corporation’s security and the average rate of return of all securities, divided by the variance of the average rate of return of all securities during the same period. We estimate the market beta of corporation c during cycle t by running a separate regression for each corporation and parliamentary cycle where we regress the minimum/maximum monthly rate of return of the corporation on the market monthly average minimum/maximum rate of return: $SMR_m = \alpha + \beta SMR_m^{Market} + u_m$. The market monthly average rate of return is weighted by the corporation’s monthly market capitalization, which is equal to the number of its ordinary shares times the price.

As an alternative specification, we control for industry by security type fixed effects, instead of the more fine-grained firm by security type fixed effects. This enables us to include three time-invariant characteristics of corporations as control variables: the natural logarithm of initial capital, the natural logarithm of the corporation's market capitalization during the first month of observed stock market prices (calculated at minimum prices), and the proportion of foreign founders. The first two variables capture inter-firm heterogeneity in size; the third variable accounts for the influence of foreigners in the Egyptian corporate sector that was particularly high during the colonial period. Foreign founders might have had political power through their connections to the British authorities, rather than to the Egyptian political institutions.

Table 2 shows the results. In both panels, columns 1–2 and 5–6 control for industry by security type fixed effects, whereas columns 3–4 and 7–8 control for corporation by security type fixed effects. Panel (a), which shows the results during the colonial period, reveals either negative or no correlation between MP political connections—both the individual-based and the dynasty-based measures—and stock market returns. Focusing on the regressions that control for corporation by security type fixed effects, we find that this negative correlation is statistically significant in columns 3 for the lower bound. The effect of MC political connections is mostly unidentified, due to the extremely small number of firms with MC connections before 1924.

However, in the post-independence period in panel (b), the correlation becomes positive for both connection types when we control for corporation by security type fixed effects in columns 3–4 and 7–8. The estimates on upper bounds are statistically significant (columns 4 and 8). The results are similar whether we use the individual-based or dynasty-based measures.

The identification assumption of these regressions is that a corporation's connections change exogenously over time. This assumption may be violated due to reverse causality: Founders may be appointed as MPs or MCs if the market value of their corporations had been growing. Alternatively, it may be violated due to omitted variables that affect both firm value and having connections. For example, founders with stronger entrepreneurial skills can improve the market value of their corporations and are more

likely to enter politics. To address these threats, we use event studies that exploit the death of MP-founders in office, as well as the 1913 and 1924 elections.

Causal Inference: Death of MP-Founders As a second strategy to identify connections' causal impact on firm value, we take advantage of the fact that some MP-founders did not complete their parliamentary mandates due to death. We observe five MP-founders who died while in parliament during the following months: January 1910, October 1924, July 1926, June 1931, and July 1933. Armed with these turning points, we restrict our data to the 3, 6, or 9 months that lie before and after each of these death dates. We further restrict the analysis to initially connected corporations that had at least one MP among their founders at the beginning of the analysis period (i.e., 3, 6, or 9 months before the MP's death month). We then define the treatment group as corporations that witnessed the death of an MP-founder at the death date, and the control group as those that did not witness the death of an MP-founder.²⁵ Specifically, we estimate the following OLS regression separately for the 3, 6, and 9 months periods:

$$SMR_{scmt} = \gamma_1 MPDeath_c \times PostDeath_m + \theta Beta_{ct} + \alpha_{sc} + \delta_m + \varepsilon_{scmt}$$

where $MPDeath_c$ is a dummy variable that equals 1 for corporations that were initially connected but eventually witnessed the death of an MP-founder, $PostDeath_m$ is a dummy variable that equals 1 during the months that follow the MP-founder's death. The other variables are defined as in the previous two-way fixed effects regression. The main regressor is the interaction term of $MPDeath_c$ and $PostDeath_m$, which captures the effect of an MP-founder's death on the corporation's monthly stock market returns.

The results are shown in Table 3. The findings reveal that losing an MP-founder temporarily reduces the lower bound of stock market returns by 6 percentage points, on average, each month following the death event. The effects are statistically significant at the 10-percent level for the 6-month and 9-month windows.

While the death of MP-founders is plausibly exogenous, it is subject to an important

²⁵Treated corporations either became unconnected after the death of the MP-founder, or remained connected yet with a fewer number of MP-founders. We do not have sufficient sample size to analyze these two groups separately.

Table 2: Political Connections of Corporations and Stock Market Returns

(a) 1908–1923

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LB	UB	LB	UB	LB	UB	LB	UB
=1 if MP & No MC	-0.00 (0.01)	-0.02 (0.02)	-0.04 (0.00)***	0.00 (0.04)				
=1 if MC	0.00 (.)	0.00 (.)	0.00 (.)	0.00 (.)				
=1 if MP Dynasty & No MC Dyn.					0.01 (0.01)	-0.01 (0.01)	0.00 (0.01)	-0.01 (0.03)
=1 if MC Dynasty					-0.00 (0.01)	-0.01 (0.03)	0.00 (.)	0.00 (.)
Log(Initial Capital)	-0.00 (0.00)	0.02 (0.01)**			-0.00 (0.00)	0.02 (0.01)**		
Prop. Foreign Founders	-0.03 (0.02)*	0.04 (0.03)			-0.03 (0.01)*	0.04 (0.03)		
Log(Market Capitalization)	0.01 (0.00)***	-0.01 (0.00)***			0.01 (0.00)***	-0.01 (0.00)***		
Beta	-0.02 (0.01)*	0.02 (0.01)**	0.00 (0.01)	0.02 (0.01)**	-0.02 (0.01)**	0.02 (0.01)**	0.00 (0.01)	0.02 (0.01)*
Corporation-Security FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry-Security FE	Yes	Yes	No	No	Yes	Yes	No	No
Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	7329	7329	7329	7329	7329	7329	7329	7329
Clusters (Corporations)	40	40	40	40	40	40	40	40
R ²	0.16	0.06	0.19	0.07	0.16	0.06	0.19	0.07
Mean dep. var.	-0.04	0.06	-0.04	0.06	-0.04	0.06	-0.04	0.06

(b) 1924–1940

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LB	UB	LB	UB	LB	UB	LB	UB
=1 if MP & No MC	0.02 (0.01)**	-0.02 (0.01)*	0.01 (0.02)	0.02 (0.01)				
=1 if MC	0.01 (0.02)	0.01 (0.01)	0.02 (0.02)	0.03 (0.02)**				
=1 if MP Dynasty & No MC Dyn.					0.03 (0.01)***	-0.02 (0.01)**	0.00 (0.02)	0.03 (0.02)
=1 if MC Dynasty					0.01 (0.02)	0.02 (0.01)	0.01 (0.02)	0.05 (0.02)**
Log(Initial Capital)	-0.01 (0.01)	0.03 (0.01)***			-0.01 (0.01)*	0.03 (0.01)***		
Prop. Foreign Founders	-0.00 (0.01)	0.00 (0.01)			-0.00 (0.01)	0.01 (0.01)		
Log(Market Capitalization)	0.00 (0.00)	-0.01 (0.01)			0.00 (0.00)	-0.01 (0.01)		
Beta	0.00 (0.01)	0.02 (0.01)***	0.00 (0.01)	0.01 (0.01)**	0.00 (0.01)	0.02 (0.01)***	0.00 (0.01)	0.01 (0.01)**
Corporation-Security FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry-Security FE	Yes	Yes	No	No	Yes	Yes	No	No
Month FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	2329	2330	2329	2330	2329	2330	2329	2330
Clusters (Corporations)	38	38	38	38	38	38	38	38
R ²	0.22	0.20	0.26	0.23	0.22	0.21	0.26	0.23
Mean dep. var.	-0.05	0.06	-0.05	0.06	-0.05	0.06	-0.05	0.06

Notes: The dependent variable is the monthly lower bound (LB) or upper bound (UB) of stock market returns. Time-invariant controls are the logarithm of initial capital, the logarithm of the corporation's market capitalization during the first month of observed stock market prices (calculated at the minimum security prices), and the proportion of foreign founders. We estimate the corporation's beta for each parliamentary cycle and for each of the lower and upper bounds, by regressing the firm's monthly stock market returns on the market's monthly average rate of return. Standard errors are clustered at the corporation level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

caveat. It confounds the effect of an MP-founder’s death with just any founder’s death. Ideally, the control group would consist of initially connected firms that witnessed the death of a non-MP founder, which we do not observe. Given this caveat, we provide another piece of evidence based on parliamentary elections.

