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Political Connections Cause Resource Misallocation: Evidence from the Fall of Fascism in Italy

Finance Working Paper N° 939/2023
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Abstract

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Keywords: Political connections, capital misallocation

JEL Classifications: D61, G30, G38

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Abstract

The fall of fascism in Italy in 1943-1944 was followed by the issuance of laws and decrees that made former fascist politicians ineligible for political office. We use this setting as a quasi-natural experiment that exogenously disrupted then prevalent corporate political connections. We find that following the exogenous disruption of their political connections, previously politically connected firms underperform their peers. The relative underperformance is both statistically and economically significant. These results imply that political connections lead to misallocation of economic resources because resources allocated to politically connected firms are not allocated to their best uses.

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I. Introduction

A fundamental concern with corporate political connections is that such connections lead to a systematic misallocation of economic resources.[1] It is well documented that political connections, at least on average, increase firm value (e.g., Roberts (1990), Fisman (2001), Faccio (2006), Ferguson and Voth (2008), Bunkanwanicha and Wiwattanakantang (2009), and Acemoglu, Johnson, Kermani, Kwak, and Mitton (2016)). Those value gains, though, do not necessarily imply misallocation of economic resources. Social and professional ties, including political connections, can mitigate market frictions by facilitating the sharing of information (Crawford and Sobel (1982), Austen-Smith (1994, 1995), Cohen, Frazzini, and Malloy (2008), Chakraborty and Harbaugh (2010), Bertrand, Bombardini, and Trebbi (2014), and Brogaard, Engelberg, and Parsons (2014)). Yet, such ties could lead to the preferential treatment of connected parties (Zinovyeva and Bagues (2015), Fisman, Shi, Wang and Xu (2018), and Schoenherr (2019)).

Distinguishing between the "information" and the "preferential treatment" view of connections is empirically challenging, as both views predict an observationally equivalent outcome: a greater allocation of economic resources to politically connected firms. Furthermore, while it may be tempting to attach a positive connotation to the "information" view of connections, and a negative connotation to the "preferential treatment" channel, neither view unequivocally implies good or bad allocation of economic resources (see, for example, Laband and Piette (1994), Brogaard et al. (2014), and Schoenherr (2019)). Connected firms that are treated preferentially by the government might be the best firms in the economy. Further, politicians may use the information gained through such connections to match with firms from which they can extract the

[1] In this paper, a firm is considered to be politically connected when any of its officers or directors is a member of Parliament or is a government minister.

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largest rents, rather than matching with the best firms. Last but not least, to further complicate the task of empiricists, focusing on observable proxies of firm quality, such as performance, is often highly problematic due to the endogenous formation of political connections.

In this study, we circumvent these difficulties by focusing on the fall of fascism in Italy in 1943-1944 as a quasi-natural experiment. This setting is appealing for several reasons. First, during the fascist regime, political connections were pervasive. In 1941, 80% of the largest 150 Italian firms had a politician serving as an officer or a director (henceforth, O&D). Second, connections to the fascist regime were severed following the collapse of fascism. Fascist politicians became ineligible for political office by a royal decree issued in 1944. Their ineligibility was confirmed in the Constitution of the Republic of Italy in 1948. Thus, corporate connections to the fascist party disappeared. Third, connections to the fascist party were not replaced by new political connections. This was largely the consequence of legal incompatibilities between O&D and political positions established after the collapse of fascism. Fourth, the exogenous termination of political connections that followed the fall of fascism did not affect the information possessed by market participants about the quality of politically connected firms, shutting down the "information view" as the explanation for the benefits enjoyed by politically connected firms.

This setting allows us to assess the quality of politically connected firms in the *absence* of political connections which, in turn, allows us to determine whether political connections lead to a misallocation of economic resources.

Documenting the disappearance of political connections following the fall of fascism is the starting point. We provide three pieces of evidence in this regard. First, we document that O&Ds who served as members of Parliament or as government Ministers during fascism no longer serve in a political office after the fall of fascism. The analysis of turnover among members of the

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Chamber of Deputies confirms that point in that only one of the 949 Deputies who served in the Chamber of Fasces and Corporations served in the following legislature. Second, former fascist politicians also tend to lose positions as O&Ds following the fall of fascism. Third, after the fall of fascism, firms do not replace connections to fascist politicians with connections to other politicians.

As the measure of firm quality, we employ return on equity (ROE). Employing ROE, rather than marginal Tobin's Q, has one major benefit: Doing so allows us to include in the analyses a large number of unlisted firms, which represent the overwhelming majority of Italian businesses including large ones. Using a difference-in-differences setting centered around the fall of fascism, we find that firms that previously had a fascist politician as an O&D experience a statistically and economically significant fall in ROE relative to their peers. For example, between 1944 and 1950, on average, firms that previously had an O&D who was also a fascist politician experience a reduction in ROE relative to their peers of approximately 9 percentage points per year. This result is robust to using alternative benchmark years and saturating the models with a variety of fixed effects. Placebo tests that use the final years of World War I as a counterfactual confirm that the results are due to the fall of fascism rather than the end of World War II.

This study contributes to the literature on political connections in two ways. This study is the first to develop a long time series of corporate political connections. The data, which span half a century, include 3,744 firms and 30,893 unique O&Ds. By using a newly-assembled directory of Italian politicians encompassing 2,672 Senators, 4,177 Deputies, and 385 government Ministers, we determine whether an O&D is a politician. The data enable us to document and ensure that the fascist connections are disrupted and not replaced with other political connections over the decades that followed their discontinuation. That is, connections are fully and persistently

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disrupted. Second, the setting employed is unique in that it enables us to disentangle political rents from the performance of politically connected firms. When we do so, we find that politically connected firms substantially underperform their peers. That is, politically connected firms are weak firms. Thus, resources allocated to them are not allocated to their best uses.

II. The Italian Political System

In this section, we describe the emergence and decline of fascism as the dominant force in the political system of Italy. From its inception in 1861, the Kingdom of Italy had a bicameral Parliament, consisting of the Chamber of Deputies (*Camera dei deputati del Regno d'Italia*) and the Senate (*Senato del Regno d'Italia*). Deputies were elected. With the exception of male members of the Royal family, who were Senators by birthright, Senators were appointed for life by the King. The Prime Minister often initiated this process by nominating a candidate who met at least one of 21 criteria for appointment. A common criterion for appointment was having paid direct taxes above a threshold amount.

In 1921, marking the first time that a fascist was elected to Parliament, out of a total of 535 Deputies, a small number of fascists, 35 in total, were elected to Parliament. One of these was Benito Mussolini, one of the founders, in 1914, of *Fascio d'Azione Rivoluzionaria*, the party that became, in 1921, *Partito Nazionale Fascista*, the fascist national party.

The key event that allowed Mussolini to seize power after the 1921 elections was the "March on Rome" that took place during October 27-31, 1922. During this event, some 30,000 armed fascist blackshirts[2] gathered in Rome, demanding the resignation of the Prime Minister, Luigi Facta. On October 28, Facta resigned, and, to avoid blackshirt violence, King Vittorio

[2] The blackshirts (*camicie nere*) were a paramilitary organization that often used intimidation and violence against opponents of Mussolini.

