

## **Corruption, Tax Abuse, and Financial Secrecy**

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### **Abstract**

This dissertation is composed of three papers that focus on different aspects of the relationship between the public sector and individuals who do not comply with the norms and regulations set by the government. I classify the ways in which individuals do so into two categories – corruption and tax abuse. Corruption, defined as the abuse of entrusted power for private gain, results in individuals obtaining more benefits from the public sector than is intended. Tax abuse, on the other hand, is defined as contributing less to the public sector than is intended. The last chapter of the dissertation focuses on financial secrecy, which I argue is the key facilitator of the two channels.

In Chapter 2, I show that companies that donate money to Czech political parties subsequently report abnormally high profits, pointing to preferential treatment that these firms enjoy as a result of their political connections: I conservatively estimate that the connected firms outperform their non-connected but otherwise similar competitors by 8 to 12% following the establishment of the connection, which is a higher effect than found previously for more developed economies. Importantly, however, I find that the effect virtually vanishes for non-connected firms that work closely with the public sector. This suggests that other forms of connections, such as personal ties, and those established at subnational levels of government, such as the regional and municipal level, are likely to have played a significant role in Czechia during its post-transition period.

In Chapter 3, we focus on international tax abuse by multinational corporations. Specifically, we ask which countries' tax revenues are affected most by international profit shifting of multinational corporations and how much. We begin by observing that the higher the share of foreign direct investment from tax havens, the lower the reported rate of return on this investment. We argue that the reported rate of return is lower due to profit shifting and provide illustrative country-level estimates of the scale of profit shifting for as many countries as possible, including low-income ones. This enables us to study the distributional effects of international corporate profit shifting. We compare our results with four other recent studies that use different methodologies to estimate tax revenue losses due to profit shifting.

Chapter 4 focuses on financial secrecy. We develop the Bilateral Financial Secrecy Index which quantifies the financial secrecy supplied to individual countries by secrecy jurisdictions. We then evaluate two major recent policy efforts by comparing them with the results of the index. First, we focus on the blacklisting process of the European Commission and find that most of the important secrecy jurisdictions for EU member states have been identified by the lists. Second, we link the results to data on active bilateral automatic information exchange treaties to assess how well-aimed are the policymakers' limited resources. We argue that while low-secrecy jurisdictions' gains are maximized if a large share of the received secrecy is covered by automatic information exchange, high-secrecy jurisdictions aim not to activate these relationships with countries to which they supply secrecy. Our results show that secrecy jurisdictions successfully keep their most prominent relationships uncovered by automatic information exchange, and activating these relationships may thus be an effective tool to curb secrecy.