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OUTLAW HEAVEN: WHY STATES BECOME TAX HAVENS

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DISSERTATION

A dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the College of Arts and Sciences at the University of Kentucky

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ABSTRACT OF DISSERTATION

OUTLAW HEAVEN: WHY STATES BECOME TAX HAVENS

It is the argument of this dissertation that states become tax havens as a conscious economic development strategy. These states – more properly referred to as "jurisdictions" because some lack the sovereignty of the traditional Westphalian state – do not have the natural resources or the population to pursue more traditional economic development strategies, but they do have the ability to write and implement laws that create a virtual resource: banking secrecy. These jurisdictions are to carry out this strategy because they tend to be well-governed, stable, and relatively wealthy, making them attractive partners for the international banking, law, and accounting firms that drive offshore finance, and then for their customers – both individual and corporate – as well. The qualities tax havens possess also enable them to calculate that the benefits they reap from pursuing this strategy outweigh any penalties assessed by anti-tax haven international collective action activities, such as the naming and shaming campaigns of 2000.

KEYWORDS: Tax Havens, Banking Secrecy, Economic Development, International Collective Action, Small Island Economies

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For my family

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Chapter One

Cuba, The Bahamas, Jamaica, the Cayman Islands, and the Paths They Took

The Bay Street Boys had had a good run, but it was coming to an end. The ruling elite of the Bahamas, so nicknamed because the men met at a club in Nassau on Bay Street, had taken what was a relatively quiet, if willing, outwardly focused economy with a modest amount of activity in the 1930s and turned it into a major hub of banking and gambling activity by the early 1960s. The Boys did not accomplish this feat all by themselves – they had help from two people: Marshall Langer and Meyer Lansky (Brittain-Catlin, 2005; Lacey, 1991; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Langer was an American tax attorney who started practicing in 1951 and consulted with the government of the Bahamas in rewriting its tax laws to encourage an increase in investment from outside the islands. The Bahamas already had a reputation in America as having a favorable tax environment, but Langer helped create an atmosphere of supercharged international development in the late 1950s (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Lansky, on the other hand, was one of the most powerful members of the "Outfit," the Chicago organized crime syndicate once run by Al Capone. In fact, after Capone went to jail for tax evasion in 1931, Lansky became one of the first Americans to start using Swiss banks to launder money in 1932. Lansky would fly to Switzerland with suitcases stuffed with cash, jewelry, bearer bonds, and anything of value that was portable and could be reconverted into cash quickly. He would deposit the funds into a Swiss bank, and the bank would then loan an equivalent amount to one of the companies Lansky had set up in America. The bank got its money back when Lansky repaid the loans which, since they were from his businesses, were tax deductible. This technique – soon to become standard practice – was called "loaning back" (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

The money Lansky was laundering mainly came from different forms of gambling – casinos and horse racing – which had the disadvantage of being illegal in America. Cuba, on the other hand, was a different story, and Lansky's operations in Cuba in the 1950s turned the island into "the most decadent spot on the planet" (Robinson, 2004: 37). Lansky's success in turning Cuba into a louche vacation spot for Americans was so great, in fact, that it led in part to the 1959 revolution that installed Fidel Castro, necessitating a new island paradise for Lansky to transform (Brittain-Catlin, 2005; Lacey, 1991; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Enter the Bay Street Boys. They were all too willing to partner with Lansky and together the Boys and Lansky created the Grand Bahamas Development Corporation (DEVCO), which gave Lansky and his partners a foothold on the island. Lansky also paid Bahamian finance minister Stafford Sands a $1.8 million bribe to help make the island's government more cooperative, the result of which was stricter laws pertaining to banks releasing information about their customers to anyone, including criminal investigators. These laws made the Bahamas an even more attractive destination for money launderers and tax evaders, and development on the island boomed (Brittain-Catlin, 2005; Lacey, 1991; Palan, Murphy, & Chavagneux, 2010; Robinson, 2004; Shaxson, 2012).

Until 1967. As in Cuba, popular discontent with the way the mafia and the local elites were despoiling the island led the Bahamians to revolt, albeit peacefully. The 1967 election was won by Lynden Pindling, a populist who ran on a reform platform calling for an end to gambling and corruption. This platform was not as threatening to what would become known as the "offshore" crowd – bankers, accountants, and lawyers like Langer who make their living creating new tax avoidance and evasion strategies for wealthy individuals and multi-national corporations (MNCs) – as the fact that Pindling was black and was calling for end to white minority rule; an end, as it were, to the rule of the Bay Street Boys. While the Bahamas remained, and would continue to remain, prosperous and relatively unaffected by the Pindling movement that led to independence in 1973, the smart money went elsewhere (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Robinson, 2004; Shaxson, 2012).

There were two choices. Two nearby islands with the British legal pedigree that allowed for the passage of banking secrecy and foreign ownership laws necessary to create a safe haven for offshore money and its handlers: Jamaica; and Jamaica's former dependent the Cayman Islands. Jamaica was more developed and in the throes of a growing economy thanks to high demand for the bauxite it mined and exported, and definitely more advanced than the backwater the Cayman Islands was at the time. Jamaica was also politically more sophisticated, having declared its independence from Great Britain in 1962. More disturbing to the offshore community was the election the following year, which was won by William Alexander Bustamante and the Jamaican Labor Party. It didn't seem to matter that the Labor Party was not socialist in the manner of the English political party of the same name; the Jamaicans seemed determined to control their own political and economic destiny (Brittain-Catlin, 2005; Library of Congress, 1989).

As it turned out, the ruling elite of the Caymans had no such pretensions. Granted, the Caymans declared itself independent of Jamaica in 1959 and created its own constitution, but chose to remain a British crown colony when given the option in 1962. This amount of soveriegnty turned out exactly what the Cayman selectorate desired: independent enough to write their own laws and levy their own taxes, but still tied to the body of British common law such that its precedents in cases like *Calcutta Jute Mills* and *Egyptian Delta*[1] held, allowing the Caymans to create the most inviting investment and banking environment in the Caribbean, if not the world (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

The effect of the new attention on the Caymans was almost immediate. The island had never had taxes of any consequence on its citizens, raising revenue for the government through import duties, and the sale of postage stamps and banking licenses, as well as from the fees companies pay to incorporate there. Their one and only bank – a Barclay's – had opened in 1953. The bank sat on the one paved road in George Town, the capital city of Grand Cayman, the largest island. It was likely that the bank's customers – who would not be able to call ahead because the island had no phone system – would encounter cattle wandering the streets on their way to patronize the bank. This was life in the Caymans until 1966, when bankers like the newly arrived Jean Doucet helped convince the legislature to pass a series of new laws, including the Banks and Trust Companies Regulation Law, the Trusts Law, the Exchange Control Regulations Law. These laws were created mostly from ideas the bankers themselves suggested in committee meetings chaired by the Cayman Islands Financial Secretary and passed with minimal debate or opposition by the legislature after passing through the Private Sector Consultative Committee, a trade association made up Caymanian financial professionals who had to give any financially-oriented legislation its imprimatur before it was voted on. These laws made it much easier to create trusts like the Star Trust, which allows the owner of the trust to be protected in such a way that enables

[1] *Calcutta Jute Mills, Ltd. V. Nicholson (Surveyor of Taxes)* in 1876 found that, for tax purposes, a company's residence is wherever its "central management and control" is located (Calcutta Jute Mills Ltd. v. Nicholson (Surveyor of Taxes), 1876). *Egyptian Delta Land and Investment Company, Ltd. V. Todd* in 1929 found that companies founded by British citizens but headquartered outside the UK were not liable for British tax (Egyptian Delta Land & Investment Company, Ltd. v. Todd, 1929).

the owner to make investment decisions without having to worry about what impact those decisions will have on the beneficiaries of the trusts. Or to open banks like the Sterling Bank, which Doucet opened in 1966 as one of the first private banks on the islands (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

The offshore money began to pour in and by 1967 the Caymans was a state-of-the-art investment hub, with connections to the international telephone network and a new airport built specifically to handle jet traffic. Corporate lawyers like Bill Walker, who had moved from Guyana in 1963, had more business than they could handle. By the end of the 1960s, when the Caymans abolished their bilateral tax treaties with the United States in order to give their banking customers complete and total confidentiality from American law enforcement and tax authorities, they were on their way to becoming one of the world's largest banking and incorporation centers (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Her Majesty's Government was initially positive about the Cayman Islands' success. The British Colonial Reports acted as booster, reinforcing the initial opinion of the Bank of England and the British Overseas Development Ministry that any economic growth is good and that a colony that develops its own economic base is a colony that will no longer have to beg for British aid, thereby reducing costs to the British government. Official opinion within the British government was hardly united, and began to splinter further as the Caymans gradually abandoned all pretense about what they were doing, going so far as to establish a government Tax Haven Committee in 1970 to "expand and promote tax haven activities on the island" (Brittain-Catlin, 2005: 152).

It did not take long, however, for even the Caymans' hardiest supporters in British government to recognize what the islands had become. As the Bank of England noted on

April 11, 1969, "the smaller, less sophisticated and remote islands are receiving almost constant attention and blandishments from expatriate operators who aspire to turn them into their own private empires. The administrations in these places find it difficult to understand what is involved and resist tempting offers" (Shaxson, 2012: 92). Condescending language aside, the Bank correctly analyzed the increased attention the Caymans were receiving from the outside world, both licit and illicit. By the early 1970s, every major American bank had a branch in the Caymans to compete for the rapidly growing deposit business there, some of the money literally being flown in on Lear jets in suitcases carrying millions of dollars in cash. Not only did the banks and the Caymanian officials not worry about where the money came from, but the island's police force would happily provide an escort from the airport to the bank for customers carrying large amounts of cash (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Where the Bank was wrong was in its interpretation of the Caymanian officials being victimized by their more-worldly peers in the offshore business. From the beginning in the mid-1960s, the intention of the Caymanian officials was to create a very specific niche, hosting tax law and accounting experts from the offshore world to help them create laws that would allow them to compete with the likes of Liechtenstein and Switzerland. There was a conscious effort that led to the legislative jewel in the crown: The Confidential Relationships (Preservation) Law of 1976. This law, in response to increased pressure from American banking and law enforcement authorities, made it a crime punishable by prison to reveal any financial or banking client information regardless of who made the request. In fact, the law also criminalized the request for information by anyone other than clients. This was the culmination of a ten-year collaborative effort by the Cayman government and offshore interests to, as a 1973 British Foreign Office confidential memorandum correctly concluded, "set up as a tax haven" (Brittain-Catlin, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012: 91).

The Puzzle, the Literatures, and the Contribution

Why do states become tax havens? Is the Cayman experience typical? Is this combination of political will and outside influence the way that states become tax havens? If the potential benefits are so great, why do other states like Cuba or Jamaica not also become tax havens? These are the primary questions I will attempt to answer in this dissertation. Tax havens exist in the international system despite nearly universal official disapprobation. States recognized as tax havens are classified as, if not exactly pariahs, then not exactly members of the community of nations in good standing, either. Phrases in common parlance like "Swiss bank account" have almost exclusively negative connotations; indeed, one popular rumor is that millions in gold stolen by the Nazis during World War II is still hidden in Swiss banks, with the complicity of amoral Swiss bankers (Guex, 2000). Since the late 1990s, in fact, there have been concerted international efforts to deter what the Organization for Economic Cooperation and Development called "harmful tax competition" (OECD, 1998), an effort that evolved to include anti-money laundering and terrorism financing efforts. It became common knowledge that tax evaders, criminals, and even Osama bin Laden and other terrorists were using tax havens (Baker, 2005; Naylor, 2004).

The prevalence of these efforts raises another question: how is it that tax havens continue to operate? While every tax haven complies, in one form or another, with the requests of the international organizations tasked with shutting them down, very few tax havens have ceased operations in the face of such concerted effort. And these states are hardly regional powers, much less hegemons; most are small – 4 million people or fewer –

and, in security terms, weak. A good portion of tax havens don't even provide for their own defense, instead relying on timeworn colonial relationships for domestic security. Yet most of them have taken a stand against the most powerful states in the world – both in economic and military terms – and have persevered, continuing to attract hundreds of billions of dollars each year in foreign direct investment. How have the Seychelles, for example, a state independent only since 1976 and with a population of around 96,000, able to withstand the collective efforts of the US, the EU, and Japan and continue to thrive economically? Just as important, how did states like the Seychelles become tax havens in the first place? What is it about these srates that enabled them to make the relatively sophisticated moves required to achieve tax haven status, and then to remain tax havens in the face of almost universal disapprobation?

This dissertation will attempt to answer these questions by locating its argument in a nexus of three literatures: tax havens; small states; and regimes. The tax haven and small states literatures will be used to take previous operational definitions of tax havens and use them to differentiate a distinct group of jurisdictions that shares characteristics of, but is different from, non-tax haven small states. Tax haven literature, exemplified by the work of Christensen (2011, 2012), Dharmapala & Hines (2009), Eden & Kudrle (2005), and Palan, Murphy, & Chavagneux (2010), among others, is useful for pinning down what a tax haven is, what distinguishes it from other states, as well as defining its place in the international system. There has not yet, however, been a large-scale systematic examination of the process by which states become tax havens. Examinations exist, but they tend to be case studies, or focused on one particular region, or both. This dissertation will attempt to fill this gap in the literature by taking the existing work and broadening its scope, allowing us to conceive of tax havens as rational actors in an anarchic international system, in effect applying principles of realism and macroeconomics to better understand the transformation these states undergo and the forces that impel them.

In order to accomplish this chracterization, however, it is important to understand how tax havens exist as small states, what differentiates small states from larger ones, how this differentiation affects tax haven formation, and what distinguishes tax havens as a separate group from non-tax haven small states. As the dissertation's analysis will discuss in greater depth, tax havens are states with populations of fewer than four million people in all but a handful of cases. In addition, a significant number of tax havens are located on islands. It is therefore critical to understand the small states literature, in particular the Small Island Economy (SIE) work of Armstrong, De Kervenoael, Li, & Read (1998), Cobb (1998, 2001), Hampton (1996), and Vlcek (2008, 2009), among others. These works delve into the role small states play in the global economy, and why small state governance enables that role. This literature, combined with classics of political development such as Acemoglu & Robinson (2006), Bueno de Mesquita, Smith, Siverson, & Morrow (2004), Jackson (1990), and Lipset (1959), provide a solid theoretical foundation understanding the nature of tax havens both as small states and as a sui generis phenomenon. In addition, one surprising development of the research for this dissertation is the extent to which tax havens and small states – especially states with populations of one million or fewer – overlap, suggesting that perhaps what the literature observes as small state political behavior might actually be tax haven behavior.

Finally, in order to understand why states become tax havens in the face of international anti-tax haven regimes formed by the world's strongest states, it is critical to understand the nature of international regimes themselves, and why states comply with them. This understanding must of necessity start with the seminal 1982 issue of *International*

Organizations that included the landmark work of Keohane (1982), Krasner (1982), and Puchala & Hopkins (1982), and progress to (Abbott & Snidal (1998) and Nadelmann (1990), among others, to understand why states create international regimes, especially international prohibition regimes, and why states would relinquish sovereignty to join one and act collectively.

This is the first half of regime theory that needs to be understood in order to solve the tax haven puzzle. The second half is why target states would comply with regime edicts, especially punitive ones, what the consequences of non-compliance are, and how effective international regimes are at accomplishing their goals. This literature involves studying the conquences of compliance in general as well as naming and shaming campaigns and includes Barry, Clay, & Flynn (2013), Chayes & Chayes (1993), and Dai (2005), while literature specifically addressing tax haven compliance includes Blanton & Blanton (2012), Kudrle (2009), and Simmons (2000). The final piece in understanding compliance is reputation theory, of which Tomz (2007) is the exemplar.

The argument for this dissertation has three basic components based on three literatures: what about states compels them to become tax havens; what influence their being small, sometimes isolated, states has on this process; and the relationship between these states and the international regime created to dissuade them from tax haven behavior. This argument builds on the contributions made by the tax haven, small states, and regime literatures by taking a global systemic approach and integrating it with an understanding of individual state behavior and the role of elites in both states and regime formation and implementation. This dissertation represents the first attempt at a study of this combination of theoretical and quantitative rigor and interdisciplinary flexibility, a combination necessary to answer questions concerning the process by which tax havens form, thrive, and continue to operate in an international political and economic system despite their significant deleterious impact on that system and the states that form the regimes to eliminate them.

What is a Tax Haven?

Before answering these questions, however, it is important to define what the term "tax haven" means, and to discuss its basic characteristics and the literature surrounding that definition.

Sovereignty: from Westphalia to Vanuatu

Most definitions of the term "tax haven" involve four separate concepts: tax havens are 1) jurisdictions that offer customers 2) low or no taxes, 3) transactional secrecy, and 4) ease of registration and relatively low corporate activity requirements (Addison, 2009; Ambrosanio & Beard, 1985-1986; Caroppo, 2005; Christensen, 2011; Cobham, Jansky, & Meinzer, 2015; Dharmapala, 2008; Gregory, 2012; Irish, 1982; Murphy, 2017; OECD, 1998; Palan, Murphy, & Chavagneux, 2010, among others). It is instructive that, when describing tax havens, the legal term "jurisdiction" rather than "state" is used in both academic and non-academic texts. This distinction is a critical one to draw: going back in Western law to the Treaty of Westphalia in 1648, the state is an independent unit that enjoys both legal and actual self-determination (Patrick, 2011: 22-3).

