

# The Value of Political Connections: Evidence from the Czech Republic

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## Abstract

This thesis estimates the value of political connections in the Czech Republic and it is divided into two parts. The first one explores the recently extended, most advanced publicly available data set on political party financing in the Czech Republic, covering the time period 1995-2015. We analyze basic patterns in party funding and their development over time. We focus primarily on private funding from both legal and natural persons. The data show that there exists substantial heterogeneity in the volume of private funding across parties and over time, but contributions from the government budget remain the most important source of income for all larger parties. We analyze the available data on donations and discuss several issues regarding the notion that donors may view contributions as investment, yielding possible profits in the future.

In the second part, we use the data set of corporate donations to construct a proxy variable for political connections and to estimate the effect of being connected to a political party on the financial performance of such firms. We find that the connected firms perform significantly better than the non-connected ones in the years following the establishment of the connection. Furthermore, the difference is higher for firms that work closely with the public sector. We then develop a novel, dynamic approach to matching connected firms with their non-connected but otherwise similar peers, and find that on average, the connected firms report returns on equity and returns on assets approximately 20 to 30 % higher than the non-connected ones. The results also suggest that public procurement-winning firms perform similarly as the donating firms, pointing to the importance of the fact that donations are not the only source of connections between firms and politicians.