

Measuring the Extent and Implications of Corporate Political Connections in Prewar Japan

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Abstract

This paper explores the extent of political connections of firms, and examines the implications for firm values, using firm-level data from prewar Japan. We collect data on publicly traded companies in Japan from the late 1920s and early 1930s on directors and their positions in the House of Representatives, stock prices, and financial performance. We find that almost 20% of the publicly traded companies had political connections through politician directors. In particular, firms in the regulated industries, including the electrical utilities and the railroad industries, were more likely to have political connections. Overall, there is not strong evidence that political connections increased firm values. On the other hand, in firms with newly obtained political connections, we find that stock returns improved from the pre-election period to the post-election period.

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