Strictly speaking, almost half of all tax havens do not fit this definition: they are not states. Several of the states generally considered to be tax havens are under the protection of a full-fledged state, either as a colony, dependency, or protectorate. Of the 51 jurisdictions classified as "tax havens" for the purposes of this study, 17 are not fully independent states, or 33%. For the purposes of their customers, however, these jurisdictions don't need to be fully sovereign; they just need to be sovereign enough to provide the two dimensions of sovereieignty necessary to create an effective tax haven: 1) geographic; and 2) legal.

The demand for geographic separation by tax haven customers is made plain in the common usage another term used to describe tax havens: "Offshore Financial Centers (OFCs)" (Cobb, 1998; Hampton & Levi, 1999; Hudson, 2000). OFCs are generally referred to as "offshore" for short, as is the whole industry and the professionals employed therein. The term reflects a desire by its customers to withdraw, to hide their funds and their activities away from prying eyes. Regulators make the onshore/offshore distinction in the following way: the state where the customer makes her home or has her primary citizenship is "onshore;" the state where the customer transacts her business or has accounts or corporations established for the purpose of obscuring their activities is "offshore." This nomenclature holds regardless of whether the OFC in question is an island or not: Switzerland, Costa Rica, and Latvia are all OFCs, but they are also landlocked.

The above states may not be islands in the geographical sense of the term "offshore," but they are in the second, or legislative sense. The laws that characterize a state as an OFC/tax haven[2] provide its customers with a legislative wall of secrecy behind which they can hide their financial transactions. The key to understanding a tax haven's importance is that it is a physical entity that has sovereignty, and it uses that sovereignty to create laws and regulations for the benefit of its financial services customers who generally live elsewhere. These laws include protecting bank employees who refuse to disclose information about their customers, as well as an institutionalized lack of curiosity about those customers' identities and the purposes of the transactions undertaken. The goal of offshoring is to create both physical and legal space between financial activities and the government agencies charged with regulating and taxing those activities (Christensen, 2011: 183; Cobb, 1998: 8; Hampton & Levi, 1999: 646; Hudson, 2000: 270; Palan, Murphy, & Chavagneux, 2010: 21).

[2] For simplicity's sake, I will use the term "tax haven" for the rest of the dissertation.

One condition both necessary and sufficient to define a tax haven is that the jurisdiction offer a tax regime that includes zero or very low rates of taxation. These regimes are set up primarily to benefit foreign investors, and some tax havens in the past have practiced "ring fencing," or levying zero or very low tax rates to individuals or companies based in another conducting financial transactions while based in another jurisdiction, while levying higher tax rates on its own citizens. The idea is to create something of value to attract foreign capital where there previously had been none or very little. That "something" in the case of tax havens is the opportunity to conduct business or to open a bank account without having to pay the taxes such activities would attract in their home countries. There are other benefits a jurisdiction can provide to foreign individuals and corporations without offering zero or very low tax rates – secrecy and ease of incorporation (more below) – but when the literature or the outside experts refer to "tax havens," the jurisdictions to which they refer almost always offer at least preferential tax regimes to foreign investors. Finally, a tax haven may create an income tax regime that gives breaks to a specific type of industry, such as insurance or banking (Ambrosanio & Caroppo, 2005: 686; Desai, Foley, & Hines, 2004: 1; Dharmapala, 2008: 662; Gregory, 2012: 863; Irish, 1982: 453-4; Johannsen, 2010: 254; Palan, Murphy, & Chavagneux, 2010: 30-1).

The second condition that defines a jurisdiction as a tax haven is its use of secrecy to attract foreign investors and other customers, and to protect them once they become customers. Secrecy is so important as a concept to tax havens that another term of art used to describe tax havens is "secrecy jurisdictions," a term that emphasizes the importance of the tax haven as a legal construct, that is, as a set of laws, regulations, and legal procedures set up explicitly to benefit foreign investors and customers. The concept of "secrecy" with regards to tax havens has two dimensions: a) confidentiality; and b) lack of cooperation. Tax havens create laws that permit financial institutions to keep information regarding their account holders and their transactions completely confidential, to the extent of, in the case of The Confidential Relationships (Preservation) Law of 1976 discussed above, making it a criminal offense to both request – and to reveal – information about an account holder in a Cayman Islands bank. The more common, less aggressive version of this type of secrecy is for financial institutions on tax havens to require only the bare minimum of information regarding their account holders, and requiring an official request from a law enforcement agency from the account holder's home country to divulge that information (Ambrosanio & Caroppo, 2005: 686; Cobham, Jansky, & Meinzer, 2015: 2-9; Irish, 1982: 453-4; OECD, 1998: 23; Palan, Murphy, & Chavagneux, 2010: 9).

For example, if an American drug dealer deposited $1 million in a bank account on the Cook Islands, the only way the bankers would divulge that information is if the American Drug Enforcement Agency was able to officially request that release based on information conclusively demonstrating that the $1 million was the proceeds of a specific crime. Note that it is not sufficient for, say, the Internal Revenue Service to request the drug dealer's account information on the grounds that they avoided paying taxes in the United States, as they haven't broken any tax evasion laws in the Cook Islands. This behavior by tax haven authorities is also an example of the second dimension of banking secrecy: a general lack of cooperation with non-tax haven countries in enforcing their laws or assisting them in any significant way. This non-cooperation has its legal basis in British common law precedent established by *Tournier v. National Provincial and Union Bank of England, [1924] 1 K.B. 461 (1923)*, which allows financial institutions to keep account holder information confidential unless they are required to divulge it by a law enforcement agency under extraordinary circumstances. Most tax havens are or were British Crown Colonies, and as a result British common law applies to them, and British common law has several precedents, including *Tournier*, that allow tax havens to establish secrecy laws allowing them to function as secrecy jurisdictions.

In addition, this lack of cooperation extends to international law as well, as another characteristic of tax havens is an absence of participation in bilateral income tax treaties (DTTs)[3], or treaties signed between two countries agreeing not to tax any income repatriated from one signatory country to the other. For example, America has a DTT with Canada, which means that American residents who make money off a transaction in Canada and are taxed on that income by Canadian authorities will not be taxed again on that same transaction when the money returns to America. Tax havens refuse to sign DTTs, and in general will refuse to cooperate with national or international authorities unless they are forced (Ambrosanio & Caroppo, 2005: 686; Beard, 1985-1986: 523 fn 13; Cobham, Jansky, & Meinzer, 2015: 2-9; Eden & Kudrle, 2005: 114; Irish, 1982: 453-4; OECD, 1998: 23; Palan, Murphy, & Chavagneux, 2010: 9).

The third condition that defines a jurisdiction as a tax haven is a legal and regulatory structure that permits the existence of – or actively encourages – business or financial operations within their physical borders that enable individuals or firms to conduct the bulk of their business offshore. These regulations can manifest themselves as: an absence of exchange control restrictions, making it possible for non-residents to trade in resident currency, or transfer their holdings from one currency to another; or an absence of a requirement that any corporate activities be substantial, i.e. anything other than the recording of transfers of goods or services on paper. The regulations – or their absence – indicate that the jurisdiction is interested primarily attracting customers interested in tax avoidance or

[3] DTT stands for "Double Taxation Treaty."

evasion rather conducting actual business. Another term for these types of tax havens are "booking centers," because the transactions taking place elsewhere are merely recorded or "booked" as occurring within the subsidiary located in the tax haven. Another way tax havens use regulations to create competitive advantages for themselves is by making it relatively easy or inexpensive for customers to form corporations or register subsidiaries, allowing customers to maintain operations in their resident jurisdictions while still recording transactions in the tax haven. The flexibility this ease of incorporation affords allows tax havens to, ultimately, become *entrepot* centers for the rest of the world, enabling enormous flows of foreign direct investment (FDI) both into and out of tax haven financial institutions (Becht, Mayer, & Wagner, 2008; Dean, 2006-2007: 926 fn 66; Gravelle, 2015: 3; Irish, 1982: 453-4; Maingot, 1995: 5-6; OECD, 1998: 23; Palan, Murphy, & Chavagneux, 2010: 21-56).

None of this effort on the part of the tax havens would amount to much if not for the final condition: self-promotion. Tax havens have to advertise themselves as being tax havens, to cultivate a global reputation as a jurisdiction in which customers have access to tax-free secrecy and ease of operation. Part of this promotion is cultivating a modern technology infrastructure permitting sophisticated financial transactional activity, as well as a workforce skilled enough and dedicated to financial service provision, but primarily the key distinction here is that the jurisdiction deliberately sets about creating a certain image. That image is one of a laissez-faire attitude towards attracting actual investment, focusing instead on promoting tax avoidance, unrestricted business operation, and a devotion to protecting the customer's secrecy. In effect, tax havens are easy for Intergovernmental Organizations (IGOs) dedicated to their reform like the Organization for Economic Cooperation and Development (OECD) to find because they have to make their presence known (Addison, 2009: 706; Beard, 1985-1986: 524 fn 19; Dean, 2006-2007: 926 fn 66; Gravelle, 2015: 3; Irish, 1982: 453-4; Maingot, 1995: 5-6; OECD, 1998: 23; Palan, 2002: 154).

International Collective Action Against Tax Havens

The international community has not sat idly by as more and more jurisdictions moved to become tax havens; there have been several large-scale organized international efforts to prevent tax havens from passing and implementing the laws and regulations that attract foreign capital, and to counteract the deleterious effects of this attraction. These efforts can be comfortably classified as attempts to impose regimes of appropriate financial state behavior on the global tax marketplace. A regime is a group of principles – both explicit and implicit – norms, rules, and a set of operating procedures generated from the understandings the participants have about appropriate, effective, and moral behavior in a particular issue area (Keohane, 1982: 334; Krasner, 1982: 185-6; Puchala & Hopkins, 1982: 246). Regimes exist to solve a problem or series of problems, not least of which is the problem of collective action in a community of sovereign states. Explicating these problems and developing their solutions requires from the states involved that they: agree on the nature of both the problems and the solutions; and that they commit to acting to implement those solutions. Both of these actions require that a group of elites emerge around these issue areas, both within the states and internationally. These are the people with the expertise to both understand the problem and implement the solution, and whose involvement is necessary for the regime to succeed (Keohane, 1982: 354; Puchala & Hopkins, 1982: 246-7).

Another requirement of the regime's success is that it is legally binding to its participants. Since states are sovereign, they will not limit their sovereignty voluntarily, so they must agree to join the regime – as international law only applies to those parties who agree upon its application – either willingly or by force (Chayes & Chayes, 1993: 180;

Keohane, 1982: 330; Krasner, 1982: 189). Regime theorists agree that states will reduce their sovereignty in order to willingly join a regime if it is in their own best interests – or the collective best interests of their allies – to do so. Joining a regime unwillingly – having a regime imposed upon a sovereign state is, by contrast, not an indicator of that state's best interests, but rather of that state's power relative to the states demanding membership from it (Keohane, 1982: 330; Krasner, 1982: 191).

Given that a regime's purpose is to reinforce a set of principles, i.e. "beliefs of fact, causation, and rectitude," norms, i.e. "standards of behavior defined in terms of rights and obligations," and rules, i.e. "specific prescriptions or proscriptions for action" (Krasner, 1982: 186), and that the behavior of some of the states subject to the regime behave in ways that violate these principles, norms, and rules, it stands to reason that regimes will be coercive in applying these principles, norms, and rules to these states in ways that do not benefit them. These weaker states are then faced with a choice: comply, and act in a way that does not benefit them as an individual state but benefits the other members of the regime; or become what Eden and Kudrle (2005) refer to as a "renegade" state, not complying and facing potential punishment by the regime members for breaking the rules. If we further take as given that these states are rational, then the reason a state does not comply with the regime is if that state believes the benefits of not complying are greater than either the penalties sustained for not complying or the benefits for complying.

This logic is consistent with Downs, Rocke, and Barsoom's (1996) finding that regimes succeed – that is, states comply or are effectively punished – when these behaviors resemble what the states would have done in their absence. That is, regimes exist to codify and routinize behavior states already find beneficial. Reinforcing this finding is Simmons's (2000) conclusion that states are more likely to comply with a regime if their neighbors do, and that this condition has more impact on state behavior than the content of the regime itself. In addition, if, as Abbott & Snidal (1998) argue, "powerful states structure such organizations to further their own interests but must do so in a way that induces weaker states to participate," then this modified realist interpretation explains why regime enforcement efforts like those put in place by international organizations like the OECD: 1) focus on punishing tax haven states, which are weaker; and 2) aren't effective in constraining tax haven state behavior. Because it serves the interests of elites in regime participant states for the tax havens to continue to operate while at the same time maintaining power by appeasing pro-reform elements in government pushing for these regimes.

Dai (2005) provides the theoretical bridge that connects the general theories about state compliance to the specific behavior of tax havens within the global financial system. Dai finds that a state's compliance with a specific regime is as much a question of domestic influence as external pressure. Dai points out that individuals within a state do not benefit uniformly from that state's compliance with a specific regime. Similar to the argument by Bueno de Mesquita et al. (2004) underpinning selectorate theory, Dai finds that domestic elites will use their leverage to force states to either comply or not comply with a regime depending on which outcome is in their best interests. This logic can also apply to the elites within the states in charge of compliance enforcement: if it is in their best interests for a state not to comply with a regime – even though they themselves were instrumental in the regime's construction – then the state is less likely to comply either through elite pressure or through a sort of regulatory sabotage, whereupon the elites build in ineffective compliance mechanisms to the regime (Krasner, 1982: 193; Puchala & Hopkins, 1982: 247), or simply change the rules to suit the "exigencies of the moment" (Keohane, 1982: 331). Applying this essentially Grotian logic to tax haven behavior, the reasons why a state might not comply with tax fairness or anti-money laundering regimes: either the state – or the selectorate within the state – has more to gain from not complying and remaining a renegade state; or the penalties threatened or imposed by ostensibly more powerful non-tax haven states are ineffective as punishments or deterrents.

Furthermore, liberal international relations principles to the contrary, a tax haven's political status as democratic is no guarantee of compliance with regime edicts. While Simmons (2000: 832) states that "regimes based on clear principles of the rule of law are far more likely to comply with their commitments," this tendency in itself does not guarantee compliance with regimes either. If tax havens see their commitments to their selectorate or to other states' elites as more important than their commitment to any abstract "international community" which, after all, asks only that the state cease those activities that comprise its economic livelihood without offering much in return, then it is all the more likely that they will comply with those commitments to their customers rather than to the regime. This tendency is more likely, according to Simmons (2000), if the tax haven's neighbors react in a similar way, as she concludes that state behavior is more likely to be influenced by the behavior of other states in the region than by the edicts of an regime. As we will see below, tax havens tend to cluster geographically, and this argument could be one explanation for that phenomenon. Another structural characteristic explored in depth below is the relative stability and sophistication of tax haven governance, enabling them to pass laws and engage in evasive or minimally compliant behaviors that render anti-tax haven regimes "mostly symbolic in nature" (Addison, 2009: 704).

Symbolism, it turns out, is a weapon that regimes frequently deploy against tax havens. Specifically, international organizations like the OECD have resorted to "naming and shaming" tactics like the creation of blacklists[4] in part to force weak states to behave in a manner the strong states would prefer, while succeeding at creating norms of international financial behavior (Abbott & Snidal, 1998: 8). Naming and shaming campaigns are created in the absence of the regime participants' inability or unwillingness to take more direct action against the subjects of the campaign. One way these campaigns work is by negatively affecting a state's reputation, thereby constraining its future behavior such that states are forced into compliance (Tomz, 2007). For example, the OECD has used a blacklisting campaign to attempt to get tax havens to raise corporate income tax rates and loosen secrecy laws. As we will see below, however, states can comply with blacklisting campaigns merely by agreeing to adhere to the strictures the regime is attempting to impose.

This shadow compliance has three different purposes: 1) it allows the blacklisted state to repair its reputation without actually making any significant changes; 2) it allows the transnational elites who have created the regime to be seen to be acting affirmatively; and 3) it creates and transmits the norms that define unacceptable state behavior. In the OECD case, for example, tax haven states can agree to comply with OECD dictates while not changing their behavior to get their names removed from the blacklist, but the OECD is at least able to transmit the message to the wider international community that tax competition is harmful and unacceptable. Finally, a naming and shaming campaign can have long-term effects on the states that appear on the blacklist, even briefly: if they acquire the global reputation as a renegade or pariah state, this will negatively affect the way they are treated by other individual states and other regimes, and could end costing them more than the initial action leading to blacklist was worth. Symbolic actions in this case can have real

[4] Ironically, these blacklists play a role in research on tax havens, as they act as useful indicators of which countries have built up a significant enough reputation and clientele to warrant censure.

consequences (Abbott & Snidal, 1998: 8; Keohane, 1982: 354; Krasner, 1982: 193; Puchala & Hopkins, 1982: 247).

Benefits vs. Costs of Being a Tax Haven

The question for jurisdictions that considered tax haven status then is: if they run the risk of becoming pariah states, why become a tax haven? Are the benefits of weaponizing sovereignty and becoming a tax haven worth the risks associated with stepping outside the bounds of acceptable state behavior in the eyes of the international community?