Table 3: Political Connections of Corporations and Stock Market Returns: Death of MP-Founders

	3 Months		6 Months		9 Months	
	(1) LB	(2) UB	(3) LB	(4) UB	(5) LB	(6) UB
=1 if MP-Founder Died \times Post-Death	-0.06 (0.21)	-0.02 (0.54)	-0.06 (0.09)	-0.00 (0.93)	-0.06 (0.10)	-0.01 (0.53)
Beta	0.13 (0.17)	0.07 (0.11)	0.10 (0.21)	0.07 (0.04)	0.09 (0.04)	0.06 (0.02)
Corporation-Security FE	Yes	Yes	Yes	Yes	Yes	Yes
Month FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Security-Month)	62	62	102	102	130	130
Clusters (Corporations)	9	9	9	9	8	8
R^2	0.79	0.75	0.68	0.60	0.70	0.70
Mean dep. var. (Control)	-0.00	0.01	-0.00	0.02	0.01	0.04

Notes: The dependent variable is the monthly lower bound (LB) or upper bound (UB) of stock market returns. P -values are in parentheses. They are estimated using Wild Cluster Restricted (WCR) bootstrap, with clustering at the corporation level, Webb weights, and 999,999 replications. The sample is restricted to the 3, 6, or 9 months before and after the death of an MP-founder. The sample is further restricted to corporations that had at least one MP-founder at the beginning of the period (i.e., 3, 6, or 9 months before MP’s death), where we compare corporations that witnessed the death of one of its founder-MPs (treatment) to corporations that did not witness any death of its founder-MPs (control). We observe five deaths of MP-founders during their term in parliament occurring during the following months: January 1910, October 1924, July 1926, June 1931, and July 1933.

Causal Inference: Parliamentary Elections We attempt to disentangle the causal effect of political connections on stock market returns by exploiting the parliamentary elections in 1913 and 1924. While there were subsequent elections that during the bicameral period in 1924–40, only the 1924, 1931, and 1936 elections were held for both houses, and thus had potentially bigger effects on altering the political connection status of firms.²⁶ We are not able to use the 1931 and 1936 elections since most publicly traded firms were founded during the colonial period, many of which are assigned a

²⁶The elections of 1925, 1926, 1929, and 1938 were for the lower house only. Our security prices data stop in 1940.

missing political connection status in the 1930s due to the 20-year upper limit that we imposed on the lifespan of founders. This leaves us with a too-small sample size.

The 1913 and 1924 elections were significant in themselves. They marked key breaks in the evolution of politically connected firms (Figure 1a). They were also important from a political perspective. The 1913 election was the last before Egypt's independence and resulted in a unicameral parliament that lasted from 1913 to 1923, including the British protectorate period in 1914–22. The 1924 election came at the heels of the 1919 revolution, and Britain's consequent unilateral declaration of Egypt's (nominal) independence in February 1922. Therefore, the 1924 election marked a fundamental change in Egypt's political class, as the leaders of the 1919 revolution who founded Wafd came to dominate the 1924 parliament.

We conduct an event study of each election, where we compare the evolution of stock market returns of corporations that were unconnected before the elections but gained at least one MP among their founders after the elections with corporations that remained unconnected after the elections. Specifically, we estimate the following difference-in-differences model for each of the 1913 and 1924 elections separately, where we restrict the analysis to 3, 6, 9, and 12 months before and after each election:

$$SMR_{scm} = \gamma_1 gainconnection_c \times postelection_m + \alpha_{sc} + \beta_m + \varepsilon_{scm}$$

where $gainconnection_c = 1$ if corporation c gained at least one MP among its founders after the elections, $postelection_m = 1$ for the months that followed the election month. In 1913 (1924), our control group consists of 24 (22) corporations that were unconnected both before and after the elections, whereas our treatment group consists of 2 (1) corporations that were unconnected before the elections but gained MPs after the elections.²⁷ We do not control for the corporation's beta during the parliamentary cycle in these regressions because it is absorbed in the fixed effects.

The validity of these event studies rely on the parallel trends assumption, that the

²⁷In both 1913 and 1924, we do not observe any corporation that was connected before the elections but lost its connection after the elections. In 1924 (but not in 1913), we observe one corporation that was connected both before and after the elections, which we drop from the analysis. We do not observe any corporation that was connected to an MC either before or after the 1913 or 1924 elections.

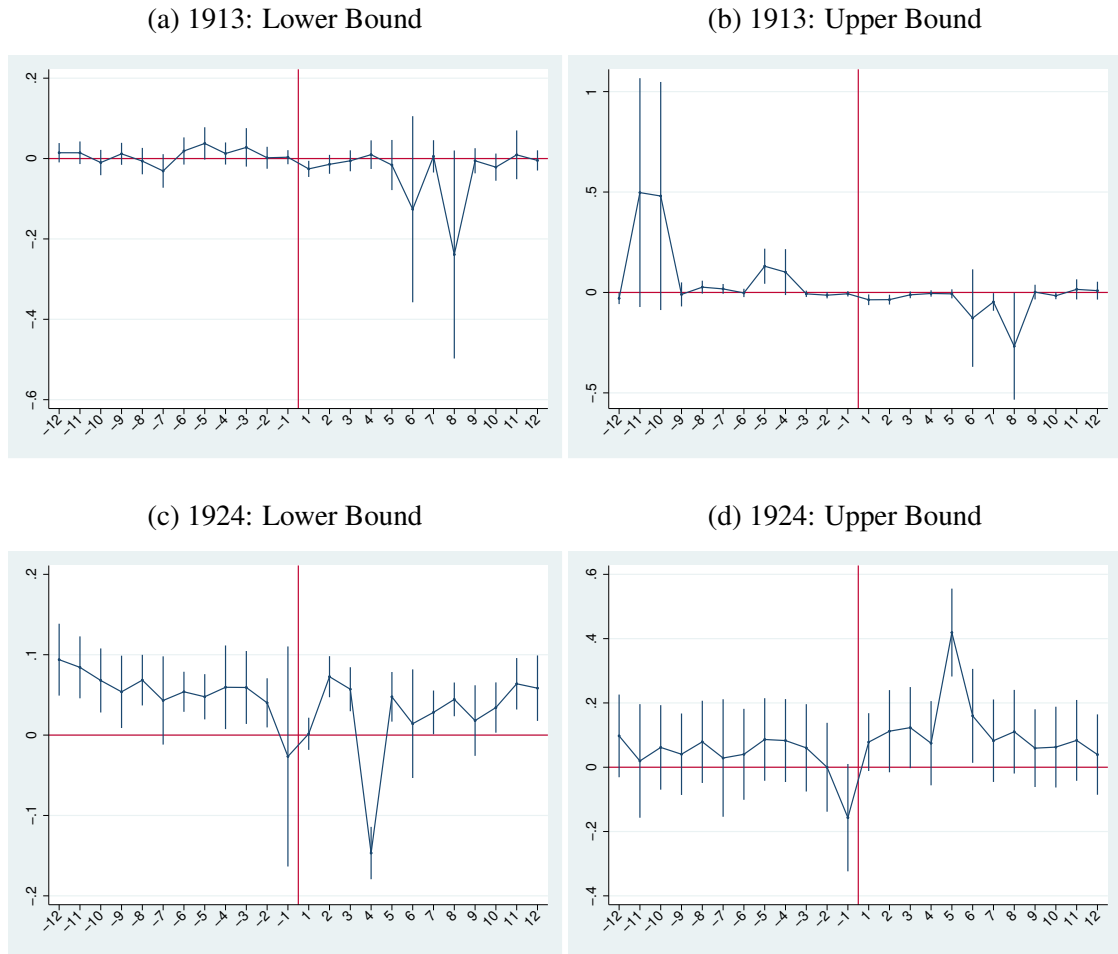


Figure 4: Monthly Stock Market Returns before and after the 1913 and 1924 Parliamentary Elections

Notes: The graphs show the estimated γ_m , the difference in monthly stock market returns between (eventually) connected and unconnected corporations before and after the 1913 or 1924 elections, conditional on corporation by security type fixed effects and month fixed effects. The omitted month is the election month ($m = 0$): July 1913 or January 1924. The sample is restricted to the 12 months before and after each election. The treated group consists of 2 (1) corporations that were unconnected before 1913 (1924), but gained at least one MP-founder in the 1913 (1924) elections. The control group are corporations that remained unconnected both before and after the elections. The 95% confidence intervals are shown, where we cluster the standard errors at the corporation level.

treated and control groups would have experienced similar trends of stock market returns in the absence of elections. To test differential pre-election trends, we estimate the following regression for the whole 24-months period surrounding each election:

$$SMR_{scm} = \sum_{m=-12}^{12} \gamma_m \text{gainconnection}_c + \alpha_{sc} + \beta_m + \varepsilon_{scm}$$

where γ_m measures the difference in stock market returns between (eventually) connected and unconnected corporations, in each of the 12 months preceding and following the election month, conditional on corporation by security type fixed effects and month fixed effects. The omitted month is the election month ($m = 0$). If there are no pre-election differential trends, we should expect γ_m to be not statistically different from 0 for every month before the election month. The estimated coefficients are plotted in Figure 4. We fail to reject in panels (a) and (b) that the treated and control corporations were on parallel trends before the 1913 elections. Panel (c) and (d) show that the returns of treated corporations dipped during the month just before the 1924 election, relative to unconnected firms, but it is not statistically significant.