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Emanuele III asked Mussolini to form and lead a new government. On October 31, 1922, Mussolini became Prime Minister, a position that he held through 1943.

In the years between 1923 and 1939, the electoral law was modified a number of times. These modifications allowed the fascists to gain control of the Chamber of Deputies and, then, replace it with the non-elected Chamber of Fasces and Corporations. Concurrently, the Senate was progressively sidelined.

A second major event that allowed the fascists to consolidate their power was the passage of the Acerbo law in November 1923. This law granted a two-thirds majority in the Chamber of Deputies to the party (or coalition of parties) that received the largest share of votes in an election, provided that they received at least 25% of the votes. The law was opposed by the socialist Deputies but Mussolini was able to attract support from some smaller liberal parties and some of the members of the catholic party resulting in the majority of voting Deputies supporting the law. On April 6, 1924, elections were held in which Mussolini's list of candidates obtained 64.9% of the votes.

The results of the election were contested by the opposition. In particular, on May 30, 1924, Giacomo Matteotti, leader of *Partito Socialista Unitario* (the Unitary Socialist Party), openly accused the fascists of electoral fraud. In June Matteotti was kidnapped by fascist squads. Subsequently, 130 opposition Deputies withdrew from the Chamber of Deputies in protest, an event referred to as the Aventine Secession.[3] Two years later, on November 9, 1926, based on a vote, 123 of these Deputies and one fascist dissident were removed from office with many being exiled or imprisoned.

[3] The lifeless body of Matteotti was recovered in August.

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In 1928, a new electoral law was introduced. The new law established that a list of 400 candidates, chosen by the grand council of fascism, would be submitted to the voters for approval or rejection. In 1929, elections were held with the list put forward by the grand council receiving votes of approval by over 98% of the votes cast. This electoral law was in place for the elections of 1928 and 1934. In the election of 1934, the list put forward by the grand council was approved by 99.8% of the votes.

On January 19, 1939, a non-elective chamber, the Chamber of Fasces and Corporations (*Camera dei Fasci e delle Corporazioni*), was instituted to replace the Chamber of Deputies. In June 1940, Italy entered World War II, on the side of the Axis powers, by declaring war on France and the United Kingdom. Italian armed forces did not fare well upon entering the war in large measure due to the poor equipment and training of the military. That weakness was later compounded by widespread food shortages and labor unrest. These events led to a vote of no confidence in Mussolini, on July 24, 1943, by the grand council of fascism. The following day, the King removed Mussolini from office, and Mussolini was arrested and jailed. General Pietro Badoglio, himself a fascist, was appointed Prime Minister. On August 2, 1943, by Royal decree, the Chamber of Fasces and Corporations was dissolved. The decree further stipulated that elections would be held within four months following the end of World War II.

After the appointment of Badoglio, Germany suspected that Italy was likely to betray the Axis powers. In fact, on September 3, 1943, Italy signed an armistice with the Allied Forces. The armistice was made public on September 8. The following day, using military troops that had been deployed in Italy to provide military support, Germany formally began its occupation of Italy. The German occupation of Naples came to an end on September 27-30, 1943. Two weeks later, on October 13, Italy declared war on Germany. Nearly one year later, on June 4-5, 1944, the

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occupation of Rome came to an end. Throughout this entire time period Allied Forces engaged in strategic bombing of German occupied territories.

On June 5, 1944, without abdicating, Vittorio Emanuele III transferred his power to his son, Umberto II, who he appointed *Lieutenant General of the Realm*. On June 9, 1944, Umberto II replaced General Badoglio with a member of the labor democratic party, Ivanoe Bonomi, as Prime Minister.

One year later, on April 5, 1945, the *National Council* was formed. The Council, which was non-elective, was appointed to perform an advisory role to the King until parliamentary elections could be held.

The liberation of Italy from German occupation officially ended on April 25, 1945. Three days later, while attempting to flee to Switzerland, Mussolini was captured by a group of partisans and executed. His corpse was brought to Milan the following day and hanged upside down in Piazzale Loreto. On May 7, 1945, Germany signed an armistice with the Allied Forces.

In March 1946, Umberto II issued a decree stipulating that a referendum would be held to decide between a Monarchy and a Republic as the governing model for Italy. On May 9, 1946, Vittorio Emanuele III abdicated and Umberto II became the fourth King of Italy. The referendum of June 2 ended the Kingdom of Italy with Italy being formally proclaimed a Republic on June 10, 1946. In June 1946, the Senate of the Kingdom, which had not met publicly since May 1940, ceased to exist, as did the National Council.

In addition, on June 2, 1946, the members of the Constituent Assembly were elected. The key role of the Constituent Assembly was to draft the new Constitution of the Republic of Italy. On January 1, 1948, the Constitution of the Republic of Italy took effect. Accordingly, the

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Republic of Italy has two chambers of Parliament, the Chamber of Deputies of the Italian Republic and the Senate of the Italian Republic, both of which have been elective from the outset.

III. Key Legislation Restricting the Eligibility of Fascists for Political Office

In this section, we describe the laws and decrees, issued between 1944 and 1948, that held former fascist politicians to be ineligible for political office. By doing so, these directives severed the link between corporations who had fascist politicians as O&Ds and the political process.

These followed the dissolution of the Chamber of Fasces and Corporations, which occurred in 1943, and caused the Deputies to lose their political position. The first of these decrees is Decree 159 issued by Umberto II on July 27, 1944, which suspended the right to vote and the right to hold political office, for a period not to exceed ten years, for individuals who held leadership positions in the fascist party, with the specific positions to be determined by the Prime Minister.

In August 1944, after extensive deliberations, 302 Senators held responsible for fascist crimes were referred to the *High Court of Justice for Sanctions Against Fascism*. In November 1944, the *High Court* removed from office 258 of the 302 Senators. An exception to this ruling were 13 Senators, all of whom were appointed to the National Council, who were not referred to the *High Court*.

The restrictions to the electoral rights of fascist leaders were reiterated in decree 149 issued on April 26, 1945, to replace decree 159 of 1944. Decree 195, issued the same day, instituted prison terms for whomever attempted to reconstitute the fascist party.

Decree 74 of March 10, 1946, spelled out the specific offices that would trigger ineligibility to the Constituent Assembly. Elections to the Constituent Assembly were the first elections that were held after the fall of fascism. Articles 6, 7, and 8 of decree 74 specified that former politicians

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who fall into one of the following categories would be ineligible to hold a position in the Constituent Assembly: (1) individuals who joined the republican fascist party or who collaborated with it;[4] (2) Deputies who, after January 3, 1925, voted in favor of laws aimed at maintaining the fascist regime; (3) Senators who were removed from office by the *High Court of Justice for Sanctions Against Fascism*; and (4) Ministers or undersecretaries of State of the fascist governments in office beginning with January 6, 1925. January 3, 1925, is considered by historians the turning point that transformed the fascist regime into a dictatorship. It was on that date that Mussolini took moral responsibility for the killing of Matteotti.