Benefit: Increased FDI[5] Inflow

According to James Henry (2016), senior advisor at the Tax Justice Institute, tax havens currently house at least $24 trillion in private wealth, most of this booked through offshore branches of global banks such as UBS, Barclays, and Bank of America, making the money instantly accessible to its holders but unaccountable to government tax authorities, resulting in what Zucman (2015) conservatively estimates as $200 billion in lost tax revenue. According to World Bank data, in 2015 FDI inflows to the jurisdictions identified as tax havens by the author totalled nearly $190 billion, or an average of $5.8 billion per year per tax haven with populations of four million or fewer. By contrast, non-tax haven countries with populations of four million or fewer averaged $549 million the same year. When the population cutoff is 1.5 million, the difference is even starker: tax havens average an FDI of $4.3 billion, while non-tax havens drop to $276 million. When the population cutoff drops to 1 million, tax havens average an FDI of $4.2 billion, while non-tax havens drop to $268 million. As a first cut analysis, tax haven jurisdictions appear to generate inbound FDI an order of magnitude greater than non-tax haven jurisdictions of similar size (see Table 1.1).

[5] FDI = Foreign Direct Investment, or the amount of money flowing from an individual or business in one country into the business interests in another. This transaction usually takes the forms of incorporating a new business or buying a controlling interest in an existing one.

This finding is consistent with Blanton & Blanton's (2012) that FDI is attracted to well-governed states.

Table 1.1: Average FDI inflow per jurisdiction in 2015, by population range and tax haven status

Population	*Tax Haven*	*Non-Tax Haven*
0-4 million	$5.8 billion (n = 41)	$549 million (n = 61)
0-1.5 million	$4.3 billion (n = 35)	$276 million (n = 36)
0-1 million	$4.2 billion (n = 33)	$268 million (n = 30)

Data Source: United Nations (UN) Population Division; International Monetary Fund Balance of Payments Database

NOTE: Hong Kong, Switzerland, and Malaysia are excluded from these tax haven samples because their populations exceed 4 million.

An additional benefit to attracting FDI inflows with what are essentially financial services is that startup costs and additional capital outlays to transform a jurisdiction into a tax haven are much lower than other economic development strategies like boosting natural resource extraction or industrializing. Because these states are typically small, with small populations, their public expenditures tend to be relatively low at the outset,[6] and instituting a low-tax regime has limited impact on public policy. Similar to the point made above concerning regime theory, one reason small states adopt a low-tax regime is that it doesn't require a radical change in daily life. In addition, a low-tax regime makes the tax haven economic development strategy appealing to the state's selectorate as their taxes either stay low or get lower, ensuring that their support for the government implementing the strategy will continue, increasing the state's political stability. Furthermore, the tax haven economic

[6] Especially if, as in the case of the Cayman Islands, the population tends towards being culturally conservative and politically hostile to the idea of social welfare spending (Brittain-Catlin, 2005).

development strategy is a relatively inexpensive one, especially if the jurisdiction is already positioning itself as a tourist destination, which many tax havens do. In addition to passing the necessary laws, the jurisdiction needs an airport that can handle both private and commercial air traffic, a modern telecommunications grid including high-speed Internet capability, and relatively skilled workforce in law, accounting, and banking as well as clerical work. Unlike the other economic development strategies available to small islands, becoming a tax haven does not require extensive public expenditures for mining equipment, or the direct and associated costs of heavy industry. Despite its myriad faults, the tax haven economic development strategy can appear to be one with high returns for low expenditures (Brittain-Catlin, 2005; Bueno de Mesquita, Smith, Siverson, & Morrow, 2004; Persaud, 2001; Vlcek, 2008).

The associated income benefits are high enough that tax havens are more likely to become wealthy states than non-tax haven states. Of the ten states with the highest gross domestic product (GDP) per capita (PPP) in 2016, five – Luxembourg, Macao, Singapore, Switzerland, and Hong Kong – are tax havens. The number of tax havens in the 2016 top 10 drops slightly to four - Luxembourg, Macao, Singapore, and Malta – when a population cap of four million is introduced, but rises to six when the cap is both 1.5 million and one million, with the tax havens being Luxembourg, Macao, Malta, Cyprus, Trinidad & Tobago, and the Seychelles. The bulk of the other states on the top 10 list are classfied by the IMF as "resource dependent," including petrostates Qatar, the UAE, Norway, and Equitorial Guinea and gas state Brunei (Baunsgaard, Villafuerte, Poplawski-Ribiero, & Richmond, 2012). In fact, the only states in the top 10 that are neither tax havens nor resource dependent are

Ireland,[7] Slovenia, New Zealand, and Iceland. Of the last three, Slovenia and New Zealand have balanced industrial economies, while Iceland depends to an extent on its fishing industry – as do most small islands (see Table 1.2).

Table 1.2: Top 10 States 2016 GDP Per Capita, (PPP) By Population Range (= tax haven)*

All	*0-4 million*	*0-1.5 million*	*0-1 million*
Qatar[o]	Qatar[o]	Qatar[o]	Qatar[o]
Luxembourg*	Luxembourg*	Luxembourg*	Luxembourg*
Macao*	Macao*	Macao*	Macao*
Singapore*	Singapore*	Brunei[g]	Brunei[g]
Brunei[g]	Brunei[g]	Iceland	Iceland
United Arab Emirates[o]	United Arab Emirates[o]	Malta*	Malta*
Ireland	Iceland	Cyprus*	Cyprus*
Switzerland*	New Zealand	Trinidad & Tobago*	Seychelles*
Norway[o]	Malta*	Estonia	St. Kitts & Nevis*
Hong Kong*	Slovenia	Seychelles*	Equitorial Guinea[o]
5 Tax Havens	*4 Tax Havens*	*6 Tax Havens*	*6 Tax Havens*
4 Resource Dependent States	*3 Resource Dependent States*	*2 Resource Dependent States*	*3 Resource Dependent States*

Data Source: UN Population Division, World Bank

Looking in greater detail at small states that are not tax havens (see Table 1.3), of the 61 states on which data was available, 16 are resource dependent. Of the resource dependent states, 9 are petrostates, 2 are gas states, and the remaining are mining, either iron, copper,

[7] And a convincing case could be made that Ireland's economy has benefited greatly from a preferential tax regime.

diamonds, gold, or bauxite. Of remaining 45 small states that are neither tax havens nor resource dependent, 17 are agriculture-based (most of those being subsistence agriculture), 10 are basically industrial, 10 are tourism-based, 6 are fishing-based islands, Namibia, which manages to be have a mining-based economy without being classified by the IMF as resource dependent, and Djibouti, which the CIA World Factbook lists as having a "port services" based economy, which is a polite term for piracy (Baunsgaard, Villafuerte, Poplawski-Ribiero, & Richmond, 2012; Central Intelligence Agency, 2017). Based on this descriptive analysis, and with a few exceptions, small states that are wealthy are either tax havens or resource dependent states. Since, by definition, states either have natural resources on which to be dependent or they do not, tax havens are, in effect, creating a virtual resource on which they become dependent. This conclusion is supported in part by the observation that only two states out of 51 tax havens and 47 resource dependent states are classified as both tax havens and resource dependent states: Bahrain and Malaysia. Either the prosperous small state develops the resources it has, or it creates its own through lowering taxes and stiffening secrecy laws.

Table 1.3: Non-Tax Haven States, by Economic Base and Population Range (resource dependent states in italics)

1.5 million > 4 million 7 resource dependent, 9 Non-resource dependent	*1 million > 1.5 million 3 resource dependent, 3 non-resource dependent*	*Zero > 1 million 6 resource dependent, 24 non-resource dependent)*
Albania (agriculture)	*Botswana (diamonds)*	American Samoa (fishing)
Armenia (agriculture)	Estonia (industry)	Bhutan (agriculture)
Bosnia & Herzegovina (industry)	*Gabon (oil)*	*Brunei (gas)*
Central African Republic (agriculture)	Guinea-Bissau (agriculture)	Cabo Verde (tourism)
Congo, Rep. of (oil)	Namibia (mining)	Comoros (agriculture)
Eritrea (agriculture)	*Trinidad & Tobago (gas)*	Djibouti (port services)
Jamaica (tourism)		*Equatorial Guinea (oil)*
Kosovo (agriculture)		Faroe Islands (fishing)
Kuwait (oil)		Fiji (tourism)
Lesotho (industry)		French Polynesia (tourism)
Lithuania (industry)		Gambia (agriculture)
Macedonia (industry)		Greenland (fishing)
Mauritania (iron ore)		Guam (tourism)
Moldova (agriculture)		*Guyana (gold and bauxite)*
Mongolia (copper)		Iceland (fishing)
New Zealand (industry)		Kiribati (fishing)
Nicaragua (agriculture)		Micronesia (agriculture)
Oman (oil)		Montenegro (tourism)
Puerto Rico (industry)		New Caledonia (industry)
Slovenia (industry)		Northern Mariana Islands (tourism)

Table 1.3, continued

Togo (agriculture)

Turkmenistan (oil)

United Arab Emirates (oil)

Uruguay (agriculture)

West Bank and Gaza (industry)

Palau (tourism)

Qatar (oil)

Sao Tome and Principe (agriculture)

Sint Maarten (Dutch) (tourism)

Solomon Islands (agriculture)

St. Martin (French) (tourism)

Suriname (minerals)

Swaziland (agriculture)

Timor-Leste (oil)

Tuvalu (fishing)

Cost: Becoming a Tax Haven is Not a Foolproof Development Strategy

Becoming a tax haven does not always guarantee a state prosperity, however. It is not enough merely to change the laws and wait for the money to arrive: a tax haven must develop a reputation in the global finance community as a tax haven that is both stable politically and economically and competitive enough either in general or in a particular niche to warrant opening bank branches and shifting accounts around. Pace Hines (2005) and Armstrong et al (1998), averaging GDP per capita growth rates from 1970 to 2016 demonstrates that becoming a tax haven is not a guarantee that the economy will grow steadily. Three jurisdictions – Aruba, Liberia, and Andorra – had negative growth rates, while six more – Bahrain, US Virgin Islands, Vanuatu, Barbados, and Switzerland – had positive growth rates of less than 1%. Even so, 39 out of 42 tax havens had positive GDP growth rates for 1970-2016. And becoming a tax haven seems to make small states better off than being resource dependent or just not being a tax haven: the average GDP growth rate for resource depdendent states with populations of 4 million or fewer from 1970-2016 is 1.95%, compared the tax haven average of 2.59% over the same time period, while small states that were neither tax havens nor resource dependent had an average of 1.91%. Of the 17 small resource dependent states, three – Kuwait, UAE, and Brunei - had negative GDP growth rates, with three more – Suriname, Mauritania, and Qatar – having GDP growth rates of less than 1%. States with populations of four million or fewer who are neither tax havens nor resource dependent fared worse than either tax havens or resource dependent small states: of the 42 jurisidictions with data available, seven have negative average GDP growth rates while another eight have average growth rates of less than 1%. So, while the evidence provideded by this first cut suggests that becoming a tax haven is not a guaranteed path to financial stability for a jurisdiction, it does seem to be better than the alternatives with which small states are faced (see Table 1.4).

*Table 1.4: Average Small State GDP Growth Rate, 1970-2016 for Tax Havens, Resource Dependent States, and Other Small States**

Jurisdiction	*Tax Haven Rate (%)*	*Resource Dependent Rate (%)*	*Other Small States Rate (%)*
Albania			2.70
American Samoa			-0.53
Andorra	-0.13		
Antigua & Barbuda	2.98		
Armenia			3.84
Aruba	-0.92		
Bahamas	0.12		
Bahrain	0.25		
Barbados	0.65		
Belize	2.67		
Bermuda	1.61		
Bhutan			5.56
Bosnia and Herzegovina			10.93
Botswana		5.67	
Brunei		-0.71	
Cabo Verde			4.74
Central African Republic			-1.02
Channel Islands	1.01		
Comoros			-0.31
Congo, Rep. of		1.38	
Costa Rica	2.21		
Cyprus	3.37		

Table 1.4, continued

Djibouti			0.11
Dominica	2.76		
Equatorial Guinea		10.90	
Eritrea			1.88
Estonia			4.53
Fiji			1.78
French Polynesia			1.72
Gabon		1.23	
Gambia			0.44
Greenland			2.28
Grenada	2.85		
Guam			1.14
Guinea-Bissau			0.60
Guyana		1.60	
Hong Kong	4.23		
Iceland			2.63
Isle of Man	5.68		
Jamaica			0.40
Jordan	1.84		
Kiribati			-0.40
Kosovo			4.67
Kuwait		-2.63	
Latvia	5.31		
Lebanon	1.43		

Table 1.4, continued

Lesotho			3.14
Liberia	-1.43		
Liechtenstein	2.41		
Lithuania			5.48
Luxembourg	2.60		
Macao	3.77		
Macedonia			1.24
Maldives	4.01		
Malta	4.43		
Marshall Islands	1.39		
Mauritania			
Mauritius	3.70		
Micronesia			0.73
Moldova			3.22
Monaco	1.99		
Mongolia		3.02	
Montenegro			2.38
Namibia			0.95
Nauru	14.62		
New Caledonia			1.44
New Zealand			1.41
Nicaragua			-0.07
Northern Mariana Islands			-2.60
Oman		1.76	

Table 1.4, continued

Palau			-0.30
Panama	2.71		
Puerto Rico			2.12
Qatar		0.63	
Samoa	1.64		
San Marino	2.48		
Sao Tome and Principe			2.58
Seychelles	3.30		
Singapore	4.88		
Slovenia			2.37
Solomon Islands			0.73
St. Kitts & Nevis	3.64		
St. Lucia	2.26		
St. Vincent & the Grenadines	3.18		
Suriname		0.16	
Swaziland			2.72
Switzerland	0.93		
Timor-Leste		4.03	
Togo			0.03
Tonga	1.59		
Trinidad & Tobago		1.87	
Turkmenistan		3.73	
Tuvalu			1.52
Vanuatu	0.60		

Table 1.4, continued

United Arab Emirates		-1.97	
Uruguay			2.08
US Virgin Islands	0.41		
West Bank and Gaza Strip			1.66
Average	2.59	1.95	1.91

All states on list – with the exception of Hong Kong, Malaysia, and Switzerland – have populations of 4 million or fewer.

Cost: Tax Havens Become Renegade States

One of the central ironies of the tax haven world is that in order to become a successful tax haven, a jurisdiction must develop a positive reputation in the international banking community while at the same time gaining a negative one in the international legal and diplomatic community. Reputation is critical to developing a clientele as a tax haven, but jurisdictions that do so – especially if they perceived to be doing so actively and eagerly – also develop the reputation as a "renegade" state (Eden & Kudrle, 2005) in the international community; that is, not quite the pariah status of North Korea or Iran, for example, but not a member in good standing of the international community either.

Generally speaking, a renegade state is one whose "practices are salient to an international regime but whose behavior does not comply with the descriptive norms and practices of that regime" (Eden & Kudrle, 2005: 106). A renegade state cannot just be written off and ignored; its behavior affects the behavior of the other states in the regime, and therefore the ultimate success of the regime itself. In the case of tax havens, they are renegades in the regime of international tax harmonization and cooperation the developed states of the world are attempting to create through IGOs like the OECD and the Financial

Action Task Force (FATF). As the European states watched the unsuccessful US effort to attack the problem of lost tax revenue to Caribbean tax havens in the 1980s, they agreed to use existing IGOs to create tax harmonization regimes. These regimes had three stated goals: 1) international equity, or clarifying which jurisdiction can rightfully tax which income, and that tax revenue is distributed fairly among jurisdictions; 2) international neutrality, or creating a tax system that does not influence individual or firm investment decisions; and 3) taxpayer equity, or equal treatment of individuals within a jurisdiction regardless of the source of their income. The underlying idea behind the tax harmonization regimes was that these goals could not be achieved unilaterally, no matter how rich and powerful the state (Eden & Kudrle, 2005; Hampton & Christensen, 2002; Hines, 2005; Maurer, 2008).

During the 1990's, the impetus to create tax harmonization regimes came from Europe. The Bank for International Settlements formed the Basel Committee in 1974 to improve financial stability by increasing cross-border banking supervision and cooperation. The Committee is essentially reactive, having been formed in the wake of the European financial crises of 1974 and spurred by the failure of BCCI in 1991, created the Working Group on Cross-Border Banking, which worked with two groups of tax haven-based bankers and insurers to create the Core Principles for Effective Bank Supervision in 1997. Following the Basel Committee's lead, the G-7 created two working groups: The Finance Ministers' Working Group on Financial Crimes; and the Financial Experts Group. (BIS, 2017; Eden & Kudrle, 2005; Hampton & Christensen, 2002; Hines, 2005; Maurer, 2008).

The reports by the Working Groups led to an increased effort on the part of the Financial Stability Forum (FSF) to focus on tax haven activity and on the operations of a specific group of jurisdictions. The efforts by the Basel Committee and the G-7 represented the more traditional collaborative method of addressing problems within the community of nations, i.e. working with representatives of the renegade states themselves to achieve specific policy goals. In the case of the FSF, and then the OECD and the FATF, the process used was more aggressive. By 2000, all three groups had gone the additional step beyond studying and consultation and released blacklists of tax havens whose practices did not conform to the standards the IGO created.[8] In the case of the FSF, these were jurisdictions in various stages of non-compliance with regulatory standards of cross-border cooperation. For the FATF, the blacklisted jurisdictions were those that did not cooperate with them in implementing their list of best practices for fighting money laundering. Finally, and most significantly, the OECD created a Forum on Harmful Tax Competition after releasing a report on harmful tax comeptition in 1998. This forum then released a list of 41 tax havens, a blacklist whose impact was so great that six jurisdictions agreed to compliance measures before the list was even released. All three of these lists were released within a few weeks of each other in the spring of 2000, and as such represented the spearhead of the international effort to curtail tax haven activity. In terms of Nadelmann's (1990) five stages of prohibition regime formation, the IGOs had progressed through stages one – legitimate activity – and two – redefining activity as a problem – and arrived at stage three – formation of criminal conventions. The list of tax havens in this study and their presence on the three blacklists is summarized in Table 1.5 (Eden & Kudrle, 2005; FATF, 2000; FSF, 2000; Hampton & Christensen, 2002; Hines, 2005; Kudrle R. T., 2009; Maurer, 2008; OECD, 1998).