Table 4 reports our results. Panel (a) shows that the 1913 election led to a statistically significant drop in stock market returns among treated corporations for the 3, 6, 9, and 12-month windows. The effect is consistent for the lower and upper bounds, suggesting a negative impact on the *average* stock market returns, and is consistent with the negative effect that we detected for the colonial period (Table 2). By contrast, panel (b) shows that the 1924 elections led to a drop in the lower bound of the stock market returns, and to an increase in the upper bound. However, the positive effect on the upper bound largely exceeds the magnitude of the negative effect on the lower bound, suggesting a positive impact on the *average* stock market returns, which is consistent with the positive effect that we detected for the post-independence period. We interpret the differential effect of political connections on the stock market returns through the political context. In 1913, given the British grip on political power, connections to Egyptian MPs had a negative implication for stock market returns. In 1924, as the 1919 revolution leaders came to dominate the 1924 parliament, investors started to value connections to this rising political class.

3.2 Dividends

While stock market returns capture an important aspect of firm value, they are restricted to publicly held corporations, which constituted only 6% of Egypt's corporations during this period. To obtain the relationship between political connections and firm value for all corporations, we use annual dividends, which we observe for 47%

Table 4: Political Connections of Corporations and Stock Market Returns:
The 1913 and 1924 Parliamentary Elections

(a) 1913 Elections

	3 Months		6 Months		9 Months		12 Months	
	(1) LB	(2) UB	(3) LB	(4) UB	(5) LB	(6) UB	(7) LB	(8) UB
Gained Founder-MP in 1913 \times Post-1913	-0.02 (0.01)**	-0.02 (0.01)***	-0.04 (0.02)*	-0.07 (0.02)***	-0.05 (0.03)*	-0.08 (0.03)***	-0.04 (0.02)**	-0.14 (0.06)**
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)	304	304	568	568	830	830	1090	1090
Clusters (Corporations)	26	26	26	26	26	26	26	26
R^2	0.34	0.45	0.13	0.10	0.11	0.08	0.08	0.10
Mean Dep. Var. (control)	-0.04	0.00	-0.05	0.01	-0.04	0.01	-0.04	0.02

(b) 1924 Elections

	3 Months		6 Months		9 Months		12 Months	
	(1) LB	(2) UB	(3) LB	(4) UB	(5) LB	(6) UB	(7) LB	(8) UB
Gained Founder-MP in 1924 \times Post-1924	0.02 (0.01)	0.12 (0.03)***	-0.02 (0.01)***	0.14 (0.02)***	-0.02 (0.01)***	0.11 (0.02)***	-0.03 (0.01)***	0.08 (0.01)***
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)	256	256	474	474	690	690	898	898
Clusters (Corporations)	23	23	23	23	23	23	23	23
R^2	0.21	0.35	0.14	0.26	0.13	0.23	0.14	0.21
Mean Dep. Var. (control)	-0.02	0.15	-0.03	0.11	-0.03	0.10	-0.04	0.10

Notes: The dependent variable is the monthly lower bound (LB) or upper bound (UB) of stock market returns. The sample is restricted to the 3, 6, 9, or 12 months before and after each election. Standard errors are clustered at the corporation level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

of corporations, including publicly held and private. As Table 1 reveals, the dividends sample is nationally representative of the corporate sector, unlike publicly held firms.

Nevertheless, dividend payments may capture both profitability and rent extraction. On the one hand, only corporations with sufficiently large profits could pay dividends because corporations had statutory reserve requirements that had to be paid first. On the other hand, because most firms were privately held, and MP- or MC-founders could occupy a significant position in the firm, paying dividends could imply the political actors' extraction from the company (instead of reinvesting).

We investigate the relationship between political connections and dividends by estimating the following two-way fixed effects OLS regression. We estimate a separate regression for each of the colonial and post-independence periods:

$$dividend_{cy} = \gamma_1 MP_{cy} + \gamma_2 MC_{cy} + \gamma_3 MP_{cy} \times Public_c + \gamma_4 MC_{cy} \times Public_c + \alpha_c + \delta_y + \varepsilon_{cy}$$

where $dividend_{cy}$ is a dummy variable that equals 1 if corporation c paid out any dividends in year y , MP_{cy} equals 1 if corporation c had at least one founder who served as an MP during year y , provided that it had no founder who served as an MC during that year, MC_{cy} equals 1 if corporation c had at least one founder who served as an MC during year y , $public_c$ equals 1 if corporation c is publicly traded in the stock exchange (which is time-invariant). We again use both the individual-based and the dynasty-based measures. We control for corporation fixed effects (α_c) that account for the time-invariant heterogeneity in profitability across firms, and for year fixed effects (δ_y) that account for aggregate shocks to profitability that may affect the entire corporate sector. Standard errors are clustered at the corporation level. As an alternative specification, we control for industry fixed effects, instead of corporation fixed effects. This enables us to control for the proportion of foreign founders, as foreign-owned firms might be more profitable or could more often transfer their profits to Europe, and the initial paid-up capital, as larger firms were more likely to pay dividends.

The coefficients γ_1 and γ_2 capture the difference in the probability of paying dividends between MP-connected or MC-connected private corporations relative to unconnected private firms, respectively. The coefficients γ_3 and γ_4 capture the additional difference in the probability of dividends payment between connected and unconnected public corporations.

While the two-way fixed effects model controls for time-invariant differences in firm profitability, it may not account for time-variant shocks to profitability that are firm specific. We are not able to exploit the death of MP-founders or the 1913 and 1924 parliamentary elections to investigate the effect on dividends payment. Because dividends payment is less frequent than stock market returns, being made on an annual basis, we do not have sufficient statistical power to isolate the effect of a given event on the subsequent dividends payments. We thus acknowledge that the findings may reflect both profitability and rent extraction.

Table 5 reports the results.²⁸ We focus in the interpretation on column 4, which uses the individual-based political connections measure and controls for both corporation fixed effects and the interaction between connections and the publicly held indicator. Panel (a) shows the results during the colonial period. Overall, we fail to detect a (positive) relationship between political connections and dividends payments during this period. Among closely held firms, MP-connected firms were, if anything, 7 percentage points less likely than unconnected firms to pay dividends, whereas MC-connected firms were not statistically different from unconnected companies. Among publicly traded companies, MP-connected firms were not statistically different from unconnected ones ($= -0.07 + 0.05$). However, we find a greater and statistically significant probability of dividend payments among MC-connected listed companies ($= -0.06 + 0.58$), although this result is driven by only two firms.

The relationship becomes positive after independence as panel (b) demonstrates. Among closely held firms, having an MP-founder is associated with a 20 percentage-point increase in the probability of paying dividends each year. Private firms were 17 percentage points more likely to pay dividends if they had at least one MC-founder. Among publicly traded corporations, the probability of dividends payment is higher among connected firms, whether to MPs or MCs. We obtain qualitatively similar results when we use dynasty-based measures (column 8). Our results suggest that after independence, both among closely held and widely held firms, connected firms paid shareholders (and MPs and MCs themselves) more frequently. This may be because these firms were profitable more often, or that their MP or MC founders were more likely to extract rents, than unconnected firms.

3.3 Mechanisms

In this section, we investigate several mechanisms that can explain why investors valued connections after independence. First, we show that more politically connected industries had low entry rates and a higher concentration of market power, after inde-

²⁸We obtain similar results when we limit the political connections measure to 10 years following the entry of the firm, instead of the 20-years limit in our baseline measure. The findings are shown in Appendix Table 10.

