

Investor reactions to corporate decolonization: New evidence from 1970s Sweden

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The outcome of the Swedish 1973 general election was a tie: the two left-wing parties secured 175 seats, and the same number of seats was won by the three parties on the right. Consequently, the 1973–1976 Parliament has become known as the “Lottery Parliament”, since 7 per cent of all decisions were resolved by drawing lots after votes ended in a deadlock. One such lottery occurred on May 30, 1974, when Parliament had to decide on a left-wing proposal to ban Swedish companies from operating in colonial or racist regimes (i.e., Angola, Guinea-Bissau, Kap-Verde, Moçambique, South Africa and Namibia). The lottery draw resulted in a win for the right-wing parties, who opposed the ban, allowing Swedish companies to continue operating in those regimes. Using an event study methodology, I find that the lottery outcome led to large positive returns for companies that would have been affected by the proposed ban. This suggests that investors were more concerned about losing profitable business opportunities in colonial and racially oppressed markets than about distancing themselves from the reputational risks of operating in such regimes. This study makes an important contribution to a polarized and inconsistent literature. While one influential strand argues that divestment from racist regimes harms equity market value, another contends that it enhances shareholder value. However, those studies lack a clearly isolated event to measure market impact. In contrast, the setting of this study allows for precise identification of the stock market reaction to a truly exogenous event. The findings establish a strong positive causal relationship between conducting morally questionable business and shareholder value in the 1970s, a period still marked by colonialism and racial oppression.

Keywords: Natural experiment; Lottery Parliament; Stock returns

JEL Codes: G14; J28; K32

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1. Introduction

In the spring of 1974, political parties representing exactly half of the seats in the Swedish Parliament proposed legislation to prohibit Swedish companies from operating in colonial or racist regimes. As the remaining half of legislators opposed the proposal, the parliamentary deadlock was resolved by lottery. On 30 May 1974, a Member of Parliament was instructed to draw at random one of two ballots from a box. The outcome favoured the opponents of the ban, thereby allowing Swedish firms to continue their operations in colonial regimes. This study exploits the random outcome of the lottery and the subsequent movements in the stock prices of the firms listed in Section A of the Stockholm Stock Exchange to examine the impact of corporate decolonisation on shareholder value. Using a standard event-study methodology (Campbell et al., 1997), I find that the rejection of the ban generated a positive abnormal market return for firms that would have been affected by the legislation, with the effect persisting for several days. Depending on the length of the event window, the average cumulative abnormal returns associated with the lottery range from 0.547 per cent to 1.424 per cent. These findings suggest that investors were, on balance, more concerned about the potential loss of profitable business opportunities arising from withdrawal from colonial settings than about any reputational benefits associated with disengaging from colonial and racist regimes.

This result constitutes an important contribution to a literature that is both polarised and inconclusive. A substantial body of research has examined the broader question through firms' decisions to divest, or not, from South Africa during the apartheid era of the 1980s. On the one hand, Grossman and Sharpe (1986), Posnikoff (1997), and Kumar et al. (2002) report that the stocks of divesting firms outperformed the market. On the other hand, Ngassam (1992), Teper (1992), Wright and Ferris (1997), and Meznar et al. (1994, 1998) find that divesting firms

underperformed. By contrast, Teoh et al. (1999) and McWilliams and Siegel (1997) find no evidence of either over- or underperformance.

As discussed by McWilliams et al. (1999), several factors account for these conflicting results. Most importantly, the studies differ substantially in how they define the event of divestment, and all face challenges in identifying a single, well-defined event date. Furthermore, event-window lengths vary widely across studies, as do approaches to controlling for confounding events and industry-specific effects. Unlike these earlier empirical settings, which do not permit the isolation of a clearly defined event capturing the full stock-market response, the institutional context of the present study allows for a precise measurement of market reactions. Because the event analysed here is genuinely exogenous, the resulting estimates can be interpreted as causal, conditional on the absence of other unexpected shocks to stock prices and the validity of the standard market model. Accordingly, this study establishes a robust positive causal relationship between engagement in morally questionable business activities and shareholder value in the 1970s – an era still deeply shaped by colonialism and racial oppression.

2. Institutional and historical background

2.1 Political background

In 1971, following an extended period of debate, Sweden replaced its bicameral parliamentary system with a unicameral parliament comprising 350 seats. The general election of 1973 was the second election held under the new constitutional framework and was unusually closely contested (Möller, 1986). Although election campaigning was interrupted on the day before the vote due to the death of the King, voter turnout reached 90.8 per cent, the highest level recorded in Sweden up to that point (Esaiasson, 1990). Early opinion polls suggested the possibility of the first decisive

opposition victory in more than forty years, prompting the right-wing parties to present a more unified front than in previous elections. Ultimately, however, the election resulted in a deadlock.