[8] These standards, in their most basic form: little to no tax on income from financial services; different tax rates and regulations for financial services than for other industries in jurisdiction; laws enforcing a lack of transparency in financial service activity disclosure; and an absence of laws regulating information sharing with other jurisdictions or IGOs. (Maurer, 2008)

Table 1.5: Tax Havens on OECD, FATF, and FSF Blacklists, 2000

Jurisdiction	*OECD*	*FATF*	*FSF*
Andorra	X		X
Anguilla	X		X
Antigua & Barbuda	X		X
Aruba	X		X
Bahamas	X	X	X
Bahrain	X		X
Barbados	X		X
Belize	X		X
Bermuda	X (cooperating)		X
British Virgin Islands	X		X
Cayman Islands	X	X	X
Cook Islands	X (cooperating)	X	X
Costa Rica			X
Curacao	X (as Netherlands Antilles)		X
Cyprus	X (cooperating)		X
Dominica	X	X	
Gibraltar	X		X
Grenada	X	X	
Guernsey	X		X
Hong Kong			
Isle of Man	X		X
Jersey	X		X
Jordan			

Table 1.5, continued

Latvia	(OECD member)		
Lebanon		X	X
Liberia	X		
Liechtenstein	X	X	X
Luxembourg	(OECD member)		
Macao			X
Malaysia			
Maldives	X		
Malta	X (cooperating)		X
Marshall Islands	X	X	X
Mauritius	X (cooperating)		X
Monaco	X		X
Montserrat	X		
Nauru	X	X	X
Niue	X	X	X
Panama	X	X	X
Samoa	X		X
San Marino	X (cooperating)		
Seychelles	X		X
Singapore			
St. Kitts & Nevis	X	X	X
St. Lucia	X		X
St. Vincent & the Grenadines	X	X	X

Table 1.5, continued

Switzerland	(OECD member)	
Tonga	X	
Turks & Caicos	X	X
Vanuatu	X	X
Virgin Islands (US)	X	

Sources: (Dharmapala, 2008; Eden & Kudrle, 2005; Gravelle, 2015; Haberly & Wojcik, 2015; Maurer, 2008; OECD, 2017)

NOTE: The FSF also created a "Major Financial Centers" list at the same time, and this list includes Hong Kong, Luxembourg, Malaysia, Singapore, and Switzerland. These jurisdictions received FSF questionnaires regarding offshore activities and never responded.

Benefit: International Community Punishes Renegade States Ineffectively

The main problem with the blacklist effort led by the OECD is that it was compromised from the start. Part of the difficulty multi-lateral efforts to discipline tax havens face are the result of the historical relationships the enforcing states bear to the tax havens. Many of the existing tax havens started their Westphalian existences as colonies of the British Empire, giving them access not just to the English common law tradition, but also to a potential customer pool for their services. Of the 51 tax havens, 41 were on the OECD 2000 blacklist. Of these 41, 19 had a direct, legal link to an OECD member state, while three of the 51 (Latvia, Luxembourg, and Switzerland) were member states themselves. Perhaps unsurprisingly, none of the three OECD member states were blacklisted, although they were not the only ones to benefit: every other non-independent tax haven was blacklisted, although six chose to cooperate with the OECD almost immediately. In the end, everyone cooperated in one form or another, such that the OECD currently has no jurisdictions blacklisted as uncooperative, with European states Andorra, Liechtenstein, and Monaco being the last eliminated in 2009. With nearly half the tax havens on the blacklist linked to member states, blanket cooperation was the expected outcome (Eden & Kudrle, 2005; OECD, 2017).

Table 1.6: Tax Havens and their Relationship to OECD Countries

Jurisdiction	*Jurisdiction Type and Linkage*	*OECD Link*	*On OECD List (2000)?*
Andorra	Co-principality between France and Spain	France, Spain	Yes
Anguilla	UK overseas territory	UK	Yes
Antigua & Barbuda	Independent, commonwealth member		Yes
Aruba	Part of Netherlands	Netherlands	Yes
Bahamas	Independent, commonwealth member		Yes
Bahrain	Independent		Yes
Barbados	Independent, commonwealth member		Yes
Belize	Independent, commonwealth member		Yes
Bermuda	UK overseas territory	UK	Cooperating
British Virgin Islands	UK overseas territory	UK	Yes
Cayman Islands	UK overseas territory	UK	Yes
Cook Islands	Free association with New Zealand	New Zealand	Cooperating
Costa Rica	Independent		No
Curacao	Autonomous within Netherlands	Netherlands	Yes (as part of Netherlands Antilles)
Cyprus	Independent, commonwealth member		Cooperating
Dominica	Independent, commonwealth member		Yes
Gibraltar	UK overseas territory	UK	Yes
Grenada	Independent, commonwealth member		Yes
Guernsey	British crown dependency	UK	Yes
Hong Kong	Special administrative region of China		No

Table 1.6, continued			
Isle of Man	British crown dependency	UK	Yes
Jersey	British crown dependency	UK	Yes
Jordan	Independent		No
Latvia	OECD member	Latvia	No
Lebanon	Independent		No
Liberia	Independent		Yes
Liechtenstein	Independent		Yes
Luxembourg	OECD member	Luxembourg	No
Macao	Special administrative region of China		No
Malaysia	Independent		No
Maldives	Independent, commonwealth member		Yes
Malta	Independent, commonwealth member		Cooperating
Marshall Islands	Independent, free association with US	US	Yes
Mauritius	Independent, commonwealth member		Cooperating
Monaco	Independent		Yes
Montserrat	UK overseas territory	UK	Yes
Nauru	Independent, commonwealth member		Yes
Niue	Free association with New Zealand	New Zealand	Yes
Panama	Independent		Yes
Samoa	Independent, commonwealth member		Yes
San Marino	Independent city state in free association with Italy	Italy	Cooperating
Seychelles	Independent, commonwealth member		Yes

Table 1.6, continued			
Singapore	Independent, commonwealth member		No
St. Kitts & Nevis	Independent, commonwealth member		Yes
St. Lucia	Independent, commonwealth member		Yes
St. Vincent & the Grenadines	Independent, commonwealth member		Yes
Switzerland	OECD Member	Switzerland	No
Tonga	Independent, commonwealth member		Yes
Turks & Caicos	UK overseas territory	UK	Yes
Vanuatu	Independent, commonwealth member		Yes
Virgin Islands (US)	US overseas territory	US	Yes

Source: Eden & Kudrle, 2005: 116-8

The irony here is that the campaigns to name and shame were not failures as such. The IGOs were able to get tax havens to successfully comply with their requirements and were able to either wind the programs down or shift the focus to terrorism financing and money laundering for organized crime by the end of the decade. From the six early adopters to the last holdouts, every jurisdiction on the blacklist made a commitment to increased transparency and improved exchange of information. The problem is that compliance required a relatively small amount of effort on the part of the tax havens. For example, a tax haven could get itself reclassified as "cooperative" by the OECD by issuing a press release stating that the government of the jurisdiction intended to adopt the OCED's Memorandum of Understanding, i.e. by promising to change their behavior rather than actually changing it.

In fact, 31 of the jurisdictions on the OECD blacklist had done just that by September, 2003. In addition, the FSF announced on March 11, 2005 that their own blacklist was "no longer operative" (Kudrle R. T., 2009: 36). Granted, this compliance has resulted in changes in tax haven behavior – the establishment of stand-alone financial services commissions, the creation of corporate registries where none had previously existed, the increased use of laws like Know Your Customer and other due diligence requirements. The impact of these regimes on tax haven behavior, however, has been limited, and the continued use of tax havens for tax avoidance and evasion, as well as money laundering and terrorism financing has not changed much (Eden & Kudrle, 2005; Maurer, 2008; OECD, 2017).

The preliminary analysis bears this conclusion out. Average GDP per capita growth rates for tax havens with a population of fewer than four million people decreased from an average of 2.62% for the period of 1970-2000 to an average of 1.90% for the period 2001-2016, for an overall average of 2.58%, meaning that, on average, growth slowed in tax havens after the naming and shaming campaigns, but did not reverse or stop. By contrast, resource dependent states experienced the opposite trend, increasing from an average GDP per capita growth rate of 1.38% for the period of 1970-2000 to an average of 2.33%, possibly as the result of Iraq War-era increases in oil prices, although an overall average increase of 2.03% suggests that the tax haven strategy might be a profitable economic development model. Finally, small states that were neither tax havens nor resource dependent demonstrated the same trend as tax havens, dropping from an average GDP growth rate of 1.97 for the period of 1970-2000 to an average of 1.82% for the period of 2001-2016, for an overall average of 1.92% for the entire period. That non-tax haven states experienced a similar, though less extreme, trend as tax havens in economic growth implies that perhaps other macroeconomic factors were responsible for the general decrease in tax haven growth rates in the 21st century rather than the blacklist campaign, but clearly more sophisticated analysis is necessary (see Table 1.7).

Table 1.7: Average GDP Per Capita Growth Rate (%), 1970-2016, populations lower than 4 million

	Tax Havens (n=38)	Resource Dependent States (n=16)	Other Small States (n=42)
1970-2016	2.58	2.03	1.92
1970-2000	2.62	1.38	1.97
2001-2016	1.90	2.33	1.82

Data Source: IMF World Development Indicators

The preliminary analysis also helps illustrate the reasons why a jurisdiction would choose to become a tax haven, even in the face of universal disapprobation: 1) in the absence of natural resources, it's a comparatively successful economic development strategy; and 2) the practical impact of that disapprobation is relatively low. Only one jurisdiction – Malaysia – can be classified both a tax haven and a resource dependent state, further reinforcing the argument that jurisdictions become tax havens in order to create a virtual resource as an economic base. Lacking any resources of their own to create inflows foreign banking and commercial activity, these jurisdictions choose an alternative in a process that one would be hard pressed to be called random. As is evident from Table 1.8, tax havens cluster in neighborhoods like the Caribbean, or the mountains of western Europe, or the South Pacific. This clustering behavior is to be expected, given that a jurisdiction's response to a regime is dictated more by that jurisdiction's neighbors' responses than by the regime itself; that is, it follows logically that there would be groups of jurisdictions out of compliance with the tax harmonization regime IGOs like the OECD are attempting to impose (Eden & Kudrle, 2005; Simmons, 2000).

In addition, jurisdictional decision-making vis a vis becoming a tax haven might also be affected by their prior colonial relationships. According to the information presented in Table 1.6, approximately half of all tax havens were either British colonies or are still dependencies. In addition to providing them access to British common law precedents enabling tax haven behavior, these jurisdictions' status makes them a natural market for British individuals and corporations seeking to avoid British corporate taxation. Since Britain is one of the world's largest economies,[9] becoming a tax haven for British citizens both individual and corporate can be a lucrative pursuit. In ranking the top five tax havens by average GDP per capita, two – the Cayman Islands and Bermuda - are Crown dependencies. In the case of the Caribbean tax havens, this colonial relationship with Britain meant that, once the colonies declared their independence, the tax treaty the US and Britain signed in 1945 now applied to them as well, allowing both American and British businesses to use these new jurisdictions to find the most advantageous tax deal legally. That tax havens have existing relationships with developed states also helps explain why citizens of those states would become tax haven customers, even as their governments' official statements decry the practice. In fact, the bulk of tax havens' incorporation and banking activity originates in OECD states, despite the OECD being the primary organization involved in blacklisting tax havens. The source of the ambivalence in OECD states is that decision-makers are trying to simultaneously accomplish two opposing policy goals: 1) create an international tax regime that doesn't result in taxable income escaping to the tax havens; and 2) creating a business environment for businesses in which they can compete, both domestically and internationally. These goals became even more difficult to accomplish in the face of a

[9] Great Britain had the fifth highest level of GDP of all states in 2016, behind only the US, China, Japan, and Germany, according to the IMF.

distinct lack of official enthusiasm for punishing tax havens from the Bush administration in the US in 2001, as well as the continuing prominence of a brace of well-funded advocacy groups in both Washington DC and London arguing that unfettered tax competition was actually a net economic good (Eden & Kudrle, 2005; Maurer, 2008).

Table 1.8: Tax Havens by Geographic Region (islands in **bold***; n = 33)*

Europe (13)		
Andorra	**Cyprus**	Gibraltar
Guernsey	**Isle of Man**	**Jersey**
Latvia	Liechtenstein	Luxembourg
Malta	Monaco	San Marino
Switzerland		
Caribbean (17)		
Anguilla	**Antigua & Barbuda**	**Aruba**
Bahamas	**Barbados**	**Bermuda**
British Virgin Islands	**Cayman Islands**	**Curacao**
Dominica	**Grenada**	**Montserrat**
St. Kitts & Nevis	**St. Lucia**	**St. Vincent & the Grenadines**
Turks & Caicos	**Virgin Islands (US)**	
South Pacific (7)		
Cook Islands	**Marshall Islands**	**Nauru**
Niue	**Samoa**	**Tonga**
Vanuatu		
East and Southeast Asia (5)		
Hong Kong	Macao	Malaysia
Maldives	Singapore	

<u>*Table 1.8, continued*</u>

Africa (3)		
Liberia	**Mauritius**	**Seychelles**
Middle East (3)		
Bahrain	Jordan	Lebanon
Central America (3)		
Belize	Costa Rica	Panama

This ambivalence demonstrated towards tax havens by the developed world as a result of colonial legacy is a key variable in determining whether a jurisdiction will become – or remain – a tax haven, but there additional political and economic factors. Frequently, jurisdictions that become tax havens are islands; as Table 1.8 shows, 33 of the 51 tax havens in this dissertation are islands. Small island economies tend to have a series of economic disadvantages similar to remote areas, including "restricted comparative advantages, diseconomies of scale, dysfunctional market structures, high transport costs… limited natural resources, small labor markets, and deficiencies in professional and institutional knowledge and experience" (Hampton & Christensen, 2002: 1663). These disadvantages can limit a jurisdiction's options for economic development; limited natural resources and a generally inability to industrialize or farm on a large scale makes the decision to become a tax haven an obvious one, as long as the jurisdiction believes the benefits outweigh the costs, and that the jurisdiction can profit from renegade behavior (Eden & Kudrle, 2005; Nadelmann 1990).

In addition, other attributes the jurisdiction may have may also prejudice their decision in favor of becoming a tax haven. First, and most important, they have their sovereignty which, even at its most limited in the case of the dependencies, is still sufficient to create the legal and financial institutions necessary to become a tax haven. While tax havens tend to be better governed than non-tax haven small states, they may lack certain elements of civic and political life that promote organized opposition, such as an independent media, organized opposition parties, or institutions of higher education. The stability created by this better governance is critical to tax haven development; investors are attracted to stability so states with more stable governments will have higher levels of FDI than states with less stable governments. In addition, states with more stable governments are more likely to become tax havens than states with less stable governments. This tendency could also be driving investment; rather than foregoing short term profits by investing in stable states, as Barry, Clay, & Flynn (2013) suggest, multinational corporations are actually seeking out higher profits by investing in states more likely to be tax havens. In addition, the remoteness of the islands can foster a culture of insularity, one that values unity and secrecy, and discourages whistle-blowing or outward transparency. This remoteness also creates a literal barrier between the islands and the ruling authorities, whether the colonizer or any mainland-based IGOs that give the islands a certain level of autonomy (Dharmapala, 2008; Hampton & Christensen, 2002).

All small states and islands have many, if not most of, these characteristics, but what makes the Bahamas and the Cayman Islands more likely to become tax havens than Cuba and Jamaica? Two factors, which this dissertation will analyze in greater depth in the next chapter: 1) stable governments that encourage foreign investment; and 2) the ability to benefit from renegade behavior despite the application of international regimes designed to curtail this behavior. The analysis carried out will focus mainly on determining the key political and economic differences between jurisdictions with small populations that are tax havens and ones that are not, as well as the nature of the impact the coordinated international anti-tax haven campaigns had on tax havens, and the foreign individuals and firms that patronized them.