Table 5: Political Connections of Corporations and Dividends

(a) 1898–1923

	Individual-based Measure				Dynasty-based Measure			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if MP & No MC	-0.08 (0.14)	-0.29 (0.17)*	-0.04 (0.17)	-0.07 (0.04)*	-0.06 (0.09)	-0.12 (0.11)	0.02 (0.10)	-0.02 (0.07)
=1 if MC	0.21 (0.11)*	0.28 (0.16)*	0.25 (0.24)	-0.06 (0.05)	-0.05 (0.10)	0.02 (0.11)	-0.11 (0.08)	-0.12 (0.07)*
=1 if MP & No MC × Pub. Held		0.22 (0.24)		0.05 (0.21)		0.06 (0.17)		0.06 (0.16)
=1 if MC × Pub. Held		-0.21 (0.14)		0.58 (0.21)**		-0.24 (0.13)*		0.00 (.)
=1 if Pub. Held		0.17 (0.07)**				0.17 (0.07)**		
Log(Initial Capital)	-0.01 (0.02)	-0.04 (0.02)*			-0.01 (0.02)	-0.04 (0.02)*		
Prop. Foreign Founders	-0.23 (0.10)**	-0.19 (0.10)*			-0.24 (0.10)**	-0.19 (0.10)*		
Corporation FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry FE	Yes	Yes	No	No	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Year)	1071	1071	1055	1055	1071	1071	1055	1055
Clusters (Corporations)	151	151	135	135	151	151	135	135
R ²	0.28	0.30	0.69	0.69	0.28	0.30	0.69	0.69
Mean dep. var.	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56

(b) 1924–1939

	Individual-based Measure				Dynasty-based Measure			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if MP & No MC	-0.02 (0.06)	-0.01 (0.07)	0.24 (0.08)**	0.20 (0.08)**	-0.10 (0.06)	-0.08 (0.07)	0.25 (0.10)**	0.24 (0.11)**
=1 if MC	0.06 (0.08)	0.03 (0.09)	0.24 (0.09)**	0.17 (0.09)*	-0.09 (0.07)	-0.11 (0.08)	0.20 (0.11)*	0.18 (0.12)
=1 if MP & No MC × Pub. Held		-0.05 (0.15)		0.42 (0.21)**		-0.06 (0.15)		0.22 (0.28)
=1 if MC × Pub. Held		0.07 (0.14)		0.52 (0.25)**		0.10 (0.13)		0.25 (0.27)
=1 if Pub. Held		0.19 (0.09)**				0.18 (0.09)**		
Log(Initial Capital)	0.02 (0.02)	0.01 (0.02)			0.02 (0.02)	0.02 (0.02)		
Prop. Foreign Founders	-0.08 (0.09)	-0.08 (0.09)			-0.12 (0.10)	-0.12 (0.09)		
Corporation FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry FE	Yes	Yes	No	No	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Year)	1606	1606	1571	1571	1606	1606	1571	1571
Clusters (Corporations)	252	252	217	217	252	252	217	217
R ²	0.12	0.13	0.59	0.60	0.12	0.14	0.59	0.59
Mean dep. var.	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57

Notes: The dependent variable is a dummy variable that equals one if the corporation paid out any dividends during the year. Standard errors are clustered at the corporation level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

pendence. Next, we examine whether politically connected corporations had shorter delay between contracting and authorization, or between authorization and starting op-

erations. Third, we show how exit risk varies with connections. Finally, we discuss a number of alternative mechanisms and why connections had a negative effect on firm value before independence.

Industry Entry Dynamics To examine the first mechanism, we follow the specifications in [Akcigit, Baslandze and Lotti \(2018\)](#), where we estimate the following two-way fixed effects OLS regression at the industry-year level, using the full universe of corporations. We estimate a separate regression for each of the colonial and post-independence periods:

$$outcome_{dy} = \gamma propconnected_{dy} + \alpha_d + \delta_y + \epsilon_{dy}$$

where $outcome_{dy}$ is the outcome of industry d during year y . The main regressor is $propconnected_{dy}$, the proportion of incumbent corporations that are politically connected, i.e. have at least one founder as MP or MC in the preceding year. First, we examine annual entry rates in each industry, that is, the number of new corporations during year y divided by the number of incumbents in that industry in the beginning of that year. Second, we analyze the extent of political connections among entrants; conditional on entry, do more politically connected industries have more politically connected entrants? In this case, the dependent variable is the proportion of politically connected entrants in the industry. Third, we study the proportion of old firms in the industry, where a firm is defined as old if its age in a given year is above the median age in that year. Fourth, we study the proportion of firms with large yearly paid-up capital, i.e., above the median in a given year. Finally, we examine the proportion of foreign founders and the proportion of publicly traded firms in the industry.

We control for α_d , a full set of industry fixed effects that account for time-invariant heterogeneity in entry dynamics across industries. We also control for β_y , a full set of year fixed effects that account for aggregate shocks that impacted all industries. Standard errors are clustered at the industry level.

Table 6 reports the results. Columns 1 and 2 show that industries with more connected incumbents had lower entry rates after independence, but not before, suggesting

that politically-connected incumbents could block or deter entry. However, we fail to detect in columns 3 and 4 a statistically significant relationship between the proportion of connected incumbents and the proportion of connected entrants in the industry, conditional on entry, whether before after independence.

Columns 5 and 6 demonstrate that the proportion of connected incumbents in an industry is negatively associated with the proportion of old firms after independence, but not before, which suggests that connected industries became younger. While this result may appear counter-intuitive, it likely reflects how the state used connections to promote younger Egyptian entrants to counter old, foreign firms from the colonial period or to set up new market segments. To investigate this interpretation, we first note that we fail to detect a statistically significant relationship between the proportion of connected incumbents and the proportion of large firms before or after independence (columns 7 and 8). Columns 9 and 10 show that connected industries had a much lower proportion of foreign firms after independence, but not before, suggesting that the post-independence government succeeded somewhat in reducing the foreign influence. Finally, columns 11 and 12 show that connected industries had a higher share of publicly traded firms before independence, but a lower share afterwards. [Figure 5](#) provides further evidence by plotting the share of connected incumbents by industry. The high concentration of connected industries were new market segments: chemicals, textiles (not ginning or pressing), publishing. Finance was an important exception. Together our results suggest that the post-independence governments employed political connections to promote new industries and mitigate the European influence in the Egyptian economy. As a result, the connected industries after independence had muted entry rates but connected companies themselves were not as large or old as colonial-era firms.

Our findings support other recent studies. [Akcigit, Baslandze and Lotti \(2018\)](#) show similar patterns for Italy in 1993–2014, but find smaller magnitudes. We extend their analysis by showing that the relationship may differ across the colonial and independence periods, and that political connections after independence may have been used to push for “national” industries. While the new evidence we present here cannot be taken as causal, we show that political connections were associated with a significant

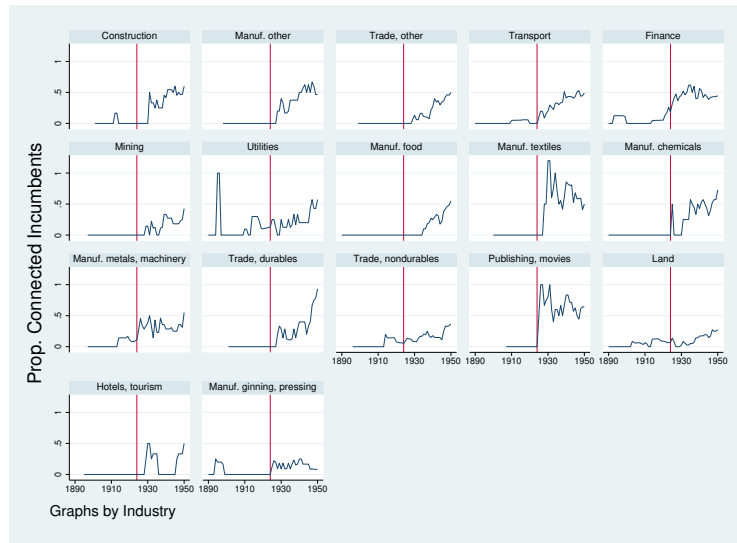


Figure 5: Political Connections by Industry

reduction in creative destruction.