The two left-wing parties, the Social Democrats (*Socialdemokraterna*) and the Communist Left Party (*Vänsterpartiet Kommunisterna*), jointly secured 175 seats, while an equal number of seats was won by the three right-wing parties: the Moderate Party (*Moderata Samlingspartiet*), the Centre Party (*Centerpartiet*), and the People's Party (*Folkpartiet*). In the aftermath of the election, opposition leaders argued that the incumbent government should resign. However, as parliamentary rules required a majority vote to force a resignation, the Social Democratic government led by Prime Minister Olof Palme remained in office (Hermansson, 2010). The government considered calling early elections in both 1974 and 1975 (von Sydow, 2005), but these discussions eventually subsided, partly because regular elections were already scheduled for 1976. As a result, the parliamentary term from 1973 to 1976 became known as the “Lottery Parliament”, reflecting the fact that 152 parliamentary decisions – approximately 7 per cent of all votes – were resolved by lottery after initial votes ended in ties.¹

2.2 Legislation bill on corporate decolonization

Since 1969, Swedish firms had been required to obtain authorisation from the central bank, the Riksbank, in order to undertake foreign direct investment (FDI). At the time, capital inflows and outflows were regulated to prevent deterioration of the balance of payments. Approval to export Swedish krona was generally granted only if the proposed investment was expected to promote

¹ This situation was not deemed desirable by any of the parties, so it was decided that an odd number of parliamentary members would be used from the following general election, to be held in 1976, and the number of members was reduced by one, to 349.

exports, reduce foreign exchange transaction costs, or take place in a recipient country of Swedish development aid (Swedish Parliament, 1974a). On 25 January 1974, the Communist Left Party submitted a parliamentary motion (Swedish Parliament, 1974b) calling for an outright ban on FDI in countries subject to colonial rule or where racial discrimination was evident. The proposed ban targeted investments in the Portuguese colonies of Angola, Guinea-Bissau, Cape Verde, and Mozambique, and was motivated by the party's view that such investments constituted direct Swedish support for the fascist Portuguese regime.² Three months later, on 29 April, the Social Democratic Party expressed its support for the communist motion (Swedish Parliament, 1974d), while also proposing that Swedish trade unions be granted veto power over any planned FDI in countries where labour markets were characterised by racial discrimination. On the same day, the Communist Left Party amended its earlier proposal by noting that Swedish investments could take not only the form of direct investments but also indirect investments through joint ventures with British or Portuguese firms (Swedish Parliament, 1974e). Accordingly, the amended motion proposed extending the ban to joint ventures involving companies operating in colonial territories or in countries practising racial discrimination. In addition, South Africa and Namibia – then under South African administration – were added to the list of affected countries. Thus, by 29 April it had become clear that both left-wing parties favoured restrictions on FDI, albeit with some differences in scope and implementation.

² Another argument for the ban put forward by the Center Party (Swedish Parliament, 1974c) rested on the observation that the Swedish Government and Parliament were financing the liberation movements in Portuguese colonies. The argumentation was that it was unreasonable that Swedish companies were making investments and thereby supporting circumstances that Sweden wants to counteract. This motion was however withdrawn when the author realized that the Communist Left Party supported it.

On 13 May, the three opposition parties jointly opposed the proposed motions. Owing to the unusual parliamentary setting, the opposition parties held a majority in the Parliamentary Committee on Finance. On that same date, the committee recommended that all motions advocating a ban be rejected. This recommendation was justified with reference to Sweden's international commitments (Swedish Parliament, 1974g). In particular, Sweden had traditionally adhered to the principle that international trade sanctions should be imposed through the United Nations Security Council, where collective decisions were believed to ensure effectiveness. This principle had been codified in Swedish law (Swedish Code of Statutes, 1971), which authorised the government to issue decrees in accordance with Security Council decisions or recommendations. At the time, this mechanism had been applied only once, in relation to Rhodesia. Consequently, by 13 May it was evident that exactly half of the Members of Parliament would vote against the left-wing proposal, implying that its fate would be decided by lottery.