Chapter Two

The Scope of Tax Haven Impact and the Ways in which that Impact is Felt

Two hundred and fifty-six trillion dollars. That's Credit Suisse's Research Institute's estimate for the total amount of wealth in the world, i.e. "the value of financial assets plus real estate (housing) owned by households, less their debts" (Kersley & Koutsoukis, 2016). If Gabriel Zucman's (2015: 3) estimate that 8 percent of this wealth is held in tax havens, then tax havens are holding around $20 trillion of the world's wealth. This calculation is consistent with those made by both Henry (2012: 5) and Palan, Murphy & Chavagneux (2010: 5). The sheer scope of the financial traffic directed through tax havens demands serious analysis. In 2015, according to IMF data, 22% of the world's foreign direct investment (FDI) inflow moved through tax havens, a calculation again consistent with the one made by Palan, Murphy & Chavagneux (2010: 52). That is, of the $2.18 trillion of FDI inflows recorded in 2015, nearly $480 billion was accounted for by tax havens (Gravelle, 2015).[10]

As these figures indicate, tax havens provide ample service to both individual and corporate clients. Estimates for private wealth held in opaque accounts can run to be $7 and $9 trillion (Henry, 2012: 5), with bank deposits in tax havens running an estimated $3 trillion per year (Palan, Murphy, & Chavagneux, 2010: 62) and individual tax evasion via foreign tax haven accounts costing the US government around $50 billion (Gravelle, 2015: 27). In fact, a key customer for tax havens is the banks themselves, with the major global banks such as UBS, Citi, Barclays, and the aforementioned Credit Suisse accounting for between two-thirds and three-quarters of all private wealth held in tax havens (Henry, 2012: 32). This wealth is

[10] Since some of the wealthier tax havens like Liechtenstein and the US Virgin Islands refuse to report their financials, that value is likely several billion dollars higher.

extremely mobile, with the top 21 of the world's private banks controlling at least $100 billion of cross-border assets, with cross-border lending traffic running at about $12 trillion per year (Henry, 2012: 32; Palan, Murphy, & Chavagneux, 2010: 51). This traffic has made tax havens disproportionately busy: although than have less than 1% of the world's non-US population, tax havens generate 2.3% of the world's gross domestic product (GDP) and host nearly 6% of all US employees working overseas (Hines, 2005: 65). This activity is the result of two basic impacts tax havens have on the level and location of capital in jurisdictions: 1) the low level of taxation the tax haven levies on income; and 2) the various ways in which tax havens can facilitate tax avoidance in jurisdictions other than their own (Hines, 2005).

The Incorporation Business

A significant amount of this tax haven activity is generated by the creation and maintaining of secrecy for both individual and corporate clients. In fact, one manifestation of that secrecy is that the line between individual and corporate is made intentionally vague by tax havens. For example, law firms in the British Virgin Islands assist in the creation and registration of 30,000 corporations each year, while firms in the Seychelles register up to 11,000 (Shaer, Hudson, & Williams, 2014). In addition to the processing fee of a few hundred dollars to the firm, the tax havens themselves will charge licensing and registration fees that can cost from $150 on Vanuatu to around $400 on the Isle of Man (Palan, Murphy, & Chavagneux, 2010: 31). In addition to giving clients a layer of secrecy, the incorporation business is a key driver of tax haven economic development: it provides jobs for law firms and government registration clerks and their support staffs, and generates a steady stream of income for the jurisdictions who attract the clients by not levying taxes on any income to these corporations. Regulatory cost theories of corporate law and taxation provide an explanation for tax havens' ability to profit from cheap incorporations: where a firm decides to incorporate depends on how friendly the jurisdiction's legal environment is, and how much it costs to incorporate. Tax havens provide legal environments at least as friendly as non-tax havens, as well as lower incorporation costs, developments which are facilitated by the growth in the incorporation law firm business, which makes the relocation and incorporation easier – and less expensive – than ever before (Becht, Mayer, & Wagner, 2008). Since the vast majority of these corporations exist only in the tax haven registration account ledgers, on the hard drives of the law firms and banks with which they conduct business, and as a brass plate on an office or as a post office box – that is, without any significant property, plant, or equipment – their maintenance cost the tax havens relatively little in capital outlays or cleaning up the types of environmental disasters common to their resource-dependent jurisdictional brethren. As long as the client has Internet access with which to contact the law firms or banks and transfer money, the tax havens can serve their clients' needs handily (Gravelle, 2015).

Multi-National Corporations, Transfer Pricing, and Debt Manipulation

Not all transactions are this simple, however. Multi-national corporations (MNCs) have created several complex, lucrative methods for taking advantage of tax havens. The most popular method is transfer mispricing, or the manipulation of prices of goods or services sold across jurisdictions between subsidiaries of a single MNC. Since more than half of all international trade is intra-MNC (Palan, Murphy, & Chavagneux, 2010: 18) – between different companies with the same owner – understanding transfer pricing is critical for understanding the role of tax havens in international business. Transfer pricing is not inherently illegitimate; as long as the subsidiaries conduct the trade at an "arm's length" as if they were unrelated firms in a competitive marketplace, with the seller setting a competitive price for the good or service being sold, then this is perceived by government tax authorities as being a legitimate transaction. The extent to which an MNC uses the arm's length pricing principle can depend on how willing – or able – a jurisdiction's tax officials are to inquire about specific transactions. In Organization for Economic Cooperation and Development (OECD) member countries, from which the phrase "arm's length" originated, transaction challenges have become a matter of course, whereas transactions in tax havens are less likely to be challenged. Even if the transaction is not necessarily "arm's length" – the most common current example being a transaction involving intellectual property or another intangible good for which there is no easily established market price, or for a component of a finished product that is never sold on its own on the market – then it is possible for an MNC to enact transfer pricing without behaving in a way tax authorities consider abusive (Dharmapala, 2008; Gravelle, 2015; Palan, Murphy, & Chavagneux, 2010).

A Hypothetical Example: Nike Plays Hide the Swoosh

MNCs can also use the inherent uncertainty created by the sale of intellectual property and by tax havens to create transfer mispricing. For example, Nike creates a specific company in Curacao to own its iconic swoosh logo. Nike then has one of its subsidiaries located in the United States, where corporate taxes on income are relatively high, pay a licensing fee for the use of the swoosh logo to the Curacao subsidiary, where corporate taxes on income are relatively low. The fee paid represents corporate income to the subsidiary, and the tax savings on the transaction represents profit gained from transfer pricing. Nike can also demonstrate the US-based subsidiary has spent money acquiring the rights to use the logo, making that subsidiary less profitable in a jurisdiction where taxes on profit are high, further lowering their tax bill. And since companies do not have to use country by country reporting of their transactions in their accounting to tax authorities or shareholders, all anyone will see on a balance sheet is one subsidiary selling use of its intellectual property to another subsidiary. And it is possible the Curacao subsidiary will not have to report the transaction – or any of its transactions – to any government tax authority.

The Double Irish with a Dutch Sandwich

Apple Inc. pioneered a more virulent version of transfer pricing called the "double Irish with a Dutch sandwich" (Duhigg & Kocieniewski, 2012). When Apple sells an iPhone to a customer in America, the proceeds from that sale go to an Apple subsidiary in Ireland, where taxes on corporate income are lower than in America. Ireland tax law has a loophole – which will be closed by 2020 – that allows corporations to transfer profits internationally without paying any tax on the transaction, thereby allowing Apple to transfer the profits from the American sale from the Irish subsidiary to one in the Cayman Islands, where no taxes and strict secrecy laws insure that the profits can stay hidden as long as Apple needs. Apple created a second subsidiary in Ireland (hence the name) to handle the sale of its products in Europe. Apple then transfers its profits from the European sales to another subsidiary it has set up in the Netherlands where, thanks to OECD rules eliminating tax on transfers of income between EU companies and permissive tax laws in the Netherlands, the resulting transfer to the first Irish subsidiary can be accomplished tax free, at which point the profits are again transferred to the Cayman Islands. This practice was soon adopted by Google and Microsoft, among other MNCs, and became so popular the Irish parliament was forced to close the loopholes enabling it (Duhigg & Kocieniewski, 2012; Gravelle, 2015). Some MNCs, however, will not bother with such baroque methods of transfer pricing. The most basic technique is "reinvoicing" or "misinvoicing," and involves paying a different price in a transaction than the one officially recorded, and then taking advantage of secrecy laws to obscure the actual amount traded. Ways to misinvoice include misreporting the quality or grade of the good being imported, charging too much or too little for goods or services, or simply paying for goods and services that only exist on paper. It is possible that as much as $1 trillion a year in illicit money transfers occurs using transfer mispricing, half of which comes from developing countries and most of which passes through tax havens (Baker, 2005; Palan, Murphy, & Chavagneux, 2010; Shaxson, 2012).

Earnings Stripping

Another popular form is the strategic reallocation of debt among different MNC subsidiaries, one version of which is known as "earnings stripping." In this case, the low corporate tax rates the tax havens offer is more important than the secrecy. The most basic version is for a subsidiary in a tax haven or other low-tax jurisdiction to make a loan to a subsidiary in a high-tax jurisdiction. The loan increases the firm's costs – both in terms of the debt it takes on and the loan payments it must make - in the high-tax jurisdiction, lowering its tax bill there, while increasing its income – by creating an asset in the original loan and income in the loan payments - in the low-tax jurisdiction, thereby making its tax bill relatively low overall while creating cash. Another method of earnings stripping is for the MNC to borrow more money from banks in high-tax jurisdictions than they do from banks in low-tax jurisdictions. This method can be especially useful if the MNC operates in resource-dependent jurisdictions where extractive industries like oil, gas, or mining have high property, plant, and equipment costs. The MNC can strike a deal with the government for a tax rebate and take out operating loans in higher-tax jurisdictions and buy the property and buy and ship the equipment, concentrating all the debt in the high-tax jurisdiction and all the income low or zero tax resource dependent one. The income can then be funneled to a subsidiary in a tax haven. The bulk of MNC cross-border operations involve either or both of these methods, ensuring that FDI inflows into tax havens range into the trillions of dollars (Dharmapala, 2008; Gravelle, 2015; Henry, 2012; Palan, Murphy, & Chavagneux, 2010).

Tax Havens Characteristics

With this much money at stake, and the desire of the world's elites – both individual and corporate – to continue to utilize tax havens so palpable, the motivations for a jurisdiction to weaponize its sovereignty and become a tax haven are relatively clear. While the international anti-tax haven regime in the form of the harmful tax competition campaigns by the OECD and the Financial Action Task Force (FATF) may represent an obstacle in the form of damage to a jurisdiction's reputation in the global community, the motivation – a viable economic development strategy in the face of a paucity of acceptable alternatives – may be stronger. In order to better understand this motivation, and the force countervailing it, it is important to examine the political, economic, and geographic characteristics of the tax haven in depth, and compare tax havens to other jurisdictions with similar characteristics, specifically jurisdictions with small populations and who may or may not be resource-dependent. Furthermore, it is also important to more closely examine the international force arrayed against tax havens, and the form it takes as a vehicle for naming and shaming tax havens into what they classify as more acceptable state behavior. This examination will then lead to the development of a series of hypotheses and the analysis of data based on those hypotheses.

Political Characteristics of Tax Havens

Independence

Are tax havens states? The traditional concept of Westphalian sovereignty denotes states as sovereign within their own borders; that is, a state has its own government and its own territory (Krasner, 1999). Using this concept to define tax havens as states, however, has its limitations. To return to an example from the introduction, the Cayman Islands are technically a British Overseas Territory, meaning they are not independent from Great Britain and not sovereign. As such, they are not a member of the United Nations (UN). The Caymans, however, are self-governing, and are sovereign enough to write and pass the secrecy laws that allowed them to become one of the world's most active financial centers (Central Intelligence Agency, 2017). In the case of tax havens, this type of limited sovereignty is relatively common, and tax havens are just as often to meet Robert Jackson's definition of a quasi-state in lacking one of the key components of statehood, either control of territory or political or bureaucratic autonomy (Jackson, 1990). While some tax havens may not be entirely politically or geographically sovereign, they are juridically so, at least to the extent that they can write, enact, and enforce their own laws and regulations; these tax havens are just sovereign enough, hence the use of the term "jurisdiction" rather than "state" throughout this dissertation.

A look at the list of tax havens in Table 2.1 bears out a relative dearth of sovereign states: of the 51 total jurisdictions classified as tax havens, one-third (17) are non-self-governing. Of those 17, 10 have some level of administrative relationship with the UK, and its secrecy-friendly system of British common law, while the other seven are split among the Netherlands (2), New Zealand (2), China (2), and the US (1). In addition, another characteristic of limited sovereignty that is relatively common in tax havens is their absence from the UN. As Table 2.1 demonstrates, every self-governing jurisdiction is also a UN member, and none of the non-self-governing jurisdictions are UN members. If we consider the UN to be a stand-in for the concept of the "community of nations" whose norms the anti-tax haven campaigns seek to protect, then one-third of all the jurisdictions already exist outside that community, including some of the most active (Bermuda, Cayman Islands, Hong Kong). Further adding to the confusion, of the 34 tax havens the UN has admitted, 15 were admitted after they had began functioning as tax havens, including Switzerland, which was finally admitted in 2002. If nothing else, these numbers further demonstrate the confllicted attitude the global community has regarding tax havens, and how the potential impact of a campaign to deter tax haven behavior could be compromised (UN, 2017).

Table 2.1: Tax Havens Grouped by Sovereign Status

Self-Governing (n=34)	*Non-Self-Governing (n=17)*
Andorra, *Antigua & Barbuda*, *Bahamas*, *Bahrain*, *Barbados*, *Belize*, *Costa Rica*, *Cyprus*, *Dominica*, *Grenada*, *Jordan*, *Latvia*. *Lebanon*, *Liberia*, *Liechtenstein, Luxembourg*, *Malta*, *Malaysia*, *Maldives*, *Marshall Islands*, *Mauritius*, *Monaco*, *Nauru*, *Panama*, *San Marino*, *Samoa*, *Seychelles*, *Singapore*, *St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Switzerland*, *Tonga*, *Vanuatu*	*United Kingdom (10):* Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Montserrat, Turks and Caicos; *Netherlands (2):* Aruba, Curacao; *New Zealand (2):* Cook Islands, Niue; *China (2):* Hong Kong, Macao; *United States (1):* Virgin Islands

Source: Eden & Kudrle, 2005; UN, 2017; Vlcek, 2008

Administering state in parentheses; *UN members in italics*

Governance Quality

Armed Conflict

The relationship between tax haven status and governance quality is less ambiguous. When Dharmapala and Hines (2009) analyzed the World Governance Indicator data, they concluded that tax havens are signifcantly better governed than non-tax havens, providing three further questions: what do we mean by “governance quality?” Has this situation changed in the proceeding eight years? And, how do small state tax havens compare in governance quality to other small states, especially those that are resource dependent (Dharmapala & Hines, 2009; Kaufmann, Kraay, & Mastruzzi, 2011)?

If jurisdictions make a conscious, rational decision to become tax havens as an economic development strategy in the absence of better options, then it follows logically that the jurisdiction would have to have a decision-making apparatus, i.e. a governance structure, sufficiently sophisticated enough to weigh its options and make that decision. If, as Dharmapala and Hines (2009: 1058) concluded, "better-governed countries are much more likely than others to become tax havens," then the concept of tax havens as rational unitary actors in an anarchic system – after all, one of the basic assumptions of modern political scientific thought – making rational choices to enhance their economic health is a reasonable: we would expect states to maximiize their security, including their economic security, even at the expense of the other states in the system.

The jurisdictions that become tax havens are not typical states, however; they are, by comparison, small and weak. As Table 2.1 demonstrates, one-third depend on another state for their security. Of the 51 total tax havens, only 19 (37%) have any armed forces at all, and those are all self-governed; not only are all 17 non-self-governed tax havens without military personnel, but 15 of the self-governed tax havens are as well. Of the tax havens that do have armed forces personnel, only Malaysia (128,267), Singapore (127,717), Jordan (115,964) and Lebanon (66,846) have an average number of troops even approaching a typical state's conventional force structure (World Bank, 2017). Given this limited force structure, there is no rational expectation that tax havens would use force unless there was no other option.

In fact, most tax havens are strangers to any sort of armed conflict since 1970 (see Table 2.2). According to the Armed Conflict Database (Allansson, Melander, & Themner, 2017), only seven tax havens were involved in conflicts: Cyprus, Grenada, Jordan, Lebanon, Liberia, and Malaysia. For jurisdictions of populations of fewer than four million, the number drops to six out of 27, whereas non-tax haven states are more balanced, with 42 non-tax haven states experiencing conflict and 39 not out of a total of 81. This comparison has a chi-squared value of 7.2 and a probability of 0.7% of being a random difference. Resource dependent states with populations under four million have a similar split to tax havens, with seven resource dependent states involved in conflict, with 20 not involved. Of the 81 non-resource dependent states, however, conflict is even more rare, with 10 non-resource dependent states involved in conflict and 71 not involved. This comparison, however, has a chi-squared value of 2.8 with a probability of 9.3% of being random, suggesting that the difference between tax havens and non-tax havens is more stark than that between resource-dependent and non-resource dependent states, a conclusion the "resource curse" literature bears out. Comparisons for jurisdictions with fewer than 1.5 million and 1 million have similar results, reflecting the tendency for tax havens to be less conflict-prone. One caveat, however: small states are less likely to be conflict-prone in general, with chi-squared values of 39 for four million, 57 for 1.5 million, and 55 for one million, all with a probability of 0 of randomness.

Table 2.2: Conflict Location in States with Less Than Four Million, by Tax Haven and Resource Dependence Status

Conflict Location 1970-2015	*Yes*	*No*	*TOTAL*
Tax Haven	6	21	27
Non-Tax Haven	42	39	81
TOTAL	48	60	108
Resource Dependent	7	20	27
Non-Resource Dependent	10	71	81
TOTAL	17	91	108

Chi^2 values: 7.2 (.007) for tax haven; 2.8 (.093) for resource dependent

Data Source: Allansson, Melander, & Themner, 2017

NOTE: only Bahrain is both a tax haven and resource dependent with a population under four million people, and it was not a conflict location.