Table 6: Political Connections of Corporations and Entry

	Entry Rate		Prop. MP Conn. Entrants		Prop. Old Corps.		Prop. Large Paid-up Capital		Prop. Foreign		Prop. Public Traded	
	(1) < 1924	(2) ≥ 1924	(3) < 1924	(4) ≥ 1924	(5) < 1924	(6) ≥ 1924	(7) < 1924	(8) ≥ 1924	(9) < 1924	(10) ≥ 1924	(11) < 1924	(12) ≥ 1924
Prop. Conn. Incumbents	0.28 (0.14)*	-0.15 (0.07)*	0.08 (0.13)	-0.33 (0.22)	0.25 (0.23)	-0.32 (0.10)***	-0.47 (0.23)*	0.10 (0.11)	0.00 (0.12)	-0.27 (0.06)***	0.30 (0.10)***	-0.09 (0.05)*
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Industry-Year)	471	459	161	213	468	459	333	272	468	459	468	459
Clusters (Industries)	17	17	16	17	17	17	17	17	17	17	17	17
R ²	0.19	0.22	0.34	0.29	0.57	0.70	0.62	0.81	0.51	0.84	0.60	0.91
Mean dep. var.	0.14	0.08	0.02	0.58	0.30	0.52	0.53	0.37	0.65	0.45	0.25	0.21

Notes: The data are at the industry-year level. Columns 3 and 4 are restricted to years in which there is at least one new corporation. Standard errors are clustered at the industry level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Delays of Authorization and Operation The second mechanism we investigate concerns reductions in barriers to entry. The authorization system was an important policy lever in the post-independence period. Figure 6 shows that this was a time-consuming process that became even more arduous after independence, routinely taking up many months, and sometimes more than a year. At the outset, the growing difficulty of acquiring authorization decrees coincided with the proliferation of connected companies. Our empirical exercises show that the processes were linked.

We estimate the impact of connections on the delay between formally signing (and filing) the company statutes, and the decree that authorized incorporation, which we observe for all corporations. We also examine the effect of connections on the delay between the decree and the year for which the firm produced its full balance sheet after starting operations, which we observe for only a subset of corporations in the dividends sample. We analyze these questions by estimating the following cross-sectional OLS regression at the corporation level. We estimate a separate regression for the colonial and post-independence periods:

$$delay_{cd} = \gamma connected_{cd} + \alpha_d + X_{cd}\theta + \varepsilon_{cd}$$

where $delay_{cd}$ is the duration in months between the contract and the decree, or the duration in years between the decree and the first year of operation, for corporation c in industry d . The main regressor is $connected_{cd}$ which is a dummy variable that equals 1 if corporation c has at least one MP or MC among its founders during the month of contracting, and equals 0 if a corporation does not have any founder-MP or founder-MC throughout its life cycle. We thus exclude corporations that became politically connected only after the contracting month. We control for a full set of industry fixed effects (α_d). The control vector X_{cd} includes the logarithm of initial capital that accounts for the variation in firm size, and the proportion of foreign founders.

Column 1 of Table 7 shows that the average delay of authorization during the colonial period was 1.3 months. Connected corporations during the month of contract did not enjoy shorter delay than never-connected corporations. In contrast, column 3 shows that the average delay of authorization increased to 7.3 months after independence. Furthermore, in comparison to never-connected firms, connected corporations during the month of contract enjoyed a significantly shorter delay between contracting and receiving the authorization decree by 1.4 months, which is 22 percent of the average delay. To provide further evidence that the correlation between political connections at contract and authorization delay is attributable to a causal effect of having a connection at contract, we control for a dummy variable that equals 1 if a corporation became

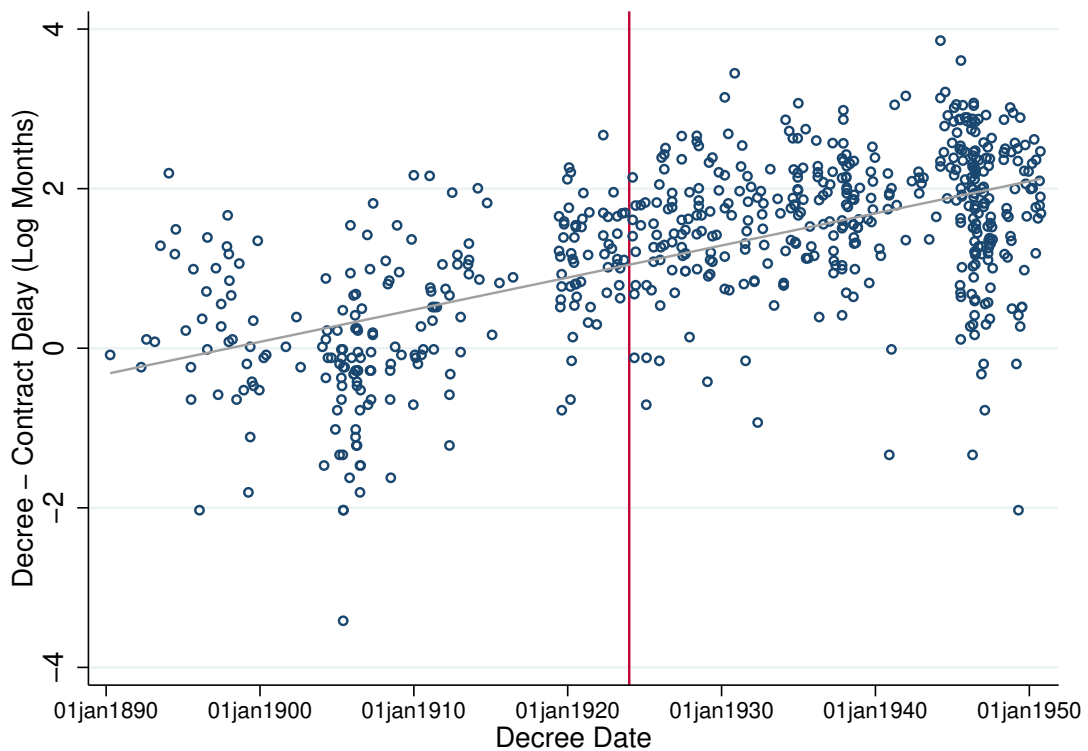


Figure 6: Contract-Authorization Delay

Notes: The graph shows the duration between the contracting date (that is, the date on which founders signed and filed incorporation statutes for approval) and the date of decree that formally authorized that company's incorporation. Each circle represents a corporation. The vertical line indicates the date of independence. The gray line is the linear best fit.

connected within one year after the decree was issued, but not before (columns 2 and 4).²⁹ We find in column 4 that the effect of political connections during the contracting month retains its statistical significance, while the coefficient on obtaining a connection within 1 year after decree is statistically insignificant.

Columns 5–6 report the estimates for the delay, in years, between the date the firm received its authorization decree and the year the firm produced its full balance sheet after starting operations. On average, corporations started their business within 6 months upon receiving authorization during the colonial period, but this delay doubled after independence. Whereas connections at the time of approval did not matter for the delay of operation before 1924 (column 5), column 6 shows that firms that were connected at

²⁹This slightly increases our sample to include corporations that were not connected during the contracting month, but became connected within one year after the decree.

the time of approval began operations about five months later after 1924. This suggests that connected corporations during the post-independence period were not necessarily more productive than unconnected firms, and so, had trouble getting started relative to unconnected firms despite faster authorization. In fact, the delayed start of business offset the early authorization advantage they enjoyed. Our results show that although connections eased legal barriers to entry, these corporations faced operational hurdles that connections could not mitigate.

Table 7: Political Connections and Delays of Authorization and Operation

	Delay of Authorization				Delay of Operation	
	(1) < 1924	(2) < 1924	(3) ≥ 1924	(4) ≥ 1924	(5) < 1924	(6) ≥ 1924
=1 if MP/MC-Founder at Contract	0.19 (0.74)	-0.53 (0.83)	-1.75 (0.63)***	-1.40 (0.63)**		
=1 if MP/MC-Founder within 1 Year after Decree		3.14 (0.91)***		-1.49 (1.03)		
=1 if MP/MC-Founder at Entry (Decree)					-0.11 (0.60)	0.38 (0.21)*
Log(Initial Capital)	-0.36 (0.06)***	-0.32 (0.07)***	-0.59 (0.24)**	-0.58 (0.23)**	0.01 (0.09)	-0.11 (0.09)
Prop. Foreign Founders	-0.85 (0.29)***	-0.69 (0.31)**	-3.16 (1.21)***	-3.02 (1.19)**	-0.15 (0.37)	-0.79 (0.42)*
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporations)	348	351	368	374	49	140
R ²	0.29	0.25	0.13	0.13	0.20	0.33
Mean Dep. Var.	1.26	1.29	7.29	7.22	0.53	1.12

Notes: The dependent variable is the delay between signing the contract and the issuance of the decree in months in columns 1–4, and the delay between the decree issuance and the year of the first balance sheet in years in column 5–6. In columns 1–4, < 1924 (≥ 1924) means that the sample is restricted to corporations whose contracting date is before (in or after) 1924. In columns 5–6, < 1924 (≥ 1924) means that the sample is restricted to corporations whose entry year is before (in or after) 1924. Columns 1 and 3 are restricted to corporations that have at least one founder-MP or MC during the month of the contract and those that did not have any founder-MP or MC throughout their life cycle. Columns 2 and 4 are restricted to corporations that have at least one founder-MP or MC during the month of contract, those that did not have any founder-MP or MC during the month of contract but gained at least one founder-MP or MC within one year following the issuance of the decree, and firms that did not have any founder-MP or MC throughout their life cycle. Standard errors are in parentheses. Time-invariant controls are the logarithm of initial capital and the proportion of foreign founders. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Exit The third mechanism we examine is 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.