2.3 The lottery

On 30 May, a parliamentary debate lasting several hours took place. In addition to arguments for and against the proposed ban, reference was made to the military coup that had occurred in Portugal on 25 April. It was argued that it remained unclear whether the new Portuguese regime would grant independence to its African colonies, and therefore that the coup, later known as the Carnation Revolution, should not delay a decision on the matter under consideration (Swedish Parliament, 1974h). As anticipated, the mandatory vote on the contested proposal resulted in a tie, with 154 votes in favour and 154 votes against.³ In accordance with parliamentary procedure, the

³ The fact that the total number of votes cast was less than the number of Parliament members, that is, 350, reflects the praxis of pairing, where two members of Parliament from opposing political parties may agree to abstain when

Deputy Speaker asked a Member of Parliament to draw one ballot at random from a box containing one “Yes” and one “No” vote. The ballot drawn was a “Yes”, thereby supporting the opposition’s proposal to reject the legislation. As a result, no changes were made to existing regulations, and Swedish firms were permitted to continue their operations in Angola, Guinea-Bissau, Cape Verde, Mozambique, South Africa, and Namibia as before.

The null and alternative hypotheses are formulated in line with the existing literature (Grossman and Sharpe, 1986; Ngassam, 1992; Teper, 1992; Meznar et al., 1994; Posnikoff, 1997; Wright and Ferris, 1997; McWilliams and Siegel, 1997; Meznar et al., 1998; Teoh et al., 1999; McWilliams et al., 1999; Kumar et al., 2002). The null hypothesis posits that forced divestment would have no effect on firm value. Such a null effect could arise if financial markets expected firms subject to divestment requirements to circumvent sanctions by operating through foreign holding companies or to reallocate their activities towards alternative markets. Another possibility is that demand for the affected shares is sufficiently elastic, such that the legal change would merely lead to a redistribution of ownership, from investors preferring the status quo to more socially motivated investors, without any impact on share prices.

Two alternative hypotheses are considered. The first posits that forced divestment would impose measurable costs by constraining access to profitable and potentially unique investment opportunities, thereby reducing firm value. The second alternative hypothesis holds that mandatory withdrawal from the affected regions would enable investors who had previously refrained from investing – either for legal reasons, as was the case for certain US institutional

one member is unable to vote. Pairing is conducted by members designated for that purpose by each party and is applied whenever one bloc has lower attendance than the other.

funds, or for ethical considerations – to enter the market. The resulting increase in demand for the shares would, in turn, raise stock prices.

Assuming capital markets are efficient, equity prices reflect the present value of expected future profit streams. Accordingly, the testable implications of the hypotheses are as follows. Under the null hypothesis, the lottery outcome that led to the rejection of the proposed FDI ban should have no effect on the equity value of firms that would have been subject to the legislation. Under the first alternative hypothesis, the rejection of the ban should generate a positive stock-market reaction. Under the second alternative hypothesis, the rejection should instead lead to a negative reaction in the equity values of the affected firms.

4. Empirical framework

4.1 Event-study methodology

To test the hypotheses outlined above, I employ a three-step event-study approach. The first step involves constructing a dataset of stock prices for the 104 firms listed on Section A of the Stockholm Stock Exchange, which comprised the most actively traded stocks in Sweden at the time. Daily scanned records of stock market prices for Section A firms were obtained in PDF format from the Swedish House of Finance National Research Data Center.⁴ Information on prices, dividends, rights issues, and stock splits was digitised from these scans using optical character recognition software. For each firm, only the common share class was retained. The daily closing bid quotation was used as the measure of the stock price, and all prices were adjusted for capital operations, including stock splits, dividends, and rights issues. Data on the main value-

⁴ Accessed January 21, 2020. At the time of writing (August 2025), the data is hosted by The Historical Archives at Swedish House of Finance Research Data Center. <https://www.hhs.se/en/houseoffinance/data-center/>

weighted market index, the Affärsvärldens General Index (Affärsvärldens generalindex, hereafter AFGX), were collected from the digital archives of the Swedish daily newspaper Dagens Nyheter. The lottery took place at some point between 3:00 p.m. and 5:46 p.m. on Thursday, 30 May 1974 (Swedish Parliament, 1974h). As trading on the Stockholm Stock Exchange closed at 2:00 p.m., the lottery occurred after market hours. The outcome immediately became public information, as parliamentary plenary sessions are open to the public. Accordingly, Friday, 31 May 1974 is defined as the event day.