Worldwide Governance Indicators

Kaufmann, Kray and Mastruzzi developed the Worldwide Governance Indicators (WGI) in partnership with the World Bank in order to measure the comparative effectiveness of the way in which each state exercises its authority. According to Kaufmann, Kray, and Mastruzzi (2011: 222), this exercise of authority involves "(a) the process by which governments are selected, monitored, and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them." With that in mind, Kaufmann et al created two indicators for each of these three components. For "(a) the process by which governments are selected, monitored, and replaced," they created indicators measuring "Voice and accountability" and "Political stability and absence of violence/terrorism." For "(b) the capacity of the government to effectively formulate and implement sound policies," they created indicators measuring "Government Effectiveness" and "Regulatory Quality." And finally, for "(c) the respect of citizens and the state for the institutions that govern economic and social interactions among them, they created indicators measuring "Rule of law" and "Control of corruption" (Kaufmann, Kraay, & Mastruzzi, 2011: 223). In order for a jurisdictional government to make an effective decision regarding whether to become a tax haven, it would appear that all three components would be necessary, for citizens to be able to select competent leaders, and for those leaders to govern in a competent, responsive manner.

Each governance indicator is measured on a scale from -2.5 (worst) to +2.5 (best), making it possible to calculate an average of WGI scores across indicators. For the purposes of analysis, I have created three groups of jurisidictions: 1) tax havens; 2) resource dependent; and 3) jurisdictions that are neither tax havens nor resource dependent. I will continue to measure these groups using population cutoffs of 4 million, 1.5 million, and 1 million, based on definitions in the literature of what constitutes a "small state" (Armstrong, De Kervenoael, Li, & Read, 1998; Vlcek, 2008). The purpose of this categorization is to test the assumptions that tax havens are better governed than other states, and that this includes other small states, as weell as to understand the ways in which tax havens – which have created "virtual resources" – are different from actual resource dependent states. See the appendix for the various lists of classification by status and population level.

Governance Quality Hypotheses

If becoming a tax haven is a conscious economic development strategy decision, then the government making the decision must function at a relatively high level. The government must weigh the alternatives, consider the possibility of punishment, and have a government and polity stable enough to attract foreign investment. While it is true that small states in general will also have the features of stable governance, tax havens with populations greater than 4 million should also have strong governance in order to function as a tax haven. Therefore, based on this argument, it is possible to generate the following two hypotheses:

H1: Tax havens will have higher governance levels than non-tax havens, regardless of population level.

H2: Tax havens with small populations will have higher governance levels than non-tax havens with small populations.

Bivariate Analysis

As Table 2.3 shows, for all tax havens, the average WGI score is 0.65, with a t-score of -5.84 and a probability that this result is due to chance of .0001. By contrast, the average for all resource depdendent jurisdictions is -0.49 a t-score of 4.52 and a probability that this result is due to chance of .0001. The results for average WGI score for jurisdictions that are neither tax havens nor resource dependent are not significant, which, considering the population includes every country in the world that is neither a tax haven nor resource dependent (121, as opposed to 46 tax havens and 47 resource dependent jurisdictions) and have no common unifying feature, is hardly surprising. In general terms, though, this result suggests that tax havens are better governed than resource dependent jurisdictions.

As Table 2.3 also shows, however, the evidence that tax havens are better governed than other small states becomes stronger the smaller the populations get, as well as the evidence that smaller states are better governed overall. Additionally, the proportion of jurisdictions that are tax havens grows quite a bit, from 22% to 44%; that is, nearly half the jurisdictions in the world with populations of 4 million or fewer are tax havens. While the average WGI score for tax havens with fewer than 4 million people barely changes to 0.62, with the t-score changing -5.06 and the probability of random outcome still at .0001, the result of all but three tax havens (Switzerland, Malaysia, and Hong Kong) having populations of 4 million people or fewer. The results for the 55 other jurisdictions with populations of 4 million or fewer, however, are significantly different. Only 16 jurisdictions at this population level are resource dependent, and these 16 are significantly better governed than states that are neither tax havens nor resource dependent, with an average WGI score of -0.15, a t-score of 2.33, and probability that this is a random outcome of 0.011. Furthermore, now that the jurisdictions that are neither tax havens nor resource dependent and with populations of 4 million or fewer have the elements in common that make small states better governed, their results are now significant. These "neither" jurisdictions have an average WGI of -0.03, a t-score of 3.01, and a probability that is is a random outcome of 0.002. Again, these results suggest that jurisdictions with four million people or fewer do in fact have elements in common that make them better governed, while tax havens are much better governed than non-tax havens, and jurisdictions that are neither tax havens nor resource dependent are better governed than resource dependent jurisdictions. Furthermore, while resource dependent jurisdictions tend to be worse governed overall, resource dependent jurisdictions with populations of 4 million people or fewer are better governed than resource dependent jurisdictions with larger populations.

As Table 2.3 further shows, as the population parameters get more restrictive, the probability that a jurisdiction is a tax haven is closer to being the rule rather than the exception. Of the 67 jurisdictions with populations of 1.5 million people or fewer, 36 (53%) are tax havens, with the numbers of resource dependent jurisdictions and jurisdictions that are neither dropping off more precipitously, with the "neither" group losing nearly half its members from the 4 million or fewer level, dropping from 39 to 21. As the numbers drop, the entire population will take on the characteristics of the tax havens, whose WGI score rises to 0.70 with a t-score of -4.29 and probability of random outcome still at .0001. The 10 resource dependent jurisdictions also increase their WGI score up to -0.08 with a t-score of 2.55 and a probability of random outcome of 0.007. Likewise, the group of jurisdictions that are neither resource dependent not tax havens and have populations of 1.5 million or fewer have a substantially increased WGI score of 0.12 with a t-score of 2.39 and a probability of random outcome of 0.01. As at the 4 million or fewer population level, tax havens continue to be better governed than non-tax havens, followed by jurisdictions that are neither tax havens nor resource dependent, and then resource dependent jurisdictions. Also as at the 4 million or fewer level, governance scores for resource dependent jurisdictions and the "neither" group are progressively higher at the 1.5 million population level than they were before. As populations get smaller, governance levels increase across the board.

As Table 2.3 finally shows, the trend continues at the 1 million or fewer population level with one exception. The number of jurisdictions in the world with populations of 1 million or fewer is 60, with 35 (58%) of those being tax havens. As a result of the tax haven category losing only 1 jurisdiction, the numbers are virtually identical with those at 1.5 million or fewer level. The same is true of the numbers for the jurisdictions that are neither tax havens nor resource dependent; their number dropped from 21 to 18, and as a result their WGI score inched up to 0.13, with a t-score of 2.35 and a probability of a random outcome at 0.011. By contrast, the number of resource dependent jurisdictions with 1 million or fewer is 7 – as opposed to 10 with 1.5 million or fewer – and the loss changed the results rather dramatically, with the WGI score dropping to -0.18 with a t-score of 2.67 and a random outcome probability of 0.005, meaning that as resource dependent states dropped in population, they got slightly worse governed. This result does not change the overall picture, however: the pattern still holds, with tax havens being better governed than non-tax havens, while jurisdictions that are neither tax havens nor resource dependent are better governed than resource dependent states at any "small state" level. These findings are consistent with what Dharmapala & Hines found in 2009 using the same data, although this analysis is more granular, befitting the more complex theoretical questions being asked.

Table 2.3: Average WGI Score, by population level

All jurisdictions (n=214)			
	Average	t-score	Pr (random)
Tax Haven (n=46)	0.65 (.09)	-5.84	0.0001
Resource Dependent (n=47)	-0.49 (.08)	4.52	0.0001
Neither (n=121)	-0.04 (.08)	0.82	0.205
4 million people or fewer (n=98)			
Tax Haven (n=43)	0.62 (.09)	-5.06	0.0001
Resource Dependent (n=16)	-0.15 (.17)	2.33	0.011
Neither (n=39)	-0.03 (.11)	3.01	0.002
1.5 million people or fewer (n=67)			
Tax Haven (n=36)	0.70 (.09)	-4.29	0.0001
Resource Dependent (n=10)	-0.08 (.20)	2.55	0.007
Neither (n=21)	0.12 (.16)	2.39	0.010
1 million people or fewer (n=60)			
Tax Haven (n=35)	0.70 (.09)	-4.14	0.0001
Resource Dependent (n=7)	-0.18 (.25)	2.67	0.005
Neither (n=18)	0.13 (.16)	2.35	0.011

As Table 2.4 demonstrates, tax havens govern in the same manner regardless of population size. In part, this result is due to most tax havens having populations of one million or fewer people, meaning that the population being analyzed is not changing that much. However, the level of consistency in the results for tax havens when the WGI scores are broken into their component parts is remarkable, and lends further support for the conclusions that: 1) tax havens are distinct subgroup of states with their own set of unique characteristics; 2) those characteristics include being relatively well-governed compared with non-tax havens. Specifically, tax havens excel at government selection, monitoring, and replacement processes, i.e. giving their citizens the ability to freely participate in choosing who governs, as well as protecting freedoms of speech and assembly, and creating a stable political environment unlikley to suffer from political violence (Kaufmann, Kraay, & Mastruzzi, 2011). These results are especially striking when compared with those of resource dependent jurisdictions, which, consistent with the conclusions of the "resource curse" literature, are weakest of all at selection, monitoring, and replacement of the three jurisdiction types, and in four out of five population categories. Resource dependent jurisdictions are the least stable, regardless of size (Andersen & Aslaksen, 2013; Robinson, Torvik, & Verdier, 2006). When it comes to small states, however, jurisidictions that are neither tax havens nor resource dependent are strongest at selection, monitoring, and replacement, but not as strong as tax havens.

The second component of the WGI score is the creation and implementation of sound policies, which includes analyzing the quality of public services provided and the ability of the government to create and implement sound, pro-growth laws and regulations (Kaufmann, Kraay, & Mastruzzi, 2011). As Table 2.4 demonstrates, tax havens are uniformly better at this type of governance than non-tax havens, although less effective at this component of governance than the other two areas. Again, the reverse is true for resource dependent jurisdictions, at least those jurisdictions larger than 4 million people, where sound policies are relatively stronger than the other two governance categories, although still much weaker than either tax havens or jurisdictions that are neither tax havens nor resource dependent. In addition, small states that are neither tax havens nor resource dependent are uniformly weakest at sound policies, featuring the lowest scores for each jurisdiction type at every small state population category. When it comes to generating and implementing sound policies, tax havens are better than non-tax havens at every population level, while resource dependent jurisdictions are more likely to be better than jurisdictions that are neither at sound policies in jurisdictions larger than 4 million, while jurisdictions that are neither are more likely to be better than resource dependent jurisdictions in jurisdictions smaller than 4 million.

The third and final component of the WGI score is the creation of respect for the rule of law and the control of corruption, or in general the maintainence of respect among the citizenry and among members of government for the institutions that enforce contracts, property rights, law enforcement, and the curtailment of the use of public power for private gain (Kaufmann, Kraay, & Mastruzzi, 2011). Table 2.4 demonstrates that, as with the other two components, tax havens are uniformly better at this component than non-tax havens. And while tax havens are not as effective at creating respect for the rule of law and control of corruption as they are at selection, monitoring and replacement, they are more effective at these two components than they are at creating sound policies. Again, this is a matter of degree, as tax havens are much more effective at all three of these components than are non-tax havens. As also might be predicted from close study of the resource curse literature, resource dependent jurisdictions are uniformly less effective at the rule of law and corruption component than are non-resource dependent jurisdictions, regardless of population size. Jurisdictions that are neither tax havens nor resource dependent are more effective at this component than resource dependent jurisdictions, but less effective than tax havens at every small state population.

Table 2.4: WGI Component Rankings, by Jurisdiction Type and Population Level

Results in italics are insignificant

All Jurisdictions (n=213)

Tax Havens (n=45)		Resource Dependent (n=47)		Neither (n=121)	
SMR	.70 (.09)	SP	-.43 (.12)	*LC*	*-.03 (.09)*
LC	.65 (.11)	LC	-.52 (.12)	*SP*	*-.05 (.09)*
SP	.57 (.13)	SMR	-.54 (.11)	*SMR*	*-.32(.08)*

4 million people or fewer (n=97)

Tax Havens (n=42)		Resource Dependent (n=16)		Neither (n=39)	
SMR	.70 (.09)	SMR	-.13 (.13)	SMR	.14 (.13)
LC	.60 (.11)	LC	-.15 (.19)	LC	-.02 (.12)
SP	.50 (.13)	*SP*	*-.16 (.21)*	SP	-.28 (.12)

1.5 million people or fewer (n=66)

Tax Havens (n=35)		Resource Dependent (n=10)		Neither (n=21)	
SMR	.83 (.07)	*SP*	*-.08 (.26)*	SMR	.43 (.16)
LC	.69 (.10)	LC	-.11 (.23)	LC	.21 (.18)
SP	.54 (.13)	SMR	-.53 (.16)	SP	-.23 (.18)

1 million people or fewer (n=59)

Tax Havens (n=34)		Resource Dependent (n=7)		Neither (n=18)	
SMR	.84 (.07)	*SP*	*-.16 (.34)*	SMR	.46 (.17)
LC	.69 (.10)	LC	-.17 (.30)	LC	.21 (.18)
SP	.54 (.14)	SMR	-.20 (.17)	SP	-.28 (.18)

WGI component abbreviations: 1) SMR = selection, monitoring, and replacement; 2) SP = sound policy; and 3) LC = law and corruption

Consistent with the conclusions reached by previous analyses of small states, the lower the population levels get, the uniformly higher the WGI scores get across all jurisdiction types. This result is due in part to the idea that smaller states are easier to govern, but it also due to the reality that, the lower the population level gets, the more likely a jurisdiction is to be a tax haven, and as a result better governed.

Regression Analysis

As Table 2.5 demonstrates, there is support for both hypotheses. The governance independent variable is positive and significant at both population levels, suggesting that states that are tax havens are likely to have higher governance levels, and that this likelihood exists whether the jurisdiction is small or not. As the Small Island Economy research would predict (Hampton, 1996; Vlcek, 2008), islands also have a positive effect on tax haven status, as does, intermittently, FDI. As expected, UN membership has a negative impact on tax haven status, given how few tax havens are UN members. Given that the R^2 suggests these independent variables explain about one-third of the governance index's impact on tax haven behavior, it is possible to conclude from this regression that jurisdictions that are tax havens, islands, and a relatively high standard of living are also going to have relatively high governance levels.

Table 2.5	*Logistic Regression of Tax Havens, by Governance and population*			
	All States	*4 million*		
Governance	1.093**	1.417*		
World Bank Region	0.075	-0.042		
Island	1.915***	2.220**		
GDP per Capita PPP	-0.004	-0.040		
UN Membership	-3.046**	-2.023		
Foreign Direct Investment	-0.0001	0.0015*		
Constant	0.330	0.124		
N	192	82		
Chi^2	53.66	35.29		
Pseudo R^2	0.294	0.3217		
Legend	* p<0.05;	**p<0.01;	***p<0.001	(two-tailed tests)

Economic Characteristics of Tax Havens

There are four general ways in which tax havens are economically and financially distinct from non-tax havens: 1) outward-focused economic activity; 2) low or zero taxes; 3) more affluent; and 4) not resource dependent. It is the argument of this dissertation that conditions 1), 2), and 3) are the results of explicit economic policy development decisions and that 4) is a cause of these decisions. Since low or zero taxes and resource dependence are more a question of description rather than proof and therefore do not require rigorous testing, this section of the dissertation will generate and test hypotheses only concerning outward-focused economic activity and affluence.

Outward-Focused Economic Activity

Tax havens are jurisdictions that have made the economic development decision that, given the absence of more globally-acceptable revenue-creating options like extracting natural resources or heavy industry, they would create the virtual resources of low taxation and high secrecy using what sovereignty they have to do so. The economic result of this decision is that their revenue source is almost entirely external, especially compared with non-tax havens. Since a jurisdiction's tax haven activity – banking, accounting, company incorporation, and other related services - is recorded in economic statistics as an exporting of financial services, the expected result of a comparison of exports as a percentage of a jurisdictions Gross Domestic Product (GDP) would be for tax havens to have a higher percentage of exports as a percentage of GDP than non-tax havens.[11]

As Table 2.6 demonstrates, tax havens have higher percentages of exports of their GDPs than non-tax havens. In fact, when population is not accounted for, tax havens rely

[11] All results for exports and FDI as percentage of GDP for resource dependent states were insignificant, so the comparison presented is tax havens compared with non-tax havens.

on exports almost twice as much as non-tax havens – 65.22% versus 32.41%. This proportion moderates slightly at lower populations, with tax haven percentages dipping slightly (63.85% at 4 million, 64.57% at 1.5 million, and 64.97% at 1 million) and non-tax havens increasing in their dependence up to around 40% (40.53% at 4 million, 41.07% at 1.5 million, and 39.75% at 1 million), but the relationship remains steady: regardless of population level, tax haven exports equate to two-thirds of their GDPs, whereas non-tax havens stay between one-third and 41% of theirs. Tax havens do in fact depend more heavily on exports for economic stability than non-tax havens.

Another measure of dependence on foreign business for economic stability is the extent to which a jurisdiction depends on Foreign Direct Investment (FDI) inflows. Since tax havens, by policy design, according to the argument of this dissertation, rely on FDI, their net FDI inflows as a percentage of GDP should be higher than non-tax havens. The key to the tax haven economic development strategy is to look outward for its revenue. Lacking natural resources and the population to compete in heavy industry or the post-industrial economic bases, the tax haven must develop the regulations and skills to attract foreign direct investment in its banks, incorporation businesses, and shell corporations. It therefore follows that tax havens will be more dependent on FDI inflows than non-tax havens, and as a result will have higher FDI inflows than non-tax havens. Based on this argument, it is possible to generate the following two hypotheses:

H3: Tax havens will have higher levels of FDI inflows than non-tax havens, regardless of population level.