The survival analysis requires observing the dates of incorporation and dissolution. Three issues arise. First, our data span corporate businesses from January 1, 1890 to December 31, 1950, when all firm histories are censored. While many corporations dissolved after December 31, 1950, we do not know their exit date. Second, businesses in our data also enter at different points in time; they belong to different cohorts. This would make the analysis of survival in the long term driven by a handful of companies founded before 1900. Similarly, we observe businesses that incorporated only a few years before the censoring date, and are too “young” for meaningful comparisons. Third, while we observe the year of dissolution for every corporation that exited before 1950, we do not observe the month of dissolution for every company.

We address the first and second issues—censoring and cohort effects—by applying a consistent censoring strategy of 10-year and 20-year spans. In the 20 (10) year span, we only consider corporations that can be potentially observed for at least 20 (10) years; we remove all corporation-year observations beyond 20 (10) years of entry, and we remove corporations that were established on January 1, 1931 (1941) or later. We then estimate the difference in survival over 20 (10) years between connected and unconnected firms. Because of this restriction, we are not able to conduct a separate survival analysis for the colonial and post-independence periods. Instead, we study the relationship between political connections and survival over the whole period.³⁰ We contend with the third problem of unknown exit months by running two sets of analyses: continuous-time survival on a restricted sample that removes corporations that exited before the censoring date but that have unknown exit months, and a discrete-time survival on our entire sample (subject to consistent censoring) where the unit of the time analysis is one year.

Our survival estimations employ a time-invariant definition of connections, where we compare three sets of corporations: (1) corporations that were never connected to an MP or MC, (2) corporations that had at least one MP-founder at any month during

³⁰Although Cox proportional hazards regressions can deal with the “incomplete follow-up,” we still need to restrict our survival window to fixed spans since businesses in our data enter at different points in time.

their lifetime, but never had an MC-founder, and (3) corporations that had at least one MC-founder at any month. Adopting a time-invariant definition is necessary for estimating the Kaplan-Meier survival functions. Even though in a hazards model like Cox, we can use time-variant connections, this will likely create noise. While parliamentary elections frequent, occurring almost every two years between 1924 and 1950, corporations, by construction, have long lives. Hence, losing a political connection would not likely raise the 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 estimating the Kaplan-Meier survival functions without making parametric assumptions, and using the information from firm histories alone. At the outset, we find large disparities in survival across the three groups of corporations. Figure 7 demonstrates this evidence by plotting the Kaplan-Meier survival estimates over the 10-year and 20-year windows. More than 95 percent of corporations ever connected via an MC, and about 75 to 90 percent of firms with an MP-founder but no MC-founder, survived the first 10 or 20 years. In contrast, only 60 percent of unconnected firms lived at least 10 years, more than half of them dissolving before reaching 20 years.

Differences in survival across connected and unconnected firms may be driven by either a causal effect of connections on survival or omitted variables that are correlated with both variables. We control for a number of potential confounders by estimating a Cox continuous proportional-hazards model over 10-year and 20-year spans. The main regressors of interest are a dummy variable that indicates whether a corporation was ever connected to an MP (but not to an MC), and a dummy variable that indicates whether a corporation was ever connected to an MC. Our time-invariant controls include the proportion of foreign founders, the initial capital, industry fixed effects, and parliamentary cycle of entry fixed effects.

Table 8 reports the hazard-ratio estimates. If the hazard-ratio estimate is greater than 1, politically connected firms have a greater exit risk, and thus shorter survival than unconnected firms. Our estimates in column 1 show that corporations that were ever connected to an MP, but not to an MC, enjoyed 0.35 times the hazard of exit that

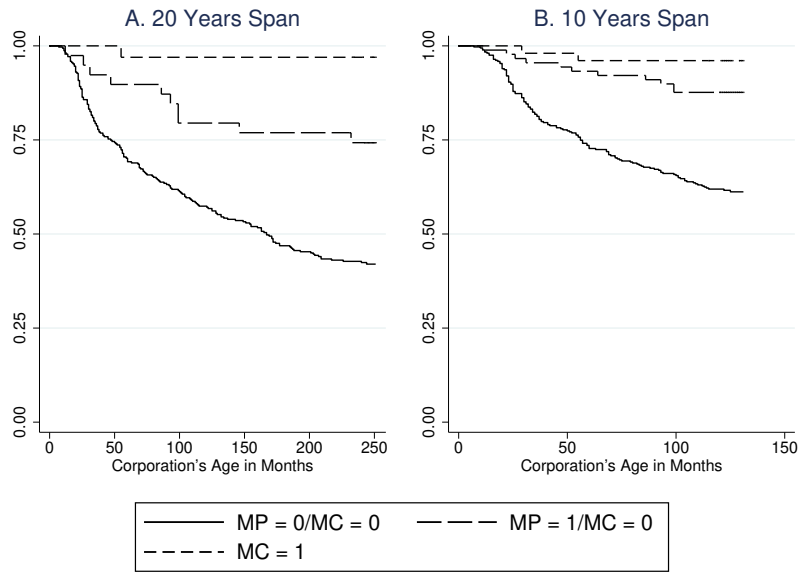


Figure 7: Political Connections of Corporations and Monthly Exit: Kaplan-Meier Survival Function

Note: This analysis excludes firms that exited before December 31, 1950 but had unknown exit months.

unconnected corporations did over the 20-year span; in other words, political connections to MPs were associated with a 65 percent lower exit risk relative to unconnected firms. Corporations connected through an MC were even more resilient with about 96 percent lower failure risk. Adding controls in column 2 reduces this gap, so there might be survival selection based on initial capital, the proportion of foreign founders, and industry choices, but the magnitude remains substantial and statistically significant. Controlling for cycle of entry fixed effects in column 3 further reduces the survival gap, suggesting that cohort of entry may be driving part of the effects, but the effects remain large and statistically significant for MCs. The reduction in hazard risk is smaller for both types of political connections in the 10-year span, indicating that survival benefits are amplified in the long run. The last two rows report the p -values for testing the proportional hazards between our key connection categories and the reference group (not connected). Our tests show that the proportional hazards assumption is not rejected, except in one of our specifications (column 5).

We conduct two robustness checks. First, we re-define our political connections regressor to be measured during the month of contracting the corporation. Specifically,

Table 8: Political Connections of Corporations and Monthly 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 MP & No MC	0.35 (0.11)***	0.46 (0.16)**	0.67 (0.27)	0.27 (0.08)***	0.42 (0.14)***	0.73 (0.26)
=1 if MC	0.04 (0.04)***	0.05 (0.05)***	0.06 (0.06)***	0.08 (0.06)***	0.13 (0.09)***	0.18 (0.14)**
Prop. Foreign Founders		2.03 (0.58)**	2.05 (0.64)**		2.78 (0.95)***	1.73 (0.63)
Log(Initial Capital)		0.92 (0.04)*	0.90 (0.05)*		0.94 (0.05)	0.90 (0.06)
Industry FE	No	Yes	Yes	No	Yes	Yes
Entry Cycle FE	No	No	Yes	No	No	Yes
N (Corporation-Month)	62064	61837	59728	50888	50758	49916
N Subjects	387	385	373	503	501	490
N Failures	193	192	191	153	153	153
Pseudo R^2	0.02	0.05	0.06	0.03	0.05	0.09
Log-likelihood	-1064.05	-1034.41	-1002.36	-900.14	-877.28	-837.90
p -value PH (MP & No MC)	0.91	0.56	0.34	0.59	0.09	0.22
p -value PH (MC)	0.52	0.76	0.97	0.61	0.83	0.26

Notes: This analysis excludes firms that exited before December 31, 1950 but had unknown exit months. Table reports the hazard ratios. Columns 1–3 are restricted to a period of 20 years span after the year of entry, whereas columns 4–6 are restricted to a period of 10 years span after the year of entry. White-Huber heteroskedasticity robust standard errors are in parentheses. The p -values of the constant proportional hazards tests are reported in the last two rows. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

we compare corporations that had at least one founder who was an MP or MC during the contracting month, to corporations that did not have a political connection during that month.³¹ The corresponding Cox proportional-hazards estimates are reported in Appendix Table 11 and are similar to the main findings. Second, we estimate a discrete proportional-hazards (CLOGLOG) model for all corporations, including with unknown exit months, where the unit of analysis is the year. The results for the 20-year span are shown in Appendix Figure 8 and are similar to the continuous survival results.