The second step consists of identifying the treatment group of firms that would have been affected had the proposed legislation been approved. The parliamentary motions specify which companies, both publicly listed and privately held, had operations in the relevant regions. Among publicly listed firms, those with activities in Portugal, Angola, and/or Mozambique included the matches-manufacturing firm Svenska Tändsticks AB, the shipbuilding firm Eriksberg/Kockums AB, and the pulp and paper producer Billerud AB (Swedish Parliament, 1974b). Firms with operations in South Africa and/or Namibia included industrial companies Atlas Copco AB, Sandvik AB, SKF AB, ASEA AB, and Alfa Laval AB; steel producers Avesta Jernverk AB and Fagersta AB; and the household appliance manufacturer Electrolux AB (Swedish Parliament, 1974f). The event-study framework is designed to capture the impact of the lottery outcome on the stock returns of these listed firms.

A potential concern is that other contemporaneous events could confound the estimated effects. To address this issue, I examine financial-market-related announcements during the period from the final week of May to the first week of June 1974. These events are summarised in Table 1. As none of the reported events directly relate to any of the eleven firms with activities in the affected regions, all firms are retained in the treatment group.

In the third step, I follow the event-study methodology outlined by Campbell et al. (1997) and compute abnormal returns for each of the eleven treatment-group stocks around the event day. I estimate a one-factor market model to characterise the normal relationship between individual stock returns and market returns, as short-horizon event studies are generally robust to alternative benchmark specifications (Kothari and Warner, 2007):

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}, \quad (1)$$

where R_{it} denotes the daily return on the common share of firm i on day t , and R_{mt} is the daily return on the AFGX on the same day. The market model is estimated over a one-year estimation window ending at $t = -7$, that is, one calendar week prior to the event day ($t = 0$). Daily abnormal returns are then calculated as the difference between observed returns and predicted returns from the market model:

$$AR_{it} = R_{it} - (\hat{\alpha}_i + \hat{\beta}_i R_{mt}). \quad (2)$$

To assess the impact of the event on shareholder value, including any delayed market reactions, I compute cumulative abnormal returns (CARs) for each firm by aggregating abnormal returns over a range of event windows surrounding the event day. The importance of using short event windows has been emphasised by de Jong and Naumovska (2016), as shorter windows reduce contamination from unrelated events and preserve the statistical power of conventional test statistics. Although a one-day event window is theoretically ideal (Campbell et al., 1997), longer windows are often employed to account for information leakage prior to the event or gradual price adjustment afterwards.

In the present setting, information leakage is unlikely, as the event consists of a random lottery draw with each outcome *ex ante* expected to occur with equal probability. Moreover, the firms in the sample are among the most liquid and actively traded in Sweden, suggesting that new

information should be rapidly incorporated into prices. Nevertheless, for robustness, I consider a range of event windows that precede, follow, and include the event day:

$$CAR_{it}(-n, +m) = \sum_{t=-n}^{+m} AR_{it}. \quad (3)$$

Abnormal and cumulative abnormal returns are standardised by the estimated standard deviation of daily abnormal returns, σ_i :

$$\frac{CAR_{it}(-n, +m)}{\sqrt{\sigma_i^2(-n, +m)}}. \quad (4)$$

Assuming that standardised abnormal returns are independently and identically distributed across firms, the eleven treatment-group stocks are analysed as a single group. Their standardised abnormal returns are tested in cross-sectional regressions against the null hypothesis of zero abnormal performance for each event window, that is, no statistically significant average shareholder response to the lottery outcome.

4.2 Event-study results

The results from the market model are reported in Table 2. Panel A shows that a statistically significant effect emerges for the event window encompassing the event day and the subsequent trading day. For this window, the estimated cumulative abnormal return (CAR) is 1.215 per cent and is significant at the 1 per cent level. This positive effect persists over the subsequent trading days. In particular, CARs remain positive on the first, second, third, and fourth trading days following the lottery outcome. Panel B of Table 2 reports abnormal returns and CARs for the trading days preceding the event. These asymmetric event windows begin between one and four trading days preceding the event. These asymmetric event windows begin between one and four trading days prior to the event day and end one trading day before it. The estimated CARs are uniformly small and statistically insignificant, providing evidence that the market did not anticipate

either a positive or a negative outcome of the parliamentary lottery. Panel C of Table 2 presents results for a set of symmetric event windows centred on the event day. The estimated effects are statistically significant for the two shortest windows, but not for the two longer windows, suggesting that the market reaction was concentrated in the immediate aftermath of the lottery.