H4: Tax havens with small populations will have higher levels of FDI inflows than non-tax havens with small populations.

Table 2.6: Average Exports as Percentage of GDP

	Average %	t-score	Pr (random)
All jurisidictions (n=199)			
Tax Haven (n=33)	65.22 (7.16)	-7.55	0.0001
Non-Tax Havens (n=166)	32.41 (1.32)		
4 million people or fewer (n=86)			
Tax Haven (n=30)	63.85 (7.63)	-3.51	0.0004
Non-Tax Havens (n=56)	40.53 (2.67)		
1.5 million or fewer people (n=55)			
Tax Haven (n=23)	64.57 (8.49)	-2.79	0.004
Non-Tax Havens (n=32)	41.07 (3.73)		
1 million or fewer people (n=48)			
Tax Haven (n=22)	64.97 (8.88)	-2.69	0.005
Non-Tax Havens (n=26)	39.75 (4.27)		

Data Source: World Bank

Bivariate Analysis

As Table 2.7 demonstrates, this is true, although the results are less robust than they are for average exports. That said, the results are consistent: in general, tax havens have an average FDI net inflow of 17.20% of GDP, while non-tax havens have an average FDI inflow of only 3.01%. Those numbers are virtually unchanged for small states, as tax havens with populations of 4 million or fewer have an average FDI net inflow of 17.75% of GDP, while non-tax havens of the same size have an average FDI net inflow of 3.92% of GDP. The results are similar for the lower population levels of 1.5 million or fewer and 1 million or fewer, although the probability that these results due to chance (6.3% and 8.1%, respectively) are too high to make conclusions with any certainty. The results for all jurisdictions and jurisdictions with populations of 4 million and fewer, however, are robust enough to conclude that tax havens do depend on FDI inflows to a greater extent than non-tax havens, as befits jurisdictions that have decided to base their economic health on attracting customers from foreign countries.

Table 2.7: Average FDI as Percentage of GDP, by population

	Average %	t-score	Pr (random)
All jurisidictions (n=197)			
Tax Haven (n=35)	17.20 (8.31)	-3.67	0.0002
Non-Tax Havens (n=162)	3.01 (0.25)		
4 million people or fewer (n=85)			
Tax Haven (n=32)	17.75 (9.07)	-1.96	0.027
Non-Tax Havens (n=53)	3.92 (0.54)		
1.5 million people or fewer (n=55)			
Tax Haven (n=25)	*20.38 (11.59)*	*-1.55*	*0.063*
Non-Tax Havens (n=30)	*3.90 (0.88)*		
1 million people or fewer (n=48)			
Tax Haven (n=24)	*21.17 (12.05)*	*-1.42*	*0.081*
Non-Tax Havens (n=24)	*3.93 (1.07)*		

Data Source: World Bank. Insignificant results in italics.

Regression Analysis[12]

As Table 2.8 demonstrates, there is support for H4, but not H3. High FDI inflow is the mark of a healthy national economy, not just tax haven status, and when tax havens are compared with states like China, the UK, or the US, the relationship between tax haven status and FDI evaporates. It is, however, significant in tax havens with small populations, which is logically consistent with the argument, as small states are less likely to have the resources to be economically competitive, and are therefore more likely to consider becoming tax havens. Between these results and the R^2 values increasing as the population numbers drop, suggesting that this relationship grows stronger the smaller the population, jurisdictions that are tax havens and democratic – which strongly correlates to high governance levels[13] - are more likely to have higher FDI inflows.

[12] The absence of significant variation in the bivariate analyses among the different small population levels led me to eliminate the 1.5 million and 1 million population cut-points from the regression analyses.

[13] Polity IV scores and World Governance Index scores have a correlation coefficient of .68.

Table 2.8	*Logistic Regression of Tax Havens by FDI Inflows population*			
	All States	*4 million*		
Foreign Direct Investment	-0.0001	0.002*		
World Bank Region	0.074	-0.009		
Island	0.871	1.464		
GDP per capita PPP	0.037*	-0.034		
Polity IV	0.073	0.027		
Constant	-3.558***	-2.719**		
N	161	52		
Chi^2	9.27	16.34		
Pseudo R^2	0.103	0.304		
Legend	* p<0.05;	** p<0.01;	*** p<0.001	(two-tailed tests)

Low or Zero Taxes

Tax havens become tax havens by using what sovereignty they have to lower taxes and more easily allow private individuals to create corporations for an additional layer of secrecy. The strategy is that by lowering taxes, increasing secrecy, and easing incorporation, the customers they attract will make up whatever domestic revenue shortfall there is in processing and registration fees, as well as customs and import duties and subsidies from larger states for domestic public goods like security, and finally building "ring fences" with the municipal tax codes that force residents to pay higher taxes than non-residents (Palan, Murphy, & Chavagneux, 2010). As a result, the expectation is that average corporate income tax rates in tax havens are lower than in non-tax havens.

Bivariate Analysis

The results demonstrated in Table 2.9 meet these expectations. Given that KPMG reports that eight tax havens have 0% corporate income tax rates – and 13 more do not publicize their tax structure at all – the findings that tax haven corporate income tax rates are 8-9% lower on average than non-tax havens is not surprising (KPMG, 2017). Reflecting a global downward trend in corporate income tax rates, non-tax havens average 25.90%, while tax havens average 17.23%. As the jurisdiction populations get smaller, tax haven income tax rates drop, as small state theory suggests they would: 16.92% at 4 million or fewer, 16.10% at 1.5 million or fewer, and 16.03% at 1 million or fewer. The same trend does not hold for non-tax havens, primarily because some resource-dependent jurisdictions – which tend to be smaller - use their corporate tax rates for rent seeking: Suriname, for example, has a tax rate of 36% despite having a population of just over a half million. As a result, the average tax rate for non-tax havens at 4 million or fewer is lower – 23.87% - than it is for non-tax havens at 1.5 million and 1 million – 26.32% and 26.13%, respectively. Tax havens and non-tax havens respond to the diminshed responsibility of serving a small population in opposite ways: tax havens impose even lower corporate tax rates and non-tax havens impose higher rates, suggesting that tax havens take advantage of the reduced burden a small population represents to lower taxes to attract business, while non-tax havens raise taxes to take advantage of the business already there.

Table 2.9: Average Corporate Income Tax Rate, by population

All jurisidictions (n=170)			
	Average %	t-score	Pr (random)
Tax Haven (n=38)	17.23 (1.98)	5.41	0.0001
Non-Tax Havens (n=132)	25.90 (0.65)		
4 million people or fewer (n=69)			
Tax Haven (n=35)	16.92 (2.14)	2.57	0.006
Non-Tax Havens (n=34)	23.87 (1.64)		
1.5 million people or fewer (n=46)			
Tax Haven (n=29)	16.10 (2.51)	2.90	0.003
Non-Tax Havens (n=17)	26.32 (1.67)		
1 million or fewer people (n=40)			
Tax Haven (n=28)	16.03 (2.60)	2.37	0.012
Non-Tax Havens (n=12)	26.13 (2.26)		

Data Source: KPMG Global Tax Rates

Affluence

Jurisdictions undertake the economic development strategy of becoming a tax haven because it can increase a state's wealth without costing as much in the way of infrastructure as other strategies like industry or resource extraction. In addition, tax havens are mainly states with small populations, meaning that a successful economic development strategy can increase personal and collective wealth with relative speed and ease (Hampton, 1996; Hampton & Christensen, 2002). Considering that the decision a jurisdiction makes to become a tax haven is not without costs or risks, it stands to reason that jurisdictions that continue tax haven activities in the face of public disapprobation must be doing so because the financial rewards are significant enough to offset the costs. As a result, the expectation is that tax havens would be more affluent than non-tax havens. This dissertation follows common practice and uses GDP per capita to measure affluence, with tax havens expected to have higher GDP per capita than non-tax havens.

If tax havens are better governed, then it would stand to reason - given that one of the pillars of good governance according to Kaufmann, Kraay, & Mastruzzi (2011), among others, is having a responsive and representative government – that the decision to become a tax haven is not solely one made with the approval of elites. Indeed, pace Bueno de Mesquita *et al.* (2004), well-governed states have larger selectorates and winning coalitions, meaning that a larger group of a jurisdiction's citizens have to – at the very least – approve of the decisions made by the government leading to tax haven status. Therefore, given that the decision to become a tax haven is an economic development one, i.e. a decision designed to improve the general economic welfare of the jurisdiction, it stands to reason that the tax haven's popular support is the result of the jurisdiction's citizens sharing in the economic benefits of the decision. The expectation then becomes that citizens in tax havens will be better off than citizens in non-tax havens as result of the decisions the government has made to become a tax haven and the economic impact these decisions have had. Higher governance levels implies more governmental stability, which itself implies popular support for existing governmental policies, so if tax havens have higher governance indicators, then the citizens of the tax havens must support those government policies. And if citizens of the tax havens support those policies, it must be because they are made better off economically as a result of their implementation, leading to the following two hypotheses:

H5: Tax havens will have higher GDP per capita than non-tax havens, regardless of population.

H6: Tax havens with small populations will have higher GDP per capita than non-tax havens with small populations.

Bivariate Analysis

As Table 2.10 demonstrates, tax havens do have higher GDPs per capita than non-tax havens, although the results are not as robust as the others in this chapter. For all jurisdictions, however, tax havens do have a higher average GDP per capita at $20,118 than non-tax havens at $12,270. This relationship holds for small states, but the distance between tax havens and non-tax havens narrows - $19,088 versus $14,427 at 4 million or fewer, $20,173 versus $14,880 at 1.5 million or fewer, and $20,542 versus $15,722 at 1 million or fewer - and the results are likely enough to be the result of a random outcome that it is not possible to say what that relationship is with any degree of certainty. The result for all jurisdictions, however, is a reliable one, and reinforces the conclusion that tax havens are, in general, more affluent than non-tax havens.

Table 2.10: Average GDP Per Capita, by populatiom

All jurisidictions (n=194)	Average	t-score	Pr (random)
Tax Haven (n=35)	$20,118.48 ($2,994.90)	-2.61	0.005
Non-Tax Havens (n=159)	$12,270.38 ($1,248.94)		
4 million people or fewer (n=84)			
Tax Haven (n=32)	*$19,088.13 ($3,160.51)*	*-1.01*	*0.157*
Non-Tax Havens (n=52)	*$14,427.71 ($3,050.06)*		
1.5 million people or fewer (n=53)			
Tax Haven (n=25)	*$20,173.02 ($3,675.90)*	*-0.89*	*0.188*
Non-Tax Havens (n=28)	*$14,880.97 ($4,538.59)*		
1 million people or fewer (n=46)			
Tax Haven (n=24)	*$20,542.11 ($3,813.03)*	*-0.71*	*0.241*
Non-Tax Havens (n=22)	*$15,722.99 ($5,743.50)*		

Data Source: World Bank. *Insignificant results in italics.*

Regression Analysis

As Table 2.11 demonstrates, there is some support for hypothesis 5, although not for hypothesis 6, and as much as there is for hypotheses 1-4. Tax havens do have higher GDP per capita – the generally accepted measure of broadly distributed economic wealth in both the political science and economics literatures – than non-tax havens, suggesting that popular support for governments of tax havens is rooted in the economic benefits received from tax haven policies. The Pseudo R^2 is low for this regression, however, suggesting that this relationship is not very strong. Again, though, it is less possible to draw conclusions about the relationship between wealth and tax haven status with confidence as it is to draw them about the relationships between governance and FDI inflows and tax haven status.

Table 2.11	*Logistic Regression of*	*Tax Havens by GDP Per Capita and population*		
	All States	*4 million*		
GDP Per Capita	0.031*	0.024		
Island	0.907	0.846		
UN Membership	(omitted)	(omitted)		
World Bank Region	0.061	-0.035		
Polity IV	0.051	0.079		
Constant	-3.506***	-1.998*		
N	160	52		
Chi^2	8.05	4.89		
Pseudo R^2	0.089	0.091		
Legend	* p<0.05;	** p<0.01;	*** p<0.001	(two-tailed tests)

Non-Resource Dependence

If jurisdictions make the decision to become tax havens in part because they do not have reserves of natural resources like oil, natural gas, diamonds, or copper or other minerals, then they create the virtual resources of low taxes and strict secrecy to become economically stable. Comparing the list of resource-dependent jurisdictions compiled by the World Bank with the list of tax havens gathered from multiple sources, only two jurisdictions appear on both lists: Bahrain and Malaysia (Baunsgaard, Villafuerte, Poplawski-Ribiero, & Richmond, 2012).[14] This result conforms with the argument of the dissertation: becoming a tax haven is an economic development strategy, and jurisdictions that have natural resources have no need to become tax havens, while jurisdictions that become tax havens do so because they do not have natural resources to exploit.

The economic profile of a tax haven is that of a relatively affluent jurisdiction whose wealth is almost entirely dependent on external sources. This wealth is attracted to the tax haven through the explicit strategy of lowering taxes, a strategy the jurisdiction resorts to in lieu of any other promising options for revenue generation.

Geographic and Demographic Characteristics

Small Populations

As Table 2.12 demonstrates, tax havens have small populations. Of the 51 tax havens, 40 have populations of 1 million people or fewer. By extension, therefore, not only do most tax havens have small populations, but most small jurisidictions are tax havens: there are 71 jurisdictions with 1 million people or fewer, meaning that 56% of them are tax havens. This proportion does not change very much if the British Commonwealth Secretariat's definition of "small" – 1.5 million – used. The number of tax havens now rises

[14] See the appendix for both lists.

to 41, out of a total of 77, meaning that 53% of all jurisdictions with populations of 1.5 million or fewer are tax havens. The most liberal definition of "small" in a global context is 4 million or fewer; using this criterion, all but three tax havens are included as a small state. This total of 48 tax havens out of 108 total states with this population criterion translates to 44% of states with populations of 4 million or fewer. Generally speaking, one of every two small states is a tax haven. To an extent, when the literature (Armstrong, De Kervenoael, Li, & Read, 1998; Hampton & Christensen, 2002; Vlcek, 2008) discusses the political economy of the small state, it's discussing tax havens.

Table 2.12: Tax Havens vs Non-Tax Havens as Small States

	4 million or fewer		1.5 million or fewer		1 million or fewer	
Tax Haven	48	Chi^2 = 55.73	41	Chi^2 = 61.99	40	Chi^2 = 68.42
Non-Tax Haven	60	Pr = 0.0001	36	Pr = 0.0001	30	Pr = 0.0001
Total	108		77		70	

Small states deciding to become tax havens is also a function of the characteristics of small state economies and demographics. Small states are relatively easy for a small group of commercial and financial elites – such as the Bay Street Boys – to dominate for their own advantage. Part of this dominance is the result of the state's size and population, but also is the result of secondary effects like a relative absence of an independent media, or of higher education, meaning that the probability of an organized opposition to a movement towards becoming a tax haven is low. This absence of opposition is reinforced by cultural factors: small states tend to have cohesive, tight-knit cultures with strong social networks that make decision-making easier but discourage whistle-blowing and strenuous debate. And while small states translate to a general inability to engage in large-scale enterprises in order to compete economically, they also have relatively low tax burdens and infrastructure costs, especially if those costs are being partially offset by a former colonizing state, meaning that their small population size is both a strength and a weakness. Small size is also, ultimately, a determining factor in which economic path a state takes (Armstrong, De Kervenoael, Li, & Read, 1998; Hampton & Christensen, 2002; Palan, Murphy, & Chavagneux, 2010; Vlcek, 2008).

Islands

As Table 2.13 demonstrates, two-thirds of the 51 tax havens – 34 - are islands. Of 224 states in the World Bank's database, 72 of them are islands, meaning that nearly half (47%) the world's islands are tax havens. The role islands play in the tax haven economy is significant enough that it has generated its own subfield in political geography (Cobb, 1998; Cobb, 2001; Hampton, 1996; Hampton & Christensen, 2002; Vlcek, 2009). Islands that become tax havens are usually small, but close to major capital exporters like Rotterdam, New York, or Tokyo, as sharing a time zone and being a relatively short plane ride away was more important in the pre-Internet era when most jurisdictions made the decions that led them to become tax havens. Small islands that become tax havens also tend to be densely populated, which prohibits the dependence on land-based revenue-generators like agriculture that require protectionist economic policy to thrive, and instead creates a relatively small elite merchant class that benefit economically from international free trade and can switch relatively easily to financial service provision (Cobb, 2001; Hampton, 1996; Vlcek, 2008).

Table 2.13: Comparison of Tax Havens and Islands

	Non-Tax haven	*Tax Haven*	*Total*	
Not island	135	17	152	
Island	38	34	72	
Total	173	51	224	$chi^2 = 36.09$ Pr = 0.0001

Tax havens are small, wealthy, politically and economically stable, outwardly focused jurisdictions that tend to avoid conflict and create a political environment that, while not strongly democratic, at least allows for contestation, free speech, and a relative absence of corruption which, given the potential for corruption, is all the more remarkable. In fact, tax havens are the sort of model of small state developing world success stories that organizations like the World Bank strive to create. Instead, because of the strategy tax havens pursue to achieve that stability, international campaigns are mounted against them by states that have long since achieved the wealth and stability the tax havens seek.

