

# TOPICS FOR SUPERVISION

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The purpose of this document is to provide a brief insight into thesis topics I am willing to supervise and to help you come up with ideas of your own. This does not mean that I am not willing to supervise topics not listed here—I will be happy to discuss any idea. I will try to regularly update this document as new ideas come to my mind so that it also serves as an overview of my research focus. The literature cited in each section should provide a basic overview of the topics at hand. Do not hesitate to approach me in case you wish to discuss one of the below-listed topics as well as your own. You can reach me at [miroslav.palansky@gmail.com](mailto:miroslav.palansky@gmail.com).

I have a couple of general remarks that may help you make decisions that have to be made before you start writing:

- I strongly recommend writing your thesis in English using  $\text{\LaTeX}$ . Even though you may encounter some problems along the way, it is the easiest way to write a thesis. Plus, mastering  $\text{\LaTeX}$  is a very valuable skill.
- Given the thesis length requirement set by IES, it is often useful to consider splitting your thesis into multiple chapters made up by individual (but related) papers. This will help you to publish your work afterwards more easily, because academic journals usually have an upper limit on word count much smaller than the IES minimal requirement for theses. For inspiration on what that might look like, see for example [my Master thesis](#) or [that of Tomáš Havránek](#).

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# 1 Political finance

My work in the field of political finance is closely connected to EconLab’s project [PolitickeFinance.cz](#). See our policy-related [publications](#) written at EconLab, and see also my papers on the effect of political connections ([Palanský, 2014](#), [2016](#)).

## 1.1 Political donations

Until December 2016, physical and legal persons were allowed to make donations to political parties without any limitations. Starting January 1, donations from one person may not exceed CZK 3 million per political party per year (even though asking family members or friends is easy). Still, potentially democracy-threatening problems are inevitable—should we allow people to use their money to influence the thinking of others? And even more pressingly—should we allow companies (i.e. legal persons, which, as such, do not have political ideals of their own, and their primary purpose is to make profit) to donate money to politicians? Are those politicians going to return the favor using public funds? Are all the ways in which politicians are able to return the favor legal and if so, are they ethical and favorable?

Answers to these questions are very complex, and the theory and data-based evidence behind the commonly used arguments is weak. The most controversial aspect of political financing is whether to ban corporate donations to political parties. According to the [Political Finance database](#) maintained by the [International Institute for Democracy and Electoral Assistance](#), as of October 2016, 46 countries around the world do not allow corporate donations to political parties. Out of these, 15 are in Europe (see [Figure 1](#)).

Currently, donations are, apart from government subsidies, one of the most important sources of income of Czech political parties (see the works of [Outlý \(2003\)](#); [Skuhrovec et al. \(2015\)](#); [Šimral \(2015\)](#); [Šimíček \(2000\)](#) or our EconLab publications). A possible research question is how to change this setting, what better ways there are and what their impact would be. One of the most creative possibilities is the introduction of tax assignment, as seen recently for example in Lithuania (see ([Baltrunaite, 2016](#)) for more details). Under this scheme, people are allowed to donate a small percentage of their personal income tax to a political party. An advantage of this approach is that all people have an equal way of influencing politics via monetary contributions, which enhances the ideals of democracy and diminishes the negative effects of oligarchism and rent-seeking.

The project [PolitickeFinance.cz](#) offers many interesting research opportunities as well as NGO-related work that provide a fair chance of obtaining funding. I will be happy to discuss your involvement in the project or its extensions.

## 1.2 The effect of political connections

Literature shows that connections between businessmen and politicians may be exploited to add value to the connected firms. Empirical studies on this topic usually face the problem of the lack of data. You need two broadly defined types of data to analyze this problem—(i) a proxy for political connections and (ii) a variable affected by the connections. I provide a non-exhaustive list of potential ways to obtain data in both these categories below. Note that