Law 1453 of December 23, 1947, specified that voting rights were suspended for individuals falling into any one of the following categories: (1) Ministers or undersecretaries of State in office as of or after January 5, 1925; (2) Senators, except for the 13 Senators not referred to the *High Court of Justice for Sanctions Against Fascism*, or for whom the *High Court* had rejected the proposal for removal from office; (3) Deputies of legislatures XXVII, XXVIII and XXIX, with the exception of Deputies of legislature XXVII who either did not take oath, exercised opposition to fascism in the Chamber of Deputies, were removed from office by the motion of November 9, 1926, were members of the National Council, or were members of the Constituent Assembly; (4) members of the Chamber of Fasces and Corporations; and (5) members of the national council of the fascist party or the republican fascist party. A consequence of this law was to preclude such individuals from holding an elective office.

[4] The republican fascist party was an Italian party founded and led by Mussolini during the German occupation of Italy. It was the successor of the fascist national party, and incorporated anti-monarchic themes. The republican fascist party was the ruling party of the Italian Social Republic, a German puppet state created in September 1943, headquartered in the northern Italian town of Salò. It ceased to exist in May 1945 with Germany's surrender to the Allied forces.

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Provision XII of the Transitory and Final Provisions of the Constitution of the Republic of Italy, which became effective on January 1, 1948, stipulates that legislation will establish restrictions, for a period not to exceed five years, on the eligibility of leaders of the fascist regime to hold political office.

The specific restrictions are set forth in presidential decree 26 of February 5, 1948, and in law 29 of February 6, 1948. Article 93 of presidential decree 26 confirms the ineligibility to the Chamber of Deputies of individuals who fall into the provisions of decree 74 of March 10, 1946. Law 29 stipulates that the restrictions to the eligibility to the Chamber of Deputies also apply to elections to the Senate. These two laws govern the first parliamentary elections of the Republic of Italy which took place in April 1948. The restrictions to the eligibility of former fascist politicians expired on January 1, 1953. They were not subsequently reintroduced and, therefore, did not apply to the elections of 1953, 1958, and afterward.

More broadly, decrees 74 of March 10, 1946, and 26 of February 5, 1948, further listed incompatibilities between positions as O&Ds of for-profit firms that were major government contractors or that received government subsidies, and political office as members of Parliament of any party. These decrees greatly limited the ability of firms to reestablish political connections. It was the set of decrees and legislation described in this section and summarized in Table 1 that severed the political connections between corporations and the political process.

What these decrees did not do was restrict the ability of firms to retain former fascist politicians as board members. Thus, if beneficial, companies could have retained directors with prior political experience on their boards.

[Table 1 goes about here]

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IV. Data

IV.A *Financial and O&D Data*

In this section, we describe the data and data sources used in the analyses. Accounting data are primarily from imita.db (IMprese ITAliane. Data Base). This archival database is a digital version of data contained in volumes edited by Credito Italiano in the years 1908, 1910, 1912, 1914, 1916, 1918, 1920, 1922, and 1925, and by Associazione fra le società italiane per azioni (Asipa) in the years 1928, 1930, 1932, 1934, 1937, 1940, 1949, 1953, 1956, 1958, 1961, and 1964. This source covers balance sheet data for all Italian joint stock companies listed on any of the Italian stock exchanges along with all firms located in Italy with a book value of equity above a certain threshold.[5] The digital database also provides the names of O&Ds for the years 1911, 1913, 1921, 1927, 1936, 1952, and 1960. Because of War World II, the volumes were not published during 1940-1945. No data are available for those years from imita.db. For this reason, we manually supplement imita.db with balance sheet data and the names of O&Ds of all publicly traded Italian firms from the 1942 and 1947 editions of *Il Taccuino dell'Azionista*, edited by SASIP. Due to World War II, *Il Taccuino* was not published during 1943-1946. Nevertheless, because each volume encompasses several years of accounting data, we are able to gather, albeit with some backfilling, balance sheet data for the years 1940-1945.

We begin our sample with 1911 and end with 1960. We scraped balance sheet data for every year between 1911 and 1960, and O&Ds' names for the years 1911, 1913, 1921, 1927, 1936, 1941, 1946, 1952, and 1960. To be included in our sample, a firm must be included in at least two

[5] For non-publicly traded firms, the threshold for inclusion was 1 million Italian lire through the 1940 volume, with the exception of the 1914 volume, for which the threshold was 500,000 Italian lire. In 1953, the threshold was increased to 10 million Italian lire, and was further increased to 25 million in 1956, and to 50 million in 1961. See the Appendix in Giannetti and Vasta (2006) for more details.

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of the directories published in the years 1913, 1921, 1927, 1936, 1941, 1946, or 1952. This procedure yields an initial sample of 3,873 unique firms.

Data on the cost of living are from ISTAT (2009). These data are used to convert the value of book equity into 1911 equivalents.

Data on Allied Forces bombings in Italy during 1943-1945 are from World War II THOR Data (https://data.world/datamil/world-war-ii-thor-data), which reports, by city, the tonnage of explosives dropped by Allied aircraft. Some of the areas and factories that were destroyed in the bombings subsequently received financial aid through the Marshall Plan. The names of some 1,000 firms obtaining such financial aid during 1948-1952 are from Bianchi and Giorcelli (2023). Those names were collected from the Istituto Mobiliare Italiano's historical archive.

IV.B. Politicians

The names of Senators of the Kingdom of Italy and of the Republic of Italy (through 1963) are collected from the historical portal of the website of the Senate, http://www.senato.it/sitostorico/home. The names of members of the Chamber of Deputies of the Kingdom of Italy, the National Council, the Constituent Assembly, and the Chamber of Deputies of the Republic of Italy are from the historical portal of the website of the Chamber of Deputies, https://storia.camera.it/legislature#nav. We begin with the "XXII Legislatura del Regno d'Italia" (i.e., which took office on 11/30/1904), and end with the "III Legislatura della Repubblica italiana" (which held office until 5/15/1963). The names of Kings and Presidents of Italy are from https://en.wikipedia.org/wiki/King_of_Italy and from https://en.wikipedia.org/wiki/List_of_presidents_of_Italy, respectively.

A starting point for gathering the names of government Ministers is Wikipedia, which lists the names of Prime Ministers during the Kingdom of Italy through 1946

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(https://it.wikipedia.org/wiki/Presidenti_del_Consiglio_dei_ministri_del_Regno_d%27Italia). Armed with this list of Prime Ministers, we use Wikipedia to gather the names of Ministers who served in their governments during 1903-1943. For the post-fascist period, 1943-1964, the names of government Ministers are from the website of the Italian Government, http://www.governo.it/it/i-governi-dal-1943-ad-oggi/i-governi-nelle-legislature/192.

An individual is classified as a politician beginning the first year in which he served in parliament or government and ending the last year in which he served. An O&D is classified as a politician, in a given year, if his name coincides with that of a politician.

