

Does Party Representation Matter for Public Procurement?

Evidence from Regression Discontinuity Design

(Non-technical summary)

This study examines the impact of increasing the number of political parties represented in the municipal councils on public procurement spending and allocation of procurements to the donors of political parties. Understanding the impact of party representation is important, as dozens of modern democracies have some type of multi-partisan proportional elections, for which the presented evidence is most relevant. At the same time, resources at stake in public procurement account in OECD countries alone for 13% of GDP (OECD 2013) and much of these resources can be inefficiently spent or misallocated due to political corruption.

The study addresses the research question using fuzzy regression discontinuity design. In particular, it exploits the institutional feature of proportional elections in the Czech Republic which requires parties to exceed 5% representation threshold to qualify for seat allocation in the local councils. Using the discontinuity in the probability of being represented after exceeding the representation threshold, the study identifies the effect of broader political representation separately from electoral selection effects and institutional factors.

The study finds that:

- broader political representation causally reduces the overall probability that public procurements are allocated to the corporate donors of political parties;
- local councils with more parties attract more bidding suppliers into procurement competition, as well as they use more frequently discretionary procedures, which can serve to eliminate undesirable suppliers from procurement competition;
- local councils with broader party representation allocate procurements at lower contract prices, which reduces the overall share of procurement expenditure on municipal budget by estimated 4.5 - 7.9 percent points;
- the selection of political donors as procurement suppliers is less prevalent if broader party representation interacts with higher political competition and lower bargaining power of the dominant parties within the local councils.

Due to the data limitations, the paper however cannot interpret the results as a clear-cut evidence of the deterrence in political favoritism due to the broader party representation. Similarly, the paper cannot evaluate the overall welfare implications of broader political representation due to unobserved outcomes in procurement, such as quality or renegotiation costs. Although the findings are consistent the previous literature showing that factors lowering the barriers to political entry are associated with less political corruption, this paper is unable to test whether a decrease in the representation threshold would be generally beneficial. Further research is needed to assess whether broader party representation affects also other aspects of governance and ultimately improves voters' welfare.

Key words: political representation, political parties, public procurement, corporate donors, regression discontinuity design, proportional elections, local councils