Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Alice Navrátilová
Advisor:	Mgr. Miroslav Palanský, M.A.
Title of the thesis:	Does donating to political parties pay off? Evidence from the Czech Republic

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Contribution

Alice has written a thesis on the effects of being politically connected on firms' performance in public procurement administered by Czech Ministries. While globally, the topic of corporate political connections and their effects has been receiving wide attention in academia for decades, in the Czech setting, the data that would allow for a sensible analysis have only become available recently (for the first time around 2013, with vast improvements since) and this study is thus still one of the first ones using this, now relatively rich, dataset.

I see the main contribution of Alice's thesis as fourfold. First, the thesis deals with the effects of political connections on the outcomes of public procurement at the Ministry level in Czechia, which has not been done before. The existing literature has merely provided some theoretical insights as to what results one might expect – the empirical contribution of this thesis is thus undoubtedly substantial. Second, Alice has expanded the dataset on political donations to include more information on donating natural persons. In particular, she has improved the quality of data from 2008 to 2016 so that a state-of-the-art matching procedure to the Business Registry that had been developed by EconLab could be put to full use. This thesis thus represents the first work to systematically map firms whose officials have donated money to political parties as natural persons and to consider such firms as politically connected (along with firms that donate directly as legal persons). This improvement of the dataset is moreover already being utilized in other students' theses. Third, in a more international view, Czechia, being a post-transition multiparty parliamentary democracy, and taking into account the extraordinary quality of data on political donations which is unprecedented in other similar countries, is a novel and important case study. Correspondingly, research using political donations in such settings is very scarce. Fourth, Alice has developed a novel panel-like approach, artificially and carefully creating three time periods corresponding to three election cycles, and used it to get, arguably, as close as possible to causal interpretation of her results given data limitations. Using this methodology, the endogeneity problem that is inherent in this type of studies has been handled, although not fully due to data limitations, in an innovative manner. In all these aspects, Alice's thesis contributes greatly to the expanding knowledge of the causal effect of political connections on firm outcomes.

Methods

Alice has argued very well in her thesis that there are data limitations on both sides of her empirical specification that prevent her from using econometric techniques that would be most suitable in this setting. These data limitations are present in all studies of the phenomenon and Alice has arguably gone to the frontier of what is possible with the existing data. In her methodological approach, she proceeds in three steps which I view as steps from empirical observations of the relationship towards a more causal interpretation of the effects of political connections. While ultimately resorting to relatively basic econometric tools, the data had been handled in a way that carefully considers its features and I believe that the techniques that were subsequently used are perfectly appropriate.

As I already mentioned above, the data used in this analysis are of relatively high quality compared to sources available in other countries. This pertains to both the data on political donations and on public procurement. Here I would like to briefly summarize the remaining drawbacks of these sources that prevent the use of more suitable methods to answer the research question of this thesis, and to detail how Alice has handled these drawbacks. Regarding political connections, one could easily imagine better and more detailed data – for example personal ties between politicians and businessmen. As some anecdotal evidence from the media suggests, it may well be the case that a firm receives a

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public procurement contract thanks to the fact that its owner is an old classmate, friend or relative of the politician who decides about the outcome of the auction. In some countries, such as Denmark, the authorities allowed researchers to access data on family ties, however, I do not see this happening anytime soon in Czechia. Alice acknowledges the fact that the level of connectedness between firms and bussiness may thus be underestimated using her data, and I commend her for moving closer to the ideal (compared to previous studies) by adding the donations from natural persons.

Regarding data on public procurement, the first-best data would include not only information on the firms that submitted the winning bid, but also those who bid and did not win. That way, one could simply compare the political connectedness of the winning and non-winning firms. Unfortunately, that data is not yet available in Czechia in sufficient detail (although it might become available in the near future). This issue is of particular importance in cases when the explanatory variable (i.e. political donations) is thought to be potentially driven by the explained variable (i.e. winning more public procurement contracts). Simply put, a firm that wins more public procurement contracts (regardless of political connections) may be more likely to donate money to political parties, as winners of public procurement generally perform financially better than other firms. There might thus be a problem of self-selection into the treatment (i.e. donating to political parties). Alice handles this problem in about the only way possible given data limitations – by controlling for firm characteristics in her models. In particular, she uses size and NACE industry codes. While more control variables could potentially be used, I believe that this approach is appropriate and this view is supported by the existing literature which often handles the self-selection problem in the same way.

Alice has also included a useful chapter on the political background in Czechia, which contains many arguments that are later used to motivate her methodological approach. Overall, I think that she has done a great job in designing her methodology, and I believe that she has carefully handled and acknowledged the most pressing issues.

Literature

Alice has structured her literature review in three main parts – definitions of political conections; the effects of these connections; and literature that focuses specifically on Czechia. I find the literature review well written and comprehensive. As is natural in such large fields of literature, there exist papers that are relevant and are not mentioned in the thesis, however, I believe that Alice has summarized most of the seminal work on the topic and positioned her thesis well into the existing research, providing a clear picture on where her thesis brings a novel contribution.

Manuscript form

The manuscript is very well structured and polished. The text is concise and readable, without grammatical or typographical errors. Tables and figures are informative and tidy.

Summary and suggested questions for the discussion during the defense

Overall, in my opinion, Alice has written an extraordinary thesis and it has been a pleasure working with her. She has repeatedly done her best at incorporating my comments and worked hard and consistently over a sufficient period of time. I am confident that Alice will present her thesis adequately to the committee and in that case, I suggest the grade A.

I suggest a couple of questions for Alice below, although they are all of exploratory character and regard potential future research rather than the thesis itself.

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1. What further potential improvements to the available data do you see and how would they help you solve some of the methodological issues you have encountered?
2. In case this has not come up during the presentation, could you elaborate on why the effects you found were not as significant (if at all) as those reached by some of the existing research on Czech political connections?
3. In light of the upcoming municipal elections, do you see potential for further research on the effects of political connections at this level of government? What data might you use to identify political connections, given that political donations are only observable at the national level for the largest parties and most of the parties in municipal elections are of local character only?

SUMMARY OF POINTS AWARDED *(for details, see below):*

CATEGORY		POINTS
Contribution	*(max. 30 points)*	30
Methods	*(max. 30 points)*	29
Literature	*(max. 20 points)*	19
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**98**
GRADE	**(A – B – C – D – E – F)**	**A**

NAME OF THE REFEREE: Mgr. Miroslav Palanský, M.A.

DATE OF EVALUATION: August 28, 2018

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Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong	*Average*	*Weak*
30	*15*	*0*

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong	*Average*	*Weak*
30	*15*	*0*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong	*Average*	*Weak*
20	*10*	*0*

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong	*Average*	*Weak*
20	*10*	*0*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F