We use a variety of sources to determine whether a given politician was a fascist. For Senators, we classify as fascist those members of the Senate who were (1) removed from office by the *High Court of Justice for Sanctions Against Fascism* and were not reinstated to office after appealing to the *Court of Cassation* (Archivio Storico del Senato della Repubblica (1945)), or (2) were members of the fascist national party in 1942 (Unione Nazionale Fascista del Senato (1942)), or, (3) if not listed in the data sources used to reach a determination according to criteria (1) and (2), are portrayed as either fascist sympathizers or as members of the fascist national party in Wikipedia.

For Deputies, we classify as fascist those who served in the Chamber of Deputies and/or the Chamber of Fasces and Corporations at any time during 1924 through 1943, with the exception of those who were removed from office after participating in the Aventine secession, those who served in the National Council, or those who served in the Constituent Assembly.

All government Ministers who served in governments led by Mussolini between October 31, 1922, and July 24, 1943, are classified as fascist.

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To identify close relatives of Benito Mussolini and his right-arm and co-father-in-law, Costanzo Ciano, we search for O&Ds whose last name is either Mussolini or Ciano. Among those, we identify a brother of Benito Mussolini, Arnaldo, and two brothers of Costanzo Ciano, Alessandro and Arturo.

Given that fascist organizations accounted for roughly 10 million adult men members out of a total population of about 40 million people in 1930, most, if not all, companies had fascist O&Ds (Associazione Nazionale Partigiani d'Italia, 1930). Thus, while only some of the companies had a fascist politician as an O&D, the vast majority of companies had fascist directors.

V. Empirical Results

Our analyses proceed in two steps. First, we provide evidence of the disruption of corporate political connections that occurred during 1943-1944. We then turn to an assessment of the quality of politically connected firms after the exogenous termination of their political connections.

V.A. The Severing of Political Connections

Corporate political connections were extremely common prior to the fall of fascism. For example, as shown in Table 2, in 1911, 46.7% of the largest 150 Italian firms had at least one politician among their O&Ds. That fraction crept up through time, peaking at 80% in 1941. This fraction plummeted to 15.3% in 1946 and to 6% in 1960. As also shown in Table 2, a similar pattern is apparent in the next largest 350 firms, with 27.1% in 1911 and 44.9% in 1936. Data are not available for these firms in 1941 and 1946. For all other firms, the pattern is less pronounced, largely due to the varying composition of the sample through time. What is apparent, however, is the drop from 16.5% in 1935 to 4.6% in 1952.

[insert Table 2 here]

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The major disruption in the prevalence of corporate political connections was, at least in part, the consequence of the laws and decrees issued in 1944 and later that restricted the eligibility for political office of former fascist politicians. Table 3 summarizes the extent to which members of the Chamber of Deputies of a given legislature were re-elected (or appointed) to the following legislature. As the table shows, during 1900-1934, the fraction of Deputies that were re-elected in the subsequent legislature ranged between 34.2% and 66.3%. In 1939, rather than being elected, Deputies were appointed to the Chamber of Fasces and Corporations. The fraction of Deputies in the XXIX legislature (1934-1939) who were appointed to the XXX legislature (1939-1943) was an astounding 81%. However, as shown in Table 3, in 1945, only one of the 949 members of the Chamber of Fasces and Corporations was appointed to National Council. In addition, none of the members of the Chamber of Fasces and Corporations was elected to the Constituent Assembly nor to the first legislature of the Republic of Italy, and only eight were elected to the second legislature, in which former fascist politicians again became eligible.

Similarly, only 14 of the Senators of the Kingdom of Italy served as Senators of the Republic, and only one of these 14 Senators was a registered member of the fascist national party. Thus, only a fistful of former fascist politicians were elected to parliament following the end of the ineligibility period. That is, fascist political connections were severed.

[insert Table 3 here]

We formally document the disappearance of fascist political connections in Tables 4-6. In Table 4, the unit of analysis is the firm-O&D-year triplet. The sample consists of up to 49,593 firm-O&D-year triplets, encompassing up to 12,444 unique O&Ds. These analyses permit investigation of differences in the likelihood that an O&D who is a politician in a given period remains a politician in the subsequent period. We investigate differences among types of

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politicians (e.g., Deputies vs. Senators, eligible vs. ineligible Senators), including after their ineligibility ends. To do so, we estimate regressions in which the dependent variable is an indicator denoting whether an O&D of a given firm in a given year is a politician. The results in regression (1) of Table 4 show that, after controlling for firm-year fixed-effects, political connections are highly persistent at the firm-O&D level. The coefficient of lagged connections (*Lagged (O&D and Politician)*) of 0.784 indicates an 78.4% probability that an O&D who was a politician in the prior sample period is a politician also in the subsequent sample period. The inclusion of firm-year fixed-effects controls for any time-varying or time invariant firm-specific factors.

[insert Table 4 here]

In regression (2), we include firm-year and firm-O&D fixed effects. The coefficient of *Fascist * 1944+* indicates that individuals who served as fascist politicians are significantly less likely to be politicians after the fall of fascism. The 1944+ period includes the elections held in 1946, 1948, 1953, and 1958. While former fascist politicians were not eligible in 1946 and 1948, they became eligible beginning in 1953. As shown in regression (3), O&Ds who were fascist Senators were less likely to be politicians after the fall of fascism than were other O&Ds, including those who were fascist Deputies. In regression (4), we document that the likelihood of an O&D who was a fascist politician remaining a politician after the fall of fascism is lowest for Senators who were deemed ineligible by the *High Court of Justice*. Regression (5) further documents that O&Ds who were among the Deputies who lost their seat in parliament after the Aventine Secession are significantly more likely than other O&Ds to be politicians after the fall of fascism. In the aggregate, the results in Table 4 show that the likelihood of an O&D being a politician following the fall of fascism is lower for former fascist politicians regardless of the political office held during fascism.

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The analyses in Table 4 are silent about departures of O&Ds from their O&D positions. We investigate departures in Table 5. The sample consists of 86,097 firm-O&D-year triplets, encompassing 30,893 unique O&Ds. In the regressions of Table 5, the dependent variable is an indicator set to one if an individual who served as an O&D of a firm in a given period departs the position prior to the following period, and zero otherwise. The results show that O&Ds who were politicians are significantly more likely to depart their O&D positions than are non-politicians. However, the opposite is true for fascist politicians - - at least until the fall of fascism in 1943-1944. Subsequent to the fall of fascism, fascist politicians were disproportionally more likely to depart their corporate positions than were other O&Ds.

[insert Table 5 here]

Did firms replace O&Ds who were fascist politicians with O&Ds who were non-fascist politicians? The answer is largely no. As we show in Table 2, corporate political connections nearly disappeared after the fall of fascism, and were not re-established subsequently. We formally document that observation with the regressions in Table 6 after controlling for a variety of firm characteristics including lagged profitability, lagged size, and past growth. As the measure of profitability, we use ROE. ROE is defined as net income divided by end of year book equity. As the measure of firm size, we use end of year book equity (in 1911 Italian lira equivalents). As the measure of firm growth, we use the difference between the natural log of book equity at the end of a period (e.g., 1952) and the natural log of book equity at the end of the previous period (e.g., 1946).