While our results on firm survival reveal significant differences between connected and unconnected firms, we can take advantage of firm’s financial histories to better

³¹We combine MP and MC connections in this specification because of the small number of firms that were connected to an MC during the contracting month.

understand how connected firms might have exploited their political position to reduce their exit risk. Table 9 reports results from additional estimations of Cox proportional-hazards models, where the outcome variable is the annual hazard since the first year when the company reported a loss, capped at 10 (resp. 20) years after the year of first loss. We further remove corporations that reported their first loss on January 1, 1941 (resp. 1931) or later. We find that corporations that had an MP or MC founder during the first year they had negative profits, enjoyed 64 to 71 percent less annual exit risk in the 10 years after reporting their first loss relative to unconnected firms. Connected firms were thus able to stave off exit risk despite not being profitable. These results show that connected firms faced less attrition, could remain in the market despite not being profitable in a way that unconnected firms could not, because connected firms did not face competitive pressure as seriously. This might explain why connected firms had higher market value during the post-independence period.

Table 9: Political Connections of Corporations and Post-Loss (Yearly) Exit: Cox Proportional-Hazards Model

	20 Years Span		10 Years Span	
	(1) Hazard Ratio	(2) Hazard Ratio	(3) Hazard Ratio	(4) Hazard Ratio
=1 if MP/MC-Founder at First Loss	0.54 (0.38)	0.09 (0.16)	0.36 (0.22)*	0.19 (0.16)**
Prop. Foreign Founders		1.46 (1.85)		1.00 (0.86)
Log(Initial Capital)		0.52 (0.13)***		0.71 (0.10)**
Industry FE	No	Yes	No	Yes
N (Corporation-Year)	798	491	1044	810
N Subjects	54	42	122	102
N Failures	22	17	28	24
Pseudo R^2	0.00	0.20	0.01	0.18
Log-likelihood	-81.81	-47.21	-129.87	-88.43
p -value PH (MP/MC)	0.78	0.02	0.60	0.13

Notes: The regressions are at the corporation and year level. Table reports the hazard ratios. Columns 1–2 are restricted to a period of 20 years span after the year of first loss, whereas columns 3–4 are restricted to a period of 10 years span after the year of first loss. White-Huber heteroskedasticity robust standard errors are in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Discussion We discuss two other potential mechanisms that can explain the higher firm value post independence. The first is that connected firms might have been favored by the government in securing public contracts. The second is that these firms might have had a larger employment base.

We do not observe individual government contracts so we cannot test the hypothesis that connected corporations benefited from subsidies or preferential access to procurement. Connections might have mattered especially in sectors that required special licenses, such as mining or public utilities. Similarly, connected contractors might have been more successful in their bids for major construction projects. These mechanisms would be consistent with the previous channels we demonstrated above; such licenses and permissions would be useful in establishing market power. Indeed, we observe a high concentration of connections in construction but not utilities and mining, at least until the 1940s (see Figure 5). However, we can rule out special tax benefits or procurement. The Egyptian government or parliament, even after 1923, had limited policy and regulatory discretion. The concessionary treaties that Egypt had with European powers—capitulations—remained in effect until 1936, preventing the government to impose tariffs or reform the tax system.³² As a result, Egypt continued to operate under practically free trade with an outdated tax system that did not include any personal or capital income tax. The only meaningful taxes were on land. This had several implications. First, connected corporations could not gain more preferential tax treatment since there was no capital income tax on any corporation. Second, connected corporations could not enjoy tariff protection because all tariffs were fixed at a low rate across all imports. Third, the state’s fiscal capacity was limited due to low tax revenue, which significantly curtailed the government’s ability to intervene in markets or make purchases (Tignor 1984, pp. 109, 151–54).

The government’s limited regulatory power highlights why authorization emerged as an important mechanism. The state could not easily regulate incumbent corporations, but it could decide which firms could incorporate and which could not. This can also explain why connections did not generate firm value before independence. Especially

³²Capitulations prevented the Egyptian government from changing tariffs altogether and impose new taxes on European nationals, thus preventing the implementation of any tax reform.

before 1907, the authorization system was a formality and the government approved all applications automatically, as long as founders included certain governance rules in their articles of association (Artunç 2021). As a result, the duration between contracting and authorization was short (Figure 6). So, connections did not provide the one important benefit that they would grant after independence: connected firms did not incorporate more easily and they could not take advantage of their connections to delay the incorporation of potential competitors.

While we do not observe annual employment by industry during our period of interest, the Industrial and Commercial Census of 1937 provides an important snapshot. Figure 5 shows that construction, textile manufacturing, chemicals manufacturing, publishing-media, and wholesale-retail of durables had the highest concentration of connected corporations (more than 50 percent). Textile manufacturing and wholesale/retail of durables also accounted for the highest shares of non-farm employment (18 and 15 percent, respectively). But construction, chemicals manufacturing, and publishing were small, each making up less than 2 percent of non-farm employment. Finance, another sector with a high share of connected firms, was the most heavily capitalized industry—representing 17 percent of total capital stock in 1937—but only accounted for 3.5 percent of non-farm employment. Other connected sectors were not nearly as capitalized. So, there are no clear employment or investment patterns that can explain the high concentration of connected incumbents in certain sectors. Rather, these industries had connected firms due to the state’s industrialization policy and the government’s objective of creating (and co-opting) an indigenous business elite. As our industry-level analysis shows, the connected industries were new. Corporate-state connections took form in the emerging industries that the interwar governments tried to promote to promote Egypt’s industrialization.

Why did connections have negative effects before independence? Clearly, post-independence, having connected founders provided benefits. In the absence of those benefits, one might have expected to see null effects. Instead, connections hurt investors’ perception of the firm’s future profitability. While we cannot test these mechanisms directly, the identity and nature of these connections could be significant. There

were not many connections in the colonial era to begin with, likely reflecting the fact that connections were not attractive in this period. We see two important patterns in the few connected firms. Like most corporations of the colonial period, their founders were a mix of British, Continental European (French, Belgian or German), and Egyptian (usually, non-Muslim minorities). Connections were established via a few Egyptians, who were important financiers and sympathetic to the nationalist movement if not outright involved. Joseph Aslan Cattau (Yusuf Aslan Qattawi) alone was a founder in 47 percent of the connected firms. He was also a strong supporter of Egyptian independence, a member of Wafd, and the finance minister in the first Wafd government of 1924. Early members of Wafd accounted for 76 percent of political connections.³³ So, upon the election of these founders as MPs or ministers, investors might have feared political conflicts playing out in the governance of these connected corporations that also included the British colonial elite. The mere presence of pro-independence figures could have depressed firm value. In the pre-independence period, connections with the British elite might have been more beneficial. British firms were more successful in securing construction contracts, thanks to the predominance of British political power, and thereby were responsible for much of the major infrastructure projects of the time (Tignor 1980, p. 423). In contrast, firms whose board members were known sympathizers of the independence movement might have faced additional difficulties in getting contracts or other permissions. As a result, when connected, firm value dropped and dividend payments suffered.

4 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 quasi-independent monarchical periods, covering a rich, turbu-

³³Before 1924, 17 corporations were ever connected. 13 of these corporations were connected through a founder who was an active participant in the independence movement. Joseph Cattau was in 11 of these firms. Other pro-independence MP-founders were Hassan Abdel Razek, Mahmoud Abdel Gaffar, Hussein Wassef, Omar Loutfi, and Talaat Harb. Two corporations were connected via pro-British politicians: Hussein Kamel and Moustapha Riaz. The British installed Hussein Kamel as the Sultan of Egypt in 1914 when they declared Egypt was a British protectorate. Two corporations were connected via Khaled Loutfi and Roustem El Alayly, whose political leanings are not known.

lent political and economic history. We assembled novel, finely-grained datasets on corporations and members of parliament and cabinet to reveal the impact of political connections on corporations and the industries in which these firms operated. Political connections were not exceptional; 20 to 60 percent of corporate incumbents were politically connected between the 1920s to 1950. We show that these connections benefited corporations substantially after independence but not before, as connected founders added to firm value and raised dividend payouts. By contrast, during the colonial period, connections actually reduced firm value, highlighting the significance of political power in determining the direction of how connections affect firm outcomes.