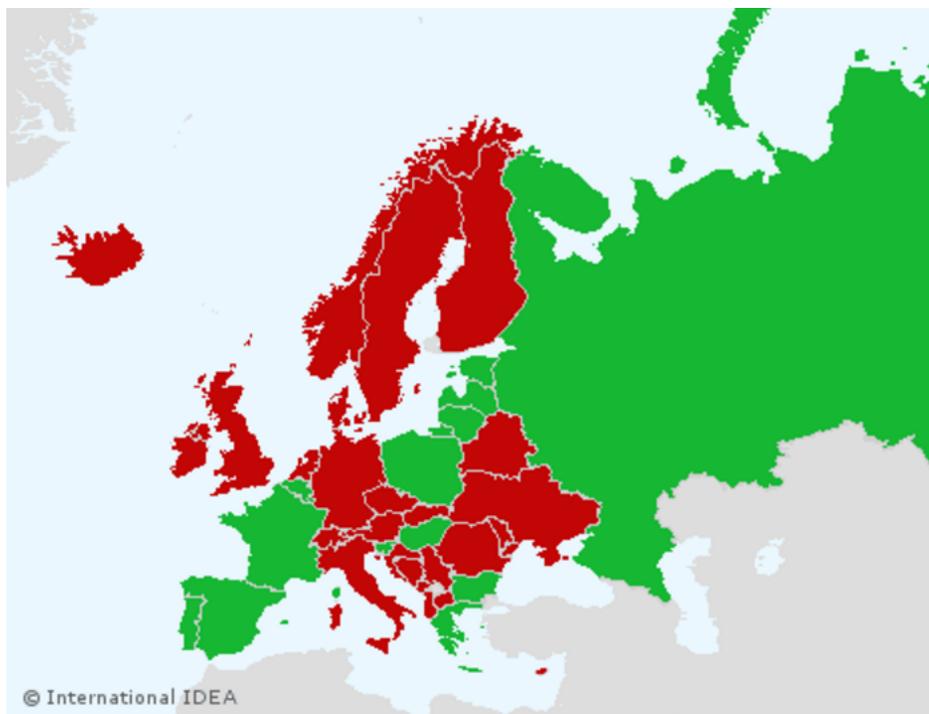


Figure 1: Ban on corporate donations in European countries (green: active ban, red: no active ban), October 2016. Source: Political Finance database, International IDEA.

these are bound by the conditions specific to each country and setting and these conditions may change significantly over time.

**(i) Political connections:** In the Czech Republic, there are known ways to obtain reasonable proxies for connections. These include political donations ([EconLab](#); [Politické-Finance.cz](#)), personal connections based on data from public registries ([justice.cz](#), [ARES](#)), data on political candidates ([volby.cz](#)) and other more or less creative sources. An interesting option is to try to persuade Czech public authorities to provide personal data on family ties for research purposes, as done in Denmark by [Amore and Bennedsen \(2013\)](#).

**(ii) Dependent variable:** In the Czech Republic, and especially for IES students, it is easy to obtain data on public procurement ([EconLab](#); [zIndex.cz](#); [ISVZ](#)), firm profitability ([Magnus database](#)<sup>1</sup>), European donations ([EconLab](#); [vsechnyzakazky.cz](#)), insolvencies ([EconLab](#); [justice.cz](#)) etc. An interesting possibility is to use stock-market returns of Czech firms.

I constructed a simple literature matrix ([Table 1](#)) which provides an overview of the main variables used in the literature and examples of research papers using those variables both internationally and for country-specific settings. I will try to update this table one day.

The list below briefly describes some potential ideas for theses in the area of political finance and the interconnectedness of business and politics.

<sup>1</sup>This is a private database of financial information on Czech firms, maintained by [Bisnode Česká republika, a.s.](#) As of October 2016, IES students may access this database for free. For more info, see the [website](#) of our faculty library.

Dependent variable	Political connections measure			
	Personal ties	Political donations	Businessmen in politics	State ownership
Stock market returns	Faccio (2006); Ferguson and Voth (2008)	Cooper et al. (2010)	Faccio (2006); Goldman et al. (2009)	
Firm profitability	Amore and Bennedsen (2013)			
Public procurement		Baltrunaite (2016); CZ: Palanský (2014)	Goldman et al. (2013)	
Regulatory outcomes		De Figueiredo and Edwards (2007)		
Access to credit	Khwaja, A.I. & Mian, A. (2005)			

Table 1: Literature matrix, selected papers on the effects of political connections

- **Political connections and firm performance: A meta-analysis.** Internationally, replicating previous studies and building extensions to models used in previous literature also provides potential for a great thesis. As the years go by, the existing data sets become larger, which provides an opportunity to recalculate some of the previous studies, making the results more precise. A meta-analysis on this topic would also be a good idea.
- **Are politically connected firms more successful in public procurement tenders?** Concerning public procurement, the drawback of Czech data has been that we do not know who applied for the tenders and did not win—in the data, we only had the winners. That has changed in 2014, and since then, a vast data set has already piled up and it is waiting to be analyzed. There is thus the possibility to compare winners and non-winners, their political connectedness and its effect on their chances of winning. This has not yet been done on the Czech data.
- **Are the decisions of the Czech Office for the Protection of Competition politically biased?** It is a task of the [Office for the Protection of Competition](#) to be the judge in disputes over the outcome of public procurement auctions. At EconLab, we have a database of the decisions which can be easily linked to the database of connected firms to analyze whether disputes over public procurement tenders in cities in which politicians are connected to firms are won by these connected firms. Does ÚOHS rule more in favor of connected firms? If so, how much? Does this happen more in cities in which the municipal councils are controlled by political parties connected to businesses?