The results in regression (1) of Table 6 show that firms with political connections were large and growing. Firms that had political connections in the previous period were more likely to remain politically connected than firms that did not have political connections in the previous

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period. Prior to the fall of fascism, firms with O&Ds who were fascist politicians were significantly more likely to remain politically connected than firms without fascist politicians as O&Ds. With the fall of fascism this relation ceased to exist. That is, on average, firms that previously had fascist politicians as O&Ds were significantly less likely to remain politically connected than other firms. This latter result is confirmed in regression (2) after including firm fixed effects in addition to sector, province, and year fixed effects.

The results in regression (3) show that, after the fall of fascism, firms with political connections tend to be large although not especially profitable. The presence of a political connection after the fall of fascism is orthogonal to having had a connection with a fascist politician prior to the fall of fascism. That is, on average, lost fascist connections are not replaced with new connections to non-fascist politicians.

[insert Table 6 here]

V.B. Political Connections as a Cause of Resource Misallocation

Having established that corporate political connections disappear almost entirely after the fall of fascism, we turn to the question of whether political connections distort the allocation of economic resources. To address this question, we employ a standard difference-in-differences analysis centered around the fall of fascism.

Efficient allocation of resources requires that resources be directed to their highest value uses. We use ROE as a proxy for the highest value use. Importantly, we use ROE because doing so allows for inclusion of non-publicly traded firms that comprise the majority of our sample. Their inclusion is necessary given that the Italian stock market has few firms listed. The exclusion of non-publicly traded firms would undesirably censor the sample, possibly biasing the inferences.

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We investigate whether political connections cause resource misallocation by using the following difference-in-differences model:

$$ROE_{i,t} = \sum_{t=1940}^{1960} \alpha_t \cdot Fascist_i \cdot t + \sum_{t=1943}^{1960} \beta_t \cdot Bombings_i \cdot t + \gamma_t \cdot Control_{i,t} + \psi_t + \phi_i + \eta_p + \zeta_s + \varepsilon_{i,t}$$

In the difference-in-differences estimations, we saturate the regression model with control variables ($Control_{i,t}$), year (ψ_t), firm (ϕ_i), province (η_p), and sector (ζ_s) fixed effects.[6] We also account for the tons of explosives dropped by Allied Forces, during 1943-1945, on the town of each firm, scaled by the surface area of the town in squared kilometers ($Bombings_i$). Alternatively, we include firm, sector-year ($\zeta_s \cdot \psi_t$), and province-year ($\eta_p \cdot \psi_t$) fixed effects to further mitigate omitted variables concerns. The control variables include end of year book equity (measured in 1911 Italian lira equivalents). Accounting variables are winsorized at the top and bottom 1%. Standard errors are clustered at the firm level.

Regressions (1)-(4) of Table 7 present the results based on an event study methodology. In each of these regressions, ROE is the dependent variable. This methodology allows for time-varying effects of the termination of political connections. These time-varying effects are especially important if, due to their poor performance, politically connected and other firms are differently likely to remain in the directories over time. In particular, to the extent that a negative ROE will make firms more likely to exit the sample, the performance of politically connected firms and their peers will tend to converge over time.[7]

[insert Table 7 here]

[6] Sector is the two-digit industry code assigned based on the Italian government statistical office's (ISTAT) industry classification.

[7] For example, of the 22 firms in which brothers of Mussolini or Ciano served as O&Ds during fascism, none appears in the directories after the fall of fascism.

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Regression (1) of Table 7 includes interactions between a firm-specific time-invariant indicator denoting whether the firm had a fascist politician as an O&D during fascism and the year in question. We include interactions for the years 1940 through 1960. The coefficients of those interactions reflect how the performance of firms that had fascist politicians as O&Ds changes over time relative to firms that did not have fascist politicians as O&Ds. In regression (1), the benchmark years are the years between 1911 and 1939. The results show a significant relative decline in ROE starting in 1944 and ending in 1951 for firms formerly connected to fascist politicians. That is, firms that had a fascist politician as an O&D exhibit a statistically significant drop in performance relative to their peers immediately following the fall of fascism. The relative drop in performance is large in economic terms, averaging 9 percentage points per year vs. an unconditional average ROE of 7.75 percentage points for the full sample. The relative underperformance of firms that previously had fascist political connections continues until 1951.

Regression (1) also shows that the performance of firms connected to fascist politicians does not drop prior to the fall of fascism: of the interactions for the years 1940 through 1943, none is statistically significant. Importantly, prior to 1944, these results provide support for the parallel trends hypothesis.

Regression (1) also includes interactions between a town-specific time-invariant variable measuring the tons of explosive dropped by Allied aircraft during 1943-1945, scaled by the surface area of the town (in squared kilometers), and the year in question. We include interactions for the years 1943 through 1960. Those interactions (not tabulated) allow for firms based in towns that were bombed to experience a drop in performance in the years starting with 1943 and to subsequently recover. The inclusion of those interactions mitigates the possibility that the results

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for firms connected to fascist politicians are spuriously reflecting the destruction caused by Allied bombings as opposed to the severing of fascist connections.

In regression (2), we focus on the effect of the loss of fascist political connections for each of the years between 1943 and 1950, and for all of the years that follow (which are combined). The results are very much in line with those of regression (1). In regression (2) the interactions between the bombings and the years 1943-1950 are combined. The coefficient of that interaction is negative and significant, indicating that firms based in towns that experienced a larger volume of bombings experienced a significant drop in ROE.

A concern with the event study methodology is that the results may depend on the benchmark period chosen. In regressions (1) and (2), the benchmark period began in 1911, the first year for which we have complete and non-backfilled accounting data. However, this period well precedes the rise of fascism. To investigate the extent to which the results may be due to the benchmark period, in regression (3), we start the sample in 1921, the year in which Mussolini was first elected to parliament, and in regression (4), we start the sample in 1939, the year that the non-elective Chamber of Fasces and Corporations was instituted. Not only our prior conclusions remain unchanged after varying the start of the benchmark period, but the coefficients of the interaction terms are barely affected by those changes, indicating that the results are not due to the benchmark period chosen.

In regression (5), we combine the years 1944-1950. The results confirm, for those years, a disproportionately larger drop in ROE for firms that formerly had a fascist politician as an O&D. The average relative drop in ROE is of 8.85 percentage points per year relative to their peers - - a drop that ends, for firms that remain in the sample, following 1950.

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In regression (6), we include the most stringent set of fixed effects: firm, sector-year, and province-year - - keeping in mind that the introduction of such fixed effects potentially severely biases against finding significance during the years 1940-1945 given that, for those years, the data only include publicly traded firms in the Taccuino dell'Azionista. Nevertheless, we continue to find a large and significant relative drop in the performance of firms connected to fascist politicians in the years that follow the fall of fascism. This documented relative drop in performance is, thus, robust, economically large, and highly statistically significant.

Could the results be attributable to something other than the fall of fascism? A natural concern is that the results are, rather, attributable to the final years of World War II and the possible changes in the fortunes of firms whose business benefited from the war. To address this concern, we use World War I as a falsification test. World War I serves this purpose well because Italy suffered approximately 550 thousand fatalities in World War I and 450 thousand fatalities in World War II. Further, during both periods Italy experienced high inflation, approximately 16% per year during 1917-1923 and 41% during 1944-1950. A difference between World War I and World War II lies in the intensity of the destruction caused by the bombings. We account for the bombings in all the regressions.