We then explored various mechanisms through which connections may have increased firm value and dividends payments after independence. Our evidence suggests that the post-independence Egyptian governments used political connections in order to mitigate the European influence in the economy and promote new “national” industries. Consequently, connected industries were new, dominated by young, Egyptian firms but also had muted firm turnover. The success of political corporations was due to the distortionary benefits connections granted. Without connections, incorporation took much longer and was likely more costly. This was an overt policy lever that a connected company could affect through their connection. But the connected firms, while enjoying faster authorization, ended up entering later, suggesting that they were not more productive as they faced operation hurdles. Finally, connected firms were far more resilient than unconnected ones, even among the less productive firms that made losses.

Political connections had severe economic costs in the post-independence period. They distorted the competitive forces of creative destruction, gave faster authorization to connected corporations, and made firms more resilient. 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 effects to evaluate the full impact on welfare.

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Appendix

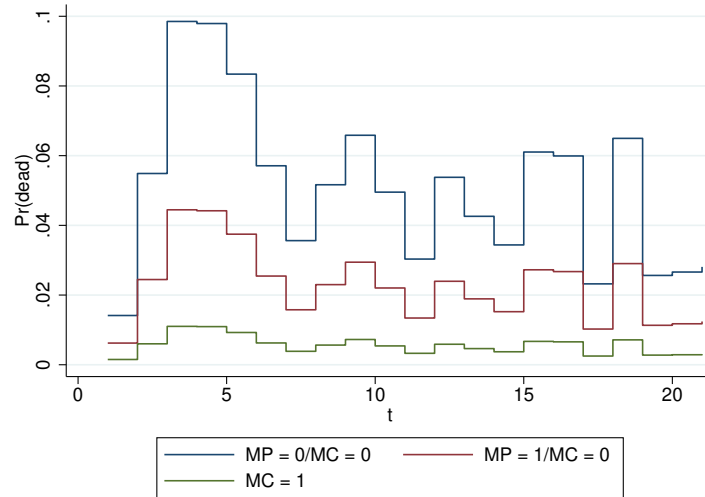


Figure 8: Political Connections of Corporations and Annual Exit: Discrete Proportional-Hazards (CLOGLOG) Model

Table 10: Political Connections of Corporations and Dividends: 10 Years Limit

(a) 1898–1923

	Individual-based Measure				Dynasty-based Measure			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if MP & No MC	-0.21 (0.12)*	-0.31 (0.16)*	-0.11 (0.16)	0.02 (0.05)	-0.18 (0.10)*	-0.19 (0.15)	0.01 (0.05)	-0.02 (0.05)
=1 if MC	0.32 (0.14)**	0.52 (0.14)***	0.36 (0.17)**	0.18 (0.28)	0.11 (0.11)	0.21 (0.12)*	-0.15 (0.04)***	-0.17 (0.04)***
=1 if MP & No MC × Pub. Held		0.12 (0.21)		-0.32 (0.27)		-0.05 (0.22)		0.10 (0.12)
=1 if MC × Pub. Held		-0.37 (0.16)**		0.00 (.)		-0.32 (0.14)**		0.00 (.)
=1 if Pub. Held		0.16 (0.08)**				0.17 (0.08)**		
Log(Initial Capital)	-0.01 (0.02)	-0.03 (0.02)			-0.01 (0.02)	-0.03 (0.02)		
Prop. Foreign Founders	-0.30 (0.10)***	-0.26 (0.10)***			-0.29 (0.10)***	-0.25 (0.10)**		
Corporation FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry FE	Yes	Yes	No	No	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Year)	729	729	711	711	729	729	711	711
Clusters (Corporations)	143	143	125	125	143	143	125	125
R ²	0.31	0.32	0.72	0.72	0.31	0.32	0.72	0.72
Mean dep. var.	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56

(b) 1924–1939

	Individual-based Measure				Dynasty-based Measure			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
=1 if MP & No MC	-0.00 (0.07)	0.00 (0.07)	0.18 (0.09)**	0.17 (0.09)*	-0.02 (0.07)	-0.01 (0.07)	0.22 (0.11)*	0.22 (0.11)*
=1 if MC	0.07 (0.08)	0.05 (0.10)	0.18 (0.10)*	0.14 (0.11)	-0.01 (0.08)	-0.02 (0.08)	0.20 (0.13)	0.18 (0.13)
=1 if MP & No MC × Pub. Held		-0.09 (0.16)		0.50 (0.17)***		-0.15 (0.15)		-0.19 (0.14)
=1 if MC × Pub. Held		-0.04 (0.17)		0.62 (0.15)***		-0.01 (0.17)		0.00 (.)
=1 if Pub. Held		0.25 (0.12)**				0.26 (0.12)**		
Log(Initial Capital)	0.04 (0.02)*	0.04 (0.02)*			0.05 (0.02)**	0.04 (0.02)*		
Prop. Foreign Founders	-0.01 (0.10)	-0.03 (0.10)			-0.02 (0.10)	-0.03 (0.10)		
Corporation FE	No	No	Yes	Yes	No	No	Yes	Yes
Industry FE	Yes	Yes	No	No	Yes	Yes	No	No
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs (Corporation-Year)	1138	1138	1109	1109	1138	1138	1109	1109
Clusters (Corporations)	203	203	174	174	203	203	174	174
R ²	0.15	0.16	0.61	0.61	0.15	0.16	0.61	0.61
Mean dep. var.	0.57	0.57	0.57	0.57	0.57	0.57	0.57	0.57

Notes: The dependent variable is a dummy variable that equals one if the corporation paid out any dividends during the year. Political connections are limited to 10 years following the entry of the firm, after which the firm is dropped from the analysis. Time-invariant controls are the logarithm of initial paid-up capital and the proportion of foreign founders. Standard errors are clustered at the corporation level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 11: Political Connections of Corporations during Contracting Month and Monthly 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
MPMC	0.28 (0.12)***	0.42 (0.19)*	0.68 (0.35)	0.24 (0.08)***	0.41 (0.15)**	0.87 (0.36)
Prop. Foreign Founders		2.76 (0.78)***	2.43 (0.73)***		3.56 (1.20)***	1.94 (0.68)*
Log(Initial Capital)		0.91 (0.04)**	0.89 (0.05)**		0.93 (0.05)	0.89 (0.06)*
Industry FE	No	Yes	Yes	No	Yes	Yes
Entry Cycle FE	No	No	Yes	No	No	Yes
N (Corporation-Month)	62064	61837	59728	50888	50758	49916
N Subjects	387	385	373	503	501	490
N Failures	193	192	191	153	153	153
Pseudo R^2	0.01	0.03	0.06	0.01	0.04	0.09
Log-likelihood	-1083.90	-1047.19	-1011.69	-912.13	-883.77	-842.15
p -value PH (MP/MC)	0.60	0.63	0.36	0.97	0.33	0.83

Notes: This analysis excludes firms that exited before December 31, 1950 but had unknown exit months. 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. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

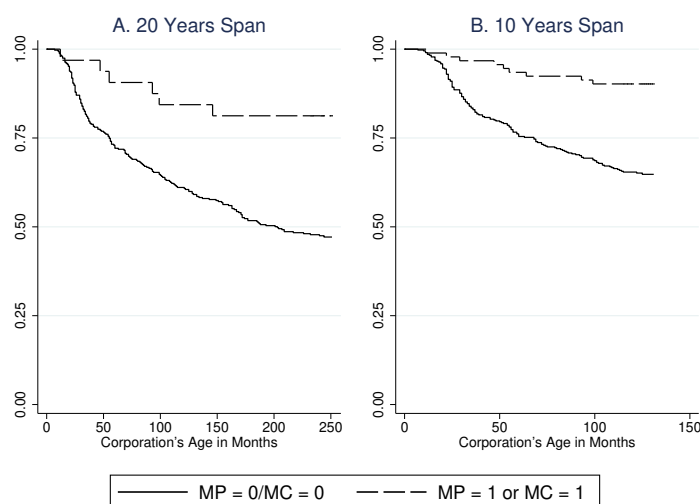


Figure 9: Political Connections of Corporations and Monthly Exit: Kaplan-Meier Survival Function by Political Connection Status during Contracting Month