Figure 1 illustrates the cumulative abnormal returns around the event. The plotted CARs are obtained by applying equations (1) to (4) on a day-by-day basis from 27 May to 7 June. The figure shows a clear pattern of insignificant CARs prior to the event day, followed by a marked increase beginning on the event day and persisting until the third subsequent trading day. Although the abnormal return on the event day itself is statistically insignificant (as shown in Table 2) the figure clearly indicates a discrete shift in cumulative returns coinciding with the lottery outcome.

To further examine price movements on the event day, I conduct a t-test comparing the event-day abnormal returns of the treatment group with those of all other listed firms. The results are reported in Table 3. Abnormal returns are estimated using the same specification as in Table 2, but with the inclusion of a control group consisting of the 93 firms not exposed to the proposed legislation. The results indicate that, relative to the control group, the treatment group outperformed by 0.6 percentage points on the event day. This finding provides additional evidence that the lottery outcome had a positive impact on the affected firms.

Taken together, the evidence from Tables 2 and 3 and Figure 1 supports two main conclusions. First, the absence of abnormal returns prior to the event suggests that the market did not anticipate either of the two possible lottery outcomes. Second, the rejection of the proposed ban generated positive abnormal returns that persisted for several days following the event. Overall, the results indicate that the market reacted positively to the parliamentary decision to reject the proposed ban on FDI in colonial and racially discriminatory regimes.

Because the lottery outcome was ex ante equally likely, stock prices can be interpreted as having incorporated a 50 per cent probability that the proposed legislation would be approved. The estimated abnormal returns therefore capture the valuation effect of moving from a probabilistic outcome to certainty. The implied value effects vary with the choice of event window. For the narrowest window, encompassing the event day and the subsequent trading day, the estimated CAR is 1.215 per cent. This implies that the full market valuation effect of the proposal's approval would amount to approximately twice this magnitude, or 2.43 per cent. To assess the economic significance of this effect, I compare it with findings reported by Neuhierl et al. (2013), who analyse market reactions to a broad range of corporate announcements. They document that, on average, the announcement of a special dividend leads to an immediate increase in firm value of approximately 2.5 per cent. In absolute terms, the implied market impact of the rejection of the proposed FDI ban is therefore comparable to that of a special dividend announcement. This comparison suggests that the valuation effect of the lottery outcome was economically substantial. The magnitude of the estimated effects also casts doubt on any arguments that firms would have voluntarily divested from colonial regions or that reputational considerations alone would have induced disengagement. Instead, the event-study evidence supports the view that market forces and self-regulation were insufficient to bring about corporate decolonisation, and that explicit regulatory intervention would have been necessary at this point in time.

5. Conclusions

Do divestments from racially discriminatory and colonial regions enhance or diminish firm value? While one influential strand of the literature argues that such divestments reduce equity market value, another contends that they create shareholder value. In equilibrium, however, it is typically

difficult to identify whether and how corporate decisions affect firm valuation, as such decisions are often endogenous and confounded by simultaneous developments.

This study addresses this challenge by exploiting a historical natural experiment in which the Swedish Parliament, following an evenly split vote, rejected – by means of a lottery – a proposal advanced by the governing party and its parliamentary ally to mandate corporate divestment from regions subject to colonial rule or racial oppression. Using an event-study framework, I find that the rejection of the proposal generated a substantial and statistically significant increase in the equity values of firms that would have been required to divest had the legislation been adopted. These findings provide empirical evidence of a strong positive causal relationship between engagement in morally questionable business activities and shareholder value in the 1970s which was a decade still bearing the marks of colonial structures and racial discrimination. More broadly, the results underscore the importance of institutional and historical context when evaluating the financial consequences of corporate social responsibility and highlight the limits of relying on market incentives alone to induce socially desirable corporate behaviour.

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Table 1: News around the event day

Date	Event
May 27	The Government announces its wish to subsidize industrial companies when needed.
May 28	Industrial company Höganäs predicts increased sales for the year, and manufacturing company Husqvarna announces an acquisition of a smaller company in Germany.
May 29	Telecom company LM Ericsson expresses inflation worries. Medical device company Mölnlycke announces a 22 per cent increase in profits.
May 30	OECD member countries call for a stop for trade limitations. Industrial company AGA predicts an increase in profit of 10-20 per cent for the year.
May 31	Building material company Skånska Cement announces four large orders to build hotels in the Soviet Union and pharmaceutical Fortia announces an increase in sales of 20 per cent.
June 1	Pharmaceutical Astra confirms its prognosis for the year. Pulp and paper company Korsnäs predicts improved profits for the year.
June 2	Price of gold and oil in decline.
June 5	Risk for strike affecting all domestic flights.
June 6	Manufacturing company PLM predicts a 50 per cent increase in profits for the year. Lowest trading volumes of the year on the stock market.
June 7	The minister of finance announces plans to increase taxes in 1975. The Government plans to provide subsidies to ensure an increased construction of homes.