To conduct this test, we construct an interaction between the fascist connection indicator and a time indicator denoting the years 1917 and after. Of the firms for which we have data in 1917, a large number, 417, subsequently became connected to fascist politicians. That interaction captures the change in performance experienced, following 1916, by firms that later became connected to fascist politicians relative to their peers. As shown in Regression (1) of Table 8, contrary to the concern that the relative decline in the performance of firms previously connected to fascist politicians following the fall of fascism was due to the end of a world conflict, as opposed

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to the fall of fascism, the interaction between the fascist connection indicator and the years 1917 and after is statistically and economically insignificant.

[insert Table 8 here]

Alternatively, it could be that the results are correlated with the probability that a political connection is formed prior to a world war. By definition, our classification of connections with the fascist party includes all the firms that established a political connection immediately prior to or during World War II. It excludes, however, firms that established connections prior to World War I. We address this concern in regression (2) by including an interaction between an indicator denoting the 240 firms that established a political connection prior to World War I and an indicator denoting the years 1917 and after. For those firms, some of which subsequently became connected to fascist politicians and some of which did not, we find a relative reduction in performance in the last years of World War I and the years that follow. The relative 2.38 percentage points reduction, following 1917, in the performance of firms that established a connection prior to the end of World War I is substantially smaller than that experienced by firms connected to fascist politicians after 1943. Furthermore, importantly, the coefficient of the interaction between the fascist indicator and the 1944-1950 period is unchanged.

A third concern is that our results are attributable to financial aid provided to firms, possibly firms that did not have ties to fascist politicians, through the Marshall Plan. Financial aid was provided to approximately 1,000 firms during 1948-1952 (Bianchi and Giorcelli, 2023). We match the names of financial aid recipients from Bianchi and Giorcelli with the names of firms in the IMITA database. We construct an interaction between a firm-specific time-invariant indicator denoting whether the firm was a recipient of Marshall Plan financial aid and the years 1948 and after. This interaction, included in regression (3) is not statistically significant. Importantly, the

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interaction between former connections to the fascist regime and the years 1944-1950 remains significant after accounting for Marshall Plan financial aid.

A fourth concern is that our results are specific to a sub-set of industries. An obvious sub-set on which to focus is the sub-set of industries in which political connections are most prevalent. To investigate this possibility, we split the sample into industries in which the prevalence of political connections is equal to or exceeds the median and all others. Regression (4) includes the former and regression (5) includes the latter. The coefficients of the interaction between fascist connections and the years 1944-1950 are negative and significant for both samples and similar in magnitude. The coefficients suggest that there is nothing unique about industries in which political connections are more prevalent.

In the previous tables, ROE is measured by scaling net income by end of year book equity. Alternatively, ROE could be measured by scaling net income either by beginning of year book equity or by the average of beginning of year and end of year book equity. To address the concern that the previous results are an artifact of using end of year book equity to scale net income, regressions (6) and (7) of Table 8 present the results using either by beginning of year book equity (regression (6)) or by the average book equity (regression (7)) as the scaling factor. Our conclusions are unchanged after changing the measurement of ROE. If anything, scaling net income by end of year book equity provides a conservative estimate of the impact of the severing of fascist political connections on ROE.

In sum, the results of Tables 7 and 8 show a statistically significant and economically large relative decline in the performance of politically connected firms after the exogenous termination of their political ties to fascist politicians. The results are not attributable to important events that coincide with or immediately follow the fall of fascism: Allied bombings and Marshall Plan

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financial aid. Politically connected firms substantially underperform their peers once their ties to fascist politicians are exogenously severed. Stated differently, at least on average, politically connected firms are weak firms absent their political ties. Any allocation of economic resources to their benefit, thus, represents a resource misallocation.

VI. Conclusion

It is well documented that corporate political connections are associated with preferential treatment by state-owned banks, a higher likelihood of securing government contracts, preferential tax treatment, and more lenient treatment by government enforcement agencies. Anecdotal evidence of these benefits is frequently reported in the popular press with systematic evidence set forth in the academic literature. To what extent is this evidence indicative of systematic resource misallocation? A positive view of political connections holds that such connections lead to a sharing of information that directs resources to their highest value uses. Critics of political connections assert that connections result in the extraction of rents by connected parties and, implicitly or explicitly, argue that political connections give rise to resource misallocation.

In this study, we provide direct systematic evidence that political connections cause resource misallocation. We do so by exploiting the exogenous termination of the fascist political connections that followed the fall of the fascist regime in Italy in 1943-1944. Importantly, the termination of political connections to the fascist regime on which we rely does not affect the flow of information, leaving rents as the explanation for any change in corporate profitability. We document that rents are economically large and, once eliminated, politically connected firms substantially underperform their peers. This result implies that resources that are allocated to politically connected firms constitute resource misallocation.

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Table 1. Decrees and Legislation Limiting the Eligibility of Formerly Fascist Politicians

1943	August 2	Decree 705. "Dissolution of the Chamber of Fasces and Corporations." https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:regio.decreto.legge:1943-08-02;705
1944	July 27	Decree 159. "Sanctions against fascism". Suspends the right to hold political office for fascist party leaders. https://www.gazzettaufficiale.it/eli/gu/1944/07/29/41/sg/pdf
1944	August	302 Senators held responsible for fascist crimes are referred to the *High Court of Justice for Sanctions Against Fascism.*
1945	April 26	Decree 149. "Sanctions against politically dangerous fascists." Reiterates suspension of the right to hold political office for fascist party leaders. https://www.gazzettaufficiale.it/eli/id/1945/04/28/045U0149/sg
1946	March 10	Decree 74. "Rules for the election of the Constituent Assembly." Spells out the political offices that, if held during fascism, would trigger ineligibility to the Constituent Assembly. The decree spells out the incompatibility between O&D positions in major government contractors, or among recipients of government subsidies, and political office in the Constituent Assembly. https://www.gazzettaufficiale.it/eli/id/1946/03/12/046U0074/sg
1946	June 25	The Senate of the Kingdom of Italy, which had not met since 1940, ceased to function. Senate of the Kingdom of Italy is suppressed on November 7, 1947.
1947	December 23	Law 1453. "Rules for the temporary limitation of the voting rights of the leaders responsible for the fascist regime." Spells out the specific political offices that, if held during fascism, would trigger the loss of voting rights. http://www.edizionieuropee.it/law/html/21/zn44_01_045.html
1947	December 27	Constitution of the Republic of Italy. Stipulates that the law will establish restrictions to the right to hold political office for fascist leaders. https://www.cortecostituzionale.it/documenti/download/pdf/Costituzione_della_Repubblica_italiana.pdf
1948	February 5	Presidential decree 26. "Consolidated text of laws for the election of the Chamber of Deputies." Spells out the specific political offices that, if held during fascism, would trigger ineligibility to the Chamber of Deputies. The decree also spells out the incompatibility between O&D positions in major government contractors, or among recipients of government subsidies, and political office, in any party, in the Chamber of Deputies. http://www.edizionieuropee.it/law/html/17/zn39_04_005.html#_ART0095
1948	February 6	Law 29. "Rules for the election of the Senate of the Republic." Spells out the specific political offices that, if held during fascism, would trigger ineligibility to the Senate. Law 29 reiterates the causes of ineligibility stipulated in decree 26 of February 5, 1948. https://www.senato.it/3433?testo_generico=19&voce_sommario=63

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Table 2. Prevalence of Corporate Political Connections Over Time

The largest firms are based on the value of book equity. A firm is classified as politically connected if one or more of its O&Ds is a politician defined as a member of parliament or a government Minister.