## 2 Taxation

- **Corporate taxation.** Which countries impose which corporate tax rates and why? What effects do these differences have? How large is the wedge between nominal and

effective tax rates? How can we estimate effective tax rates?

- **Tax competition.** What are the effects of tax competition? Are they positive or negative? Is the "race to the bottom" a real threat which we should fight? Are there theoretical and practical differences between tax competition at country level and regional level? Is tax competition desirable at any of these levels?
- **Taxes and inequality.** This is a very relevant and popular topic in recent economics. Some taxes promote inequality (VAT on basic goods), some taxes work against it (property tax, corporate tax, capital income tax). A possible thesis topic could be to evaluate the effect of different taxing schemes on inequality (both internationally and for the Czech case).
- **Fiscal decentralization.** Assigning tax collection duties to lower levels of government is an interesting concept in several ways. In the theory, we recognize several issues to be tackled when deciding on an optimal level of decentralization of tax collection responsibilities and government power in general. The advantages to a decentralized government include e.g. closeness of government to the people, its better knowledge of needs of the society (which results in more efficiency in public spending), or tax competition between jurisdictions. On the other hand, a centralized government may be a better solution in case of a lack of expertise at the local level; there is more space to redistribute in a way that promotes equity of the level of public services provided across jurisdictions, etc. There is no consensus as to which effects prevail under which circumstances, which provides for a nice opportunity for an empirical paper on this topic, preferably for multiple countries, such as the Visegrad group countries.

International organizations provide interesting data sets on decentralization. Generally, data of better quality are available for more developed countries. OECD publishes a cool [data set on decentralization](#) (though only for OECD countries); some measures (especially regarding tax revenues) can be constructed from the [Government Revenue Dataset](#) (see (Janský and Palanský, 2016b; Prichard et al., 2014)) or the [IMF Government Revenue Statistics](#).

- **Equalization transfers.** Analyzing ways in which tax money are redistributed is a connected issue to the one I describe in the *tax decentralization* bullet point above. It is basically decentralization at the expenditure side. One of the standard ways to redistribute centrally-collected tax revenues to lower levels of government is by using an equalization transfer formula. The usual political dispute is about what such a formula should look like. An interesting exercise is to model changes to this formula, such as we did in (Janský and Palanský, 2016a), where, in the theoretical part, we deal with both sides of the decentralization problem, and in the empirical part, we focus on the case of Georgia. An extension to this work both horizontally (to other countries) and vertically (to other issues in Georgia or other countries) is a thesis topic I would gladly supervise. Modeling changes to the Czech system, for example, could be a great thesis topic.
- **Unconventional taxes.** It is interesting to analyze the potential effects of some unconventional types of tax and whether they might be able to solve some of our current issues connected to taxation (such as inequality, distrust in the public administration, tax evasion and so on). Examples of such tools are the negative income tax, tax ascription (read more on [Czech Wikipedia](#) and also an application of this tax in Lithuania (Baltrunaite, 2016)), proportional 'garbage fees' instead of the current 'flat tax on garbage'

(people pay the same fees for their garbage regardless of their income or the amount of garbage they produce), and so on. Potentially, one can compare the existing cases of the usage of such taxes and assess their optimality.

- **Welfare effects of taxation.** The concept of deadweight loss has traditionally viewed taxation as a phenomenon that reduces the efficiency of markets. The optimal taxation framework offers interesting analytic possibilities that have not yet been explored when one admits that the agents that are eliminated from the market as a result of taxation are, in fact, the most inefficient agents. Their time and resources can be used elsewhere, with a potential net welfare benefit to society. See a recent working paper on this topic by [St Pierre \(2017\)](#).

### 3 Tax havens and tax abuse

This will be my main topic of interest in the coming years (as part of the [COFFERS project](#)) and I will thus be very happy to consider supervising theses dealing with related ideas. The practices that lead to artificially lowered taxes can be divided into two groups: tax avoidance and tax evasion. In short, the difference is that tax avoidance is legal and tax evasion is illegal. Both these phenomena are subsets of the tax gap (i.e. taxes that would be collected if everybody paid all taxes they are intended to pay minus taxes that are actually collected). The aim is, of course, to eliminate the tax gap, so that all taxes that should be paid are paid. To do so, we can study individual elements of the tax gap and focus on ways to decrease their size. I summarize some possible steps of these efforts below, suggesting potential research questions in each step:

- **Estimating the size of the tax gap: the FDI-approach.** This is a logical first step to analyzing the tax gap, but it is intrinsically difficult, because we are trying to measure the scale of phenomena typically described by words such as 'hiding' and 'avoiding'. A few approaches have, however, already been developed and implemented. One of them uses data on foreign direct investment and was introduced by [UNCTAD \(2015\)](#) and later re-estimated with country-level results by [Janský and Palanský \(2017\)](#). [Zucman \(2014\)](#), improvements to these methodologies are necessary.
- **Indirect foreign direct investment: The role of Special-Purpose Entities.** Special-purpose entities (SPEs) are legal entities set up for one specific task, usually to alleviate financial risks or avoid taxation of multinational corporations. These entities often engage in a technique called round-tripping, a series of transactions between companies that bolster the revenue of the companies involved but that, in the end, don't provide real economic benefit to either company. Some countries specialize in providing the necessary legal environment for such companies (such as the Netherlands), but only a fraction of these countries report on how much investment has ended up in the given country and how much has only "flown through". The aim of this thesis is to identify these countries and map whether and how many of them report on the activities of their SPEs. This exercise is of crucial importance to some studies on tax avoidance and evasion of multinational corporations, as FDI data is often used in this research (see, for example, [UNCTAD \(2015\)](#) and [Janský and Palanský \(2017\)](#)).
- **Tax gap and inequality.** Wealthy individuals are more likely to avoid taxes—they

have more motivation to extensively do so and more means to efficiently do so. As a result, the rich pay a lower percentage of their due taxes than the poor, which ultimately promotes inequality. Recent studies show that this phenomenon is widespread (Alvaredo et al., 2017) What are the effects of tax avoidance on inequality? For example, is there an empirically observable relationship between the size of the shadow economy (for example the data by Elgin et al. (2012)) and a measure of inequality (for example the Gini index)?

- **Who wins and who loses due to financial secrecy? The Net Bilateral Financial Secrecy Index.** The **Financial Secrecy Index** is a ranking that measures each jurisdiction's contribution to global financial secrecy in a way that highlights harmful secrecy regulations. However, different secrecy jurisdictions specialize in providing services to the citizens of different countries, and thus are important for different countries to a varying extent. To account for this heterogeneity, Janský and Palanský (2018) developed the so-called Bilateral Financial Secrecy Index which estimates a ranking of the importance of each secrecy jurisdiction for each country.
- **Internet domain registrations and tax havens.**

## 4 Public procurement

In the [Digiwhist project](#), a vast dataset of public procurement throughout Europe has been recently created and a great number of interesting research questions could be answered using this dataset.

- **Tax havens and public procurement.** When firms compete in public procurement tenders, the most important factor is usually price. Firms that are owned from tax havens (or even more pressingly, incorporated in tax havens) generally pay lower tax than other firms, because they are able to shift profits to the lower-tax jurisdictions. Naturally, they can thus afford to offer a lower price for a tender and thereby win it. A nice theoretical model can be derived to express this motivation, and there is a great database that can be used to test the model's predictions. Can we observe this phenomenon in the data? Do firms owned from tax havens win more public procurement tenders? If so, how much? What would be the effect of banning firms from tax havens from competing in public procurement tenders?
- **Anonymous companies and public procurement: Evidence from the Czech Republic.** Until 2014, the Czech law allowed companies to be owned through anonymous bearer shares and thus effectively hide the real owner of the company. These companies had been winning public procurement tenders before 2014. The aim of this thesis is to analyze these firms and whether they have stopped competing in public procurement tenders after their ownership structure has been revealed, or whether they continued, or whether they have found a different way to hide their owners, for example by transferring the ownership rights to an offshore holding company. Data is readily available on both the public procurement suppliers and their ownership structure.
- **Protectionism of public procurement contractors in the European Union.** When awarding public procurement, contracting authorities may prefer domestic companies. For example, when the French police is buying cars, it will most likely purchase

from a French car-maker. How protectionist are countries throughout the European Union? How many foreign firms win public procurement in each country. The state-of-the-art dataset on public procurement in all EU countries provided by Digiwhist ([digiwhist.eu](http://digiwhist.eu)) brings the potential to answer these questions.

## 5 Non-market evaluation methods

There are some markets in which prices cannot be used, for social, ethic or other reasons. I will gladly supervise topics connected to applications of matching algorithms that do not use prices in the real world. For example, matching university dorm rooms to students, pupils to schools, etc. Some very interesting applications of this theory could be done in the Czech setting. For more info on these topics, I strongly recommend following the IES course given by [Jakub Kastl](#) and seeing his work on these topics.

## 6 Currently supervised theses

- Stanislav Riger - Fiscal decentralization and equalization in the Visegrad group countries: Development and current status
- Alice Navrátilová - Does donating to political parties pay off? Evidence from the Czech Republic
- Ivana Strnadová - Fiscal decentralization and equalization transfers in the Czech Republic
- Martin Kopeček - EU and State Grants Distribution in the Czech Republic: the Effect of Political Connections

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