Information on main news events relating to the firms listed on the Stockholm Stock Exchange and the economy collected from the online archives of the Swedish broadsheet Svenska Dagbladet.

Table 2: Cumulative treatment-group abnormal returns around the event day

Window	% (I)
Panel A	
(0) 31 May	0.347 (0.303)
(0, +1) 31 May, 3 June	1.215*** (0.256)
(0, +2) 31 May, 4 June	1.424*** (0.295)
(0, +3) 31 May, 5 June	0.547* (0.262)
(0, +4) 31 May, 7 June	0.521** (0.208)
Panel B	
(-4, -1) 27 May, 30 May	-0.284 (0.378)
(-3, -1) 28 May, 30 May	-0.098 (0.189)
(-2, -1) 29 May, 30 May	-0.120 (0.231)
(-1) 30 May	0.002 (0.321)
Panel C	
(-1, +1) 30 May, 3 June	0.993*** (0.271)
(-2, +2) 29 May, 4 June	1.064** (0.249)
(-3, +3) 28 May, 5 June	0.349 (0.193)
(-4, +4) 27 May, 7 June	0.199 (0.240)

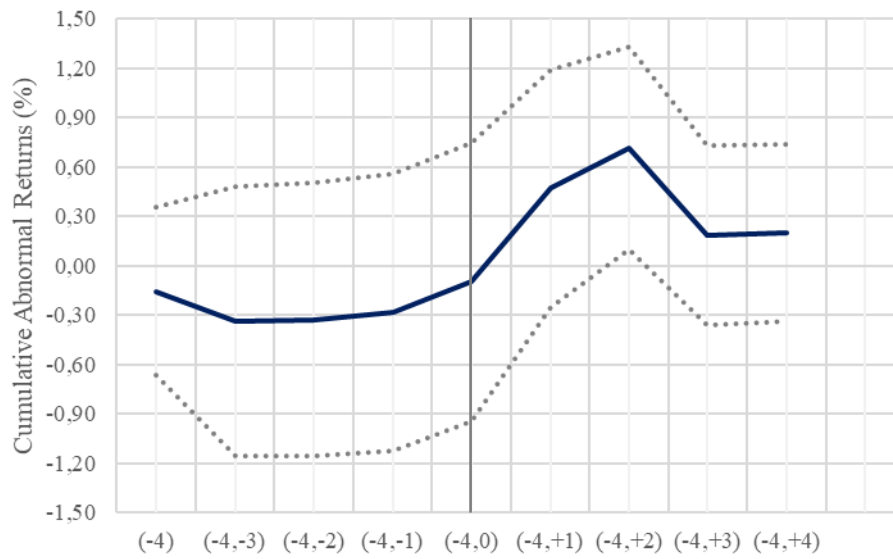
This table reports the abnormal returns and cumulative abnormal returns estimated according to the market model described in Section 4. The null hypothesis is zero abnormal returns. The event day, day 0, is May 31, 1974. Heteroscedasticity-consistent standard errors are reported in parentheses. The superscripts *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively.

Table 3: Treatment groups versus other stocks on the event day

Window	T-group, %	C-group, %	<i>t</i> -test: T-group – C-group, p.p.	
	(I)	(II)	double sided (III)	one sided (IV)
(0) 31 May	0.347 (0.303)	-0.235** (0.111)	0.582* (0.340)	0.582** (0.340)

This table reports the abnormal returns and cumulative abnormal returns estimated according to the market model described in Section 4 for the treatment group (T-group) and all other stocks (C-group), separately, as well as the difference between the two groups. The null hypothesis is no difference in abnormal returns between the two groups. The event day, day 0, is May 31, 1974. Heteroscedasticity-consistent standard errors are reported in parentheses. The superscripts *, ** and *** indicate statistical significance at the 10, 5 and 1% levels, respectively.

Figure 1: Cumulative abnormal treatment-group returns around the event day



This figure reports the abnormal returns and cumulative abnormal returns (solid line) and the 95% confidence interval (dotted lines) estimated according to the market model described in Section 4 for the period around the event, from May 27, 1974, to June 7, 1974. The null hypothesis is zero abnormal returns. The event day, day 0, is May 31, 1974.