Sample:	Largest 150 firms		Next 350 largest firms		All other firms	
Year:	# of firms	% politically connected	# of firms	% politically connected	# of firms	% politically connected
1911	150	46.7%	350	27.1%	69	17.4%
1913	150	54.0%	350	29.4%	316	17.4%
1921	150	53.3%	350	26.6%	1,381	14.2%
1927	150	64.0%	350	37.7%	2,237	11.9%
1936	150	76.7%	350	44.9%	2,028	16.5%
1941	150	80.0%	2	100.0%	0	
1946	137	15.3%	0		0	
1952	150	16.7%	350	7.7%	1,178	4.6%
1960	150	6.0%	350	5.7%	818	3.7%
All	1,337	46.1%	2,452	25.7%	8,027	11.8%

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Table 3. Turnover in the Chamber of Deputies

System	Starting Legislature	Years	Number of Deputies	% Who Served in the Subsequent Legislature	Number of Deputies Who Served in the Subsequent Legislature
Kingdom	XXI	1900-1904	579	66.3%	384
Kingdom	XXII	1904-1909	580	64.3%	373
Kingdom	XXIII	1909-1913	581	59.9%	348
Kingdom	XXIV	1913-1919	523	34.2%	179
Kingdom	XXV	1919-1921	518	62.4%	323
Kingdom	XXVI	1921-1924	553	41.6%	230
Kingdom	XXVII	1924-1929	541	36.4%	197
Kingdom	XXVIII	1929-1934	400	63.5%	254
Kingdom	XXIX	1934-1939	399	81.0%	323
Kingdom	XXX	1939-1943	949	0.1%	1
Kingdom	National Council	1945-1946	440	33.9%	149
Republic	Constituent Assembly	1946-1948	581	46.5%	270
Republic	I	1948-1953	613	59.4%	364
Republic	II	1953-1958	616	59.6%	367
Republic	III	1958-1963	623	65.0%	405

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Table 4. Persistence and Disruption of Political Office of O&Ds

The table reports OLS regression coefficients and their standard errors. The unit of observation is the firm-O&D-year triplet. The dependent variable is an indicator that is set to one if an O&D who serves for a firm in a given year is a politician and zero otherwise. Standard errors, in parentheses, are clustered at the O&D level. The sample includes data for the years 1911, 1913, 1921, 1927, 1936, 1941, 1946, 1952, and 1960. ***, **, * denote statistical significance at the 1%, 5% and 10% levels.

	(1)	(2)	(3)	(4)	(5)
Lagged (O&D and Politician)	0.784***				
	(0.026)				
Fascist x 1944+		-0.658***			
		(0.038)			
Fascist Deputy x 1944+			-0.535***	-0.494***	-0.492***
			(0.061)	(0.065)	(0.065)
Fascist Senator x 1944+			-0.624***		
			(0.064)		
Ineligible Senator x 1944+				-0.667***	-0.668***
				(0.087)	(0.087)
Eligible Senator x 1944+				-0.428**	-0.481**
				(0.154)	(0.163)
Disqualified Aventine Secession x 1927+					-0.968***
					(0.039)
Re-eligible Aventine Secession x 1944+					0.653***
					(0.244)
Firm x Year FEs	Yes	Yes	Yes	Yes	Yes
Person x Firm FEs		Yes	Yes	Yes	Yes
N. Individual-Firm-Year Obs.	26,052	49,593	49,593	49,593	49,593
Number of Unique Firms	2,817	2,935	2,935	2,935	2,935
Number of Unique O&Ds	11,813	12,444	12,444	12,444	12,444
R^2	66.3%	87.5%	87.4%	87.2%	87.5%

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Table 5. Departures of Former Fascist Politicians as O&Ds

The table reports OLS regression coefficients and their standard errors. The unit of observation is the firm-O&D-year triplet. The dependent variable is an indicator set to one if an individual who served as an O&D of a firm in a given period departs the position prior to the following period, and zero otherwise (i.e., if they departed). Standard errors, in parentheses, are clustered at the O&D level. The sample includes data for the years 1911, 1913, 1921, 1927, 1936, 1941, 1946, 1952, and 1960. ***, **, * denote statistical significance at the 1%, 5% and 10% levels.

	Y = Departed
O&D and Politician	0.125***
	(0.018)
Fascist	-0.185**
	(0.018)
Fascist x 1944+	0.286***
	(0.046)
Firm x Year FEs	Yes
Number of Observations	86,097
Cluster	O&D
Number of Unique O&Ds	30,893
N. of firms	3,744
R^2	47.7%

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Table 6. Presence and Disruption of Corporate Political Connections

The table reports OLS regression coefficients and their standard errors. The unit of observation is the firm-year pair. The dependent variable is an indicator that is set to one if the firm is politically connected in a given period, and zero otherwise. A firm is classified as politically connected if one or more of its O&Ds is a politician defined as a member of parliament or a government Minister. Standard errors, in parentheses, are clustered at the firm level. The sample includes data for the years 1911, 1913, 1921, 1927, 1936, 1941, 1946, 1952, and 1960. ***, **, * denote statistical significance at the 1%, 5% and 10% levels.

	(1)	(2)	(3)
Lagged(Politically Connected)	0.331***		
	(0.016)		
Fascist	0.324***		0.015
	(0.013)		(0.012)
Lagged(Standardized ROE)	-0.002	0.001	
	(0.004)	(0.006)	
Lagged(Standardized ln(Equity))	0.0436***	0.0421**	
	(0.006)	(0.019)	
Change(Standardized ln(Equity))	0.0612***	0.0560***	
	(0.009)	(0.015)	
Standardized ROE			-0.001
			(0.003)
Standarized ln(Equity)			0.0221***
			(0.006)
Fascist x 1944+	-0.330***	-0.549***	
	(0.020)	(0.030)	
Sector FEs	Y	Y	Y
Province FEs	Y	Y	Y
Year FEs	Y	Y	Y
Firm FEs		Y	
Sample Years	All	All	1946, 1952, 1960
N. Firm-Year Obs.	6,256	4,835	3,060
Cluster	Firm	Firm	Firm
R^2	45.7%	63.0%	8.6%

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Table 7. The Effect of the Disruption of Fascist Connections on the Performance of Previously Politically Connected Firms

The table reports OLS regression coefficients and their standard errors. The unit of observation is the firm-year pair. The dependent variable is a firm's return on equity (ROE) defined as net income divided by book equity. Standard errors, in parentheses, are clustered at the firm level. The sample includes data for the years 1911-1960. ***, **, * denote statistical significance at the 1%, 5% and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)
Standardized ln(Equity)	-0.0824***	-0.0825***	-0.0917***	-0.188***	-0.0824***	-0.0849***
	(0.007)	(0.007)	(0.008)	(0.017)	(0.007)	(0.008)
Fascist x 1940	-0.0035					
	(0.016)					
Fascist x 1941	-0.0208					
	(0.021)					
Fascist x 1942	-0.0052					
	(0.023)					
Fascist x 1943	-0.0130	-0.0239	-0.0269	-0.0205		
	(0.024)	(0.023)	(0.026)	(0.035)		
Fascist x 1944	-0.0425*	-0.0561**	-0.0592**	-0.0523		
	(0.024)	(0.025)	(0.027)	(0.037)		
Fascist x 1945	-0.0553**	-0.0665***	-0.0706***	-0.0639*		
	(0.024)	(0.025)	(0.026)	(0.033)		
Fascist x 1946	-0.105***	-0.105***	-0.106***	-0.118***		
	(0.035)	(0.034)	(0.034)	(0.035)		
Fascist x 1947	-0.114***	-0.115***	-0.117***	-0.134***		
	(0.039)	(0.039)	(0.039)	(0.039)		
Fascist x 1948	-0.0961*	-0.0958*	-0.0954*	-0.0942*		
	(0.049)	(0.049)	(0.049)	(0.050)		
Fascist x 1949	-0.0919***	-0.0904**	-0.0902**	-0.0899**		
	(0.036)	(0.036)	(0.035)	(0.036)		
Fascist x 1950	-0.0511**	-0.0505**	-0.0507**	-0.0552**		
	(0.024)	(0.024)	(0.024)	(0.025)		

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Fascist x 1951	-0.0381*					
	(0.023)					
Fascist x 1952	0.0173					
	(0.024)					
Fascist x 1953	0.0022					
	(0.019)					
Fascist x 1954	0.0253*					
	(0.152)					
Fascist x 1955	0.0434***					
	(0.015)					
Fascist x 1956	0.0440***					
	(0.014)					
Fascist x 1957	0.0144					
	(0.015)					
Fascist x 1958	0.0228*					
	(0.013)					
Fascist x 1959	0.0171					
	(0.013)					
Fascist x 1960	0.0160					
	(0.013)					
Fascist x [1944 Thru 1950]					-0.0885***	-0.0580**
					(0.026)	(0.029)
Fascist x 1951+		0.0152	0.0144	0.0090	0.0152	-0.0001
		(0.012)	(0.012)	(0.015)	(0.012)	(0.013)
Tons of Explosive per Km^2	0.0035	0.0036	0.0043	0.0372	0.0036	0.0047
	(0.010)	(0.010)	(0.012)	(0.025)	(0.010)	(0.010)
Tons of Explosive per Km^2 x [1943 Thru 1950]		-0.0196*	-0.0188*	-0.0197*	-0.0196*	-0.0237
		(0.011)	(0.011)	(0.012)	(0.011)	(0.023)
Tons of Explosive per Km^2 x 1951+		-0.0031	-0.0023	-0.0091	-0.0031	-0.0105

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		(0.006)	(0.006)	(0.008)	(0.006)	(0.010)
Sample	1911-1960	1911-1960	1921-1960	1939-1960	1911-1960	1911-1960
Tons of Explosive per Km^2 x Year	Y					
Year FEs	Y	Y	Y	Y	Y	
Firm FEs	Y	Y	Y	Y	Y	Y
Province FEs	Y	Y	Y	Y	Y	
Sector FEs	Y	Y	Y	Y	Y	
Year x Province FEs						Y
Year x Sector FEs						Y
N. Firm-Year Obs.	77,721	77,721	67,154	24,032	77,721	76,974
Cluster	Firm	Firm	Firm	Firm	Firm	Firm
Number of Unique Firms	3,613	3,613	3,589	1,873	3,613	3,601
R^2	26.7%	26.7%	27.7%	38.6%	26.7%	33.3%

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Table 8. Robustness Tests of the Effect of the Disruption of Fascist Connections on the Performance of Previously Politically Connected Firms

The table reports OLS regression coefficients and their standard errors. The unit of observation is the firm-year pair. The dependent variable is a firm's return on equity (ROE) defined as net income divided by book equity. Standard errors, in parentheses, are clustered at the firm level. The sample includes data for the years 1911-1960. ***, **, * denote statistical significance at the 1%, 5% and 10% levels.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Standardized ln(Equity)	-0.0825***	-0.0827***	-0.0822***	-0.0721***	-0.101***	-0.0505***	-0.0829***
	(0.007)	(0.007)	(0.007)	(0.010)	(0.011)	(0.010)	(0.007)
Fascist x [1944 Thru 1950]	-0.0891***	-0.0890***	-0.0822***	-0.0674*	-0.0648*	-0.163***	-0.0843***
	(0.026)	(0.026)	(0.026)	(0.039)	(0.036)	(0.043)	(0.026)
Fascist x 1951+	0.0146	0.0147	0.0183	0.0057	0.0049	0.0044	0.0154
	(0.012)	(0.012)	(0.012)	(0.018)	(0.017)	(0.016)	(0.012)
Fascist x 1917+	0.0085	0.0144					
	(0.009)	(0.009)					
Connected pre WW1 * 1917+		-0.0238**					
		(0.010)					
Tons of Explosive per Km^2	0.0036	0.0036	0.0056	-0.0110	0.0132	0.0040	0.0056
	(0.010)	(0.010)	(0.009)	(0.009)	(0.015)	(0.012)	(0.009)
Tons of Explosive per Km^2 x [1943 Thru 1950]	-0.0196*	-0.0196*	-0.0179	-0.0105	-0.0229*	-0.0293	-0.0182
	(0.011)	(0.011)	(0.011)	(0.017)	(0.014)	(0.018)	(0.011)
Tons of Explosive per Km^2 x 1951+	-0.0032	-0.0032	-0.0037	-0.0150*	0.0070	-0.0077	-0.0040
	(0.006)	(0.006)	(0.006)	(0.009)	(0.010)	(0.008)	(0.006)
Marshall Plan Grants x 1948+			-0.0025				
			(0.002)				
Sample	1911-1960	1911-1960	1911-1960	Sectors with Above Median PCs	Sectors with Below Median PCs	Net Income / Beginning of Year BE	Net Income / Average BE
Year FEs	Y	Y	Y	Y	Y	Y	Y
Firm FEs	Y	Y	Y	Y	Y	Y	Y
Province FEs	Y	Y	Y	Y	Y	Y	Y
Sector FEs	Y	Y	Y	Y	Y	Y	Y
N. Firm-Year Obs.	77,721	77,721	72,683	39,699	37,993	72,673	72,683
Cluster	Firm	Firm	Firm	Firm	Firm	Firm	Firm
Number of Unique Firms	3,613	3,613	3,613	1,811	1,916	3,584	3,584
R^2	26.7%	26.7%	30.9%	28.1%	27.0%	24.4%	30.9%

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