International Anti-Tax Haven Campaigns

What do these campaigns involve, and how much of a deterrent to the tax havens do these campaigns represent? The most significant campaign against tax havens was undertaken by the OECD starting in 1998. The OECD targeted jurisdictions engaging in what it called "harmful tax competition" (OECD, 1998). The criteria for judging whether a jurisdiction was practicing harmful tax competition were: 1) poor or nonexistent information exchange; 2) complete opacity; 3) either no significant economic activities or ring fencing of foreign corporations; and 4) zero or very low taxes (Hishikawa, 2002; OECD, 1998). The OECD published a report called "Harmful Tax Competition: An Emerging Global Issue" in

April 1998 and followed it with the formation of the Forum on Harmful Tax Competition, a group charged with identifying which jurisdictions were practicing harmful tax competition, and which were just preferential tax regimes (Eden & Kudrle, 2005; Hishikawa, 2002; OECD, 1998).

According to the Forum, a preferential tax regime is one in which: income taxes are either nonexistent or very low; the tax regime applies only to non-residents ("ring fencing"); and there is an intentional lack of access to information about the level of taxation and who benefits from it. Harmful or abusive tax havens, by contrast, are jurisdictions that have all the characteristics of a preferential tax regime, but also publicly advertise themselves as a place where nonresidents can evade taxes in their home countries. In addition, harmful tax havens will refuse to cooperate with other jurisdictions in sharing information, as well as the aforementioned general lack of transparency. Finally, harmful tax havens have no substantial activity requirment, meaning that firms do not have to undertake a certain amount of activity in residence at the haven in order to qualify for the regime. According to the OECD, harmful tax competition has the following effects: altering the location of financial and other services; erosion of tax base of other jurisdictions; distortion of trade and investment patterns; diminishment of global welfare; and erosion of the fairness of the tax system, as well as the resulting erosion of taxpayer confidence in the integrity of the system (Eden & Kudrle, 2005; Hishikawa, 2002; OECD, 1998).

The OECD decided to counteract what they concluded to be harmful tax practices by initiating a naming and shaming campaign, and released a list of 41 jurisdictions they designated "uncooperative tax havens" in June, 2000. "Uncooperative" in this case meant the OECD had concluded the jurisdiction had the characteristics of a harmful tax haven, they requested the jurisdiction sign a Memorandum of Understanding (MOU) saying they would reform their tax regimes by July 31, 2001, and the jurisdiction had refused. The OECD had initally identified 47 jurisdictions, but Bermuda, the Cayman Islands, Cyprus, Malta, Mauritius, and San Marino were able to keep their names off the list by agreeing to reform. The impact was immediate: by August, 2001, 35 of the 41 jurisdictions on the list had signed the MOU, and four jurisdictions – Tonga, Seychelles, Curacao (then part of the now-dissolved Netherlands Antilles), and the Isle of Man – had repealed banking legislation.

The pressure on tax havens to reform in 2000 did not just come from the OECD. The Financial Action Task Force, an international organization affiliated with the OECD that focuses on anti-money laundering initiatives, released its own list of 15 non-cooperative jurisdictions, also in June. In addition, the Financial Stability Forum, a group of finance ministers and central bankers established the G-7 to study and promote methods for increasing financial stability, divided a list of 37 tax havens into three categories depending on how well the jurisdictions monitored financial activity – highest quality, average, and worse than average – and released the list to the public in 2000. Combined with reports by other international organizations like the European Union's follow-up investigation to their 1996 "Verona Paper" on preferential tax regimes and tax harmonization in 1999, the Basel Committee and their insurance arm the Offshore Group of Supervisors, 2000 represented the high water mark for internationally-coordinated anti-tax haven campaigns (Eden & Kudrle, 2005; OECD, 1998).

These organizations did achieve a certain measure of symbolic success with the campaigns. There was opposition to the effort, as Caribbean countries followed Barbados's lead and formed the International Tax Investment Organization (ITIO). The group's argument was that the OECD and the other IOs were being unfair, that the tax havens had not been consulted when the policies to which they were being asked to adhere were designed. The ITIO further argued that the IOs were targeting only jurisdictions that were not members of their organizations and ignoring the tax havens like Switzerland or Luxembourg in their midst. Finally, the ITIO argued that the short timetable – one year – demonstrated that the IOs were more interested in gaining compliance from the tax havens rather than in actual reform. The ITIO was joined in their opposition by American right wing think tanks like the Center for Freedom and Prosperity, whose influence doubtless contributed to the US Treasury Secretary Paul O'Neill's May 2001 public statement criticizing the OECD's effort as "too broad" (US Treasury, 2001), signalling that US support for the anti-tax haven effort going forward would be limited. Despite this opposition, the OECD persisted, and managed by 2004 to gain MOU signatures from every jurisdiction on the original blacklist except Andorra, Liechtenstein, Liberia, Monaco, and the Marshall Islands. The success of the anti-tax haven effort has been that it has protected tax harmonization as a norm – indeed, as Table 2.7 demonstrates, global corporate income tax rates are harmonizing to around 25%. The question then becomes, were their targets materially harmed by the campaign?

If jurisdictions do make the rational calculation to become tax havens, as this dissertation suggests, then part of that calculation has to include whether they will be punished and suffer as a result of acting, if not outside international law, then as a renegade state that assists individuals and firms from other states in evading being held to the laws in their homelands (Eden & Kudrle, 2005). The primary punishment dealt by the international community of nations against tax havens was the naming and shaming campaigns of 2000 carried out by the OECD, the FATF, and the Financial Stability Forum (FSF), among others, in which tax havens were threatened with being put on a blacklist if they did not at least sign agreements stating their intention to comply with international tax harmonization standards and change their tax laws. The OECD web site, as of 2017, bragged that every jurisdiction they targeted as a tax haven either changed their laws or signed an agreement expressing their intention to do so, implying that the campaign they began in 2000 has been a complete success in terms of getting recalcitrant jurisdictions to comply (OECD, 2017). By that metric, the naming and shaming effort was undoubtedly a success, as it was a success in that these organizations did protect the norms of international cooperation and tax harmonization; corporate tax rates have been falling since the beginning of the campaign, and more jurisdictions than not currently have a corporate income tax rate of 25% (KPMG, 2017). The important question, however, is to what extent did the naming and shaming campaign deter tax haven behavior? If the campaign was truly successful, tax havens would have experienced a decrease in FDI after 2000, as potential customers found somewhere more reputable to invest as a result of being warned off by the international community. In addition, more jurisdictions would make the decision to stop pursuing tax haven policies in the face of this severe punishment, also causing FDI to decrease. Given the preponderance of results presented in this dissertation, however, it does not seem likely that tax havens responded to the campaign in this way, generating the following final two hypotheses:

H7: Tax havens will not have lower levels of FDI inflows after the 2000 naming and shaming campaign than they did before the campaign, regardless of population.

H8: Tax havens with small populations will not have lower levels of FDI inflows after the 2000 naming and shaming campaign than they did before the campaign.

Bivariate Analysis

As Table 2.14 demonstrates, tax havens actually performed much better on average in the 15 years following the naming and shaming campaign compared to the 30 years preceding it – the 30 years referred to as the "golden age" of tax havens in Palan, Murphy, &

Chavagneux (2010) and Shaxson (2012), among others. It is possible that the naming and shaming effort had a backfire effect, helping to publicize the tax havens to a wider audience, thereby increasing FDI inflows. For all tax havens, FDI inflows increased from a pre-campaign average of $1.6 billion to a post-campaign average of over $6 billion. This result holds for the tax havens with smaller populations, as well: a pre-campaign average of $605 million compared to a post-campaign average of nearly $4.3 billion for tax havens with populations of 4 million or fewer; a pre-campaign average of $383 million compared to a post-campaign average of $3.1 billion for tax havens with populations of 1.5 million or fewer; and a pre-campaign average of $398 million compared to a post-campaign average of $3.2 billion for tax havens with populations of 1 million or fewer. Whatever the exact reason – or combination of reasons – for the comparative increase in FDI inflows in tax havens following the naming and shaming campaigns of 2000, it is clear that the decision made by jurisdictions to become tax havens is a rational one; the reward is definitely greater than the risk, especially when the risk turns out to be minimal.

Table 2.14: Comparison of Average Tax Haven FDI, 1970-2000 vs. 2001-2016

	Mean 1970-2000 FDI	*Mean 2001-2016 FDI*	
All Tax Havens	$1,640,547,759.16	$6,007,172,848.08	t-value = -1.74 Pr = 0.0426
Tax Havens 4 million or fewer	$605,163,312.08	$4,293,155,502.67	t-value = -2.24 Pr = 0.0143
Tax Havens 1.5 million or fewer	$383,556,756.55	$3,128,143,469.56	t-value = -1.70 Pr = 0.0473
Tax Havens 1 million or fewer	$398,031,397.16	$3,235,959,035.37	t-value = -1.70 Pr = 0.0479

Regression Analysis

As Table 2.15 demonstrates, there is statistical support for both hypotheses, although the support for hypotheses 7 and 8 is more of the "dog that didn't bark" variety in that the effect of tax havens on the difference in FDI post-campaign compared to pre-campaign is insignificant. If the result was negative and significant, then there would be no support for the hypotheses. The fact that this is not the case, combined with the relatively low R^2 for these regressions, suggests that however FDI difference behaved for all jurisdictions regardless of population level, it likely had nothing to do with the anti-tax haven campaign.

It is also possible that any negative impact the campaign had was washed away in the general upward surge of FDI into the global financial system of the 21st century, as technological developments in communication and travel made tax havens even more accessible and attractive to potential customers. That this relationship becomes stronger as the populations get smaller – as indicated by the increasing R^2 values - is consistent with the other results generated by the other regressions in this dissertation, as well as the positive impact both democracy and existing wealth have on FDI.

Table 2.15	*Regression of Tax Havens by Difference in FDI 1970-2000 vs. 2001-2016 and population*			
	All	*4 million*		
FDI Difference	-0.0001	0.0009		
Island	1.082	1.098		
World Bank Region	0.080	-0.079		
Polity IV	0.059	0.050		
GDP per capita PPP	0.031*	-0.044		
Constant	-3.460***	-1.79*		
N	155	49		
Chi^2	7.24	9.90		
Pseudo R^2	0.086	0.200		
Legend	* p<0.05;	** p<0.01;	*** p<0.001	(two-tailed tests)

Summary of Findings

Hypotheses Concerning Governance

Hypotheses 1 and 2 concern the relationship between tax haven status and governance quality. A test of this relationship found it positive, regardless of population level. Tax havens are better governed than non-tax havens, a finding consistent with the argument that the process of becoming a tax haven is the result of an economic development strategy implemented by a rational acting jurisdiction.

Hypotheses Concerning Foreign Direct Investment (FDI)

Hypotheses 3 and 4 concern the relationship between tax haven status and FDI inflows. A test of this relationship found it positive, but only for tax havens with small populations. Small tax havens – those with populations of, at most, 4 million – attract more FDI inflow than non-tax havens of the same size, a finding consistent with the reality that, at large populations tax havens are competing against the largest, healthies economies in the world, and the argument that becoming a tax haven means a jurisdiction makes its economy dependent on capital inflows to flourish as part of its economic development strategy.

Hypotheses Concerning Citizen Prosperity

Hypotheses 5 and 6 concern the relationship between tax haven status and citizen prosperity, i.e. are citizens of tax havens better off economically than citizens of non-tax havens. A test of this relationship using Gross Domestic Product Per Capita (Personal Purchasing Power) as a measure found it positive and robust, but only for tax havens as a whole and for tax havens with populations of 1.5 million people or fewer. This finding is consistent with the argument that, unlike resource-dependent states of similar size, tax havens are relatively prosperous and that prosperity is relatively evenly distributed amongst their citizens.

Hypotheses Concerning International Anti-Tax Haven Campaigns

Hypotheses 7 and 8 concern the relationship between tax haven FDI inflow rates and the 2000 international naming and shaming anti-tax haven campaign undertaken by the OECD, among others. If the campaign had been successful, FDI inflows from 2001 to 2016 should be lower than those from 1970-2000, a result of potential customers being dissuaded from using tax havens and from the tax havens themselves changing the laws and procedures that defined them as tax havens. A test of this relationship revealed that, for tax havens with small populations, the reverse is true: FDI inflows actually increased, a finding especially true for tax havens with populations of 1 million people or fewer – which is to say, most of them. This finding is consistent with the argument that, in undertaking the strategy to become tax havens, jurisdictions rationally weighed the benefits of becoming tax havens against the potential cost of becoming a renegade state in the eyes of the international community, and found the benefits to outweigh the costs.

General Summary of Findings

The results of the regression analyses of this chapter are consistent with the descriptive statistics and the first-cut analyses of chapters one and two. Tax havens are more likely to have higher governance indicators at all population levels, suggesting that they are, as a class of jurisdictions, well-governed compared to non-tax havens. In tax havens with small populations – regardless of definition of "small" used – this high governance is related to higher levels of foreign direct investment (FDI), both before and after the 2000 anti-tax haven naming and shaming campaign. In fact, in tax havens with small populations, FDI actually increased in the wake of the naming and shaming campaign. A final characteristic of tax havens is a higher level of GDP per capita, meaning citizens of tax havens might be wealthier than citizens of non-tax havens. One potential criticism of the use of GDP per capita is that it favors small states with large incomes, a criticism that might be valid considering how many tax havens fit this profile. The results, however, demonstrate that this finding is as true for a large tax haven like Hong Kong as it is for a small one like San Marino. Tax havens are stable, wealthy, and adept at attracting FDI regardless of international attempts to prevent them from doing so.

Chapter Three

Back to the Islands

Cuba, Jamaica, the Bahamas, and the Cayman Islands took three different development paths since their decisions of the mid-1960s. The Bahamas and the Caymans remained tax havens and, as Table 3.1 demonstrates, reaped the benefits. Both relatively well-governed, with Worldwide Governance Indicator (WGI) averages of 1.02 and 1.12, respectively, the Bahamas and the Caymans prospered, the Bahamas with an average annual foreign direct investment (FDI) inflow of nearly $200 million and an average annual gross domestic product (GDP) per capita of $20,273. The Caymans in particular became an economic powerhouse, with an average annual FDI inflow of over $5.3 billion and an average annual GDP per capita of nearly $50,000, one of the world's highest.

Table 3.1: Comparison of Main Indicators for Bahamas, Cuba, Cayman Islands, and Jamaica

	Governance	*FDI*	*GDP/Capita*
Bahamas	1.02	$199,316,141.93	$20,273.34
Cuba	-0.65	N/A	N/A
Cayman Islands	1.12	$5,350,661,261.90	$49,903.03
Jamaica	0.09	$305,235,869.13	$7,005.87

Jamaica and Cuba did not fare as well. Turning away from becoming tax havens, perhaps as a result of poor governmental decision-making as indicated by their relatively low WGI averages of -0.65 and 0.09, respectively, Cuba and Jamaica used different strategies. Run by a totalitarian regime with an anti-capitalist philosophy since the beginning of the time period studied and as a Soviet satellite state until 1989, Cuba took what could be called a path diametrically opposed to the one taken by the tax havens. As such, there is no financial data available, but given that the WGI average correlates to FDI =.34 and to GDP per capita =.63, saying that Cuba did not prosper economically under this system seems like a relatively safe conclusion to draw. Jamaica, on the other hand, has managed small but steady economic growth of around 1% annually, leveraging its location and climate into a thriving tourism industry and attracting an average annual FDI of over $305 million, or more than $100 million per year more than the Bahamas. Jamaica, however, has to divide its GDP over nearly 3 million people, compared to the Bahamas' 100,000, resulting in an average annual GDP per capita of nearly one-third as much, or just over $7,000. When viewed through the dispassionate lenses of geography and political economy, these islands seem to have relatively similar characteristics. All connected to colonial or geopolitical patrons to varying degrees, no natural resources around which to build an economy, relatively small tropical islands with relatively insular populations, but they took three different strategic paths, and the results of taking those paths illustrate the argument made in this dissertation: tax havens leverage stable governance into prosperity through an explicit economic development strategy because this strategy is the best of a limited set of options available to them.

Implications of Findings and Conclusion

Jurisdictions become tax havens because it is the rational action for them to take. These jurisdictions – some of which have so little sovereignty that they cannot be classified as "states" but are closer to Krasner's (1999) definition of a "quasi-state" - have no other reasonable options for an economic development strategy. They have little to no natural resources, and not enough land or people to profitably attempt large-scale agriculture or industrial projects. What they do have, however, is enough of a post-colonial lifeline to their former masters to count on them for security and some domestic funding. They have strong enough political and governmental institutions to make well-reasoned politically popular decisions regarding their polity and the ability to competently implement those decisions. They are culturally unified and tight-knit in a way that ensures that the one product they will provide to the world – secrecy – will be well-protected and nearly absolute. These cultural characteristics will probably also act as a counter-weight against dictatorship, corruption, and unrest – the qualities that tend to scare off potential customers.

Because these customers will come from outside their borders, as they always have. Most tax havens were formerly trading centers, with a mercantile elite population that naturally looked outward rather than inward for the sources of its wealth. The Bay Street Boys were not landed aristocracy: they were lawyers and bankers, natural allies to the new class of island-hopping offshore experts guiding the jurisdictions toward their new status as tax havens. These experts were only guiding, however, not controlling; the data and results presented in this dissertation support the argument that becoming a tax haven is a conscious, intentional strategy. The jurisdictions are presented with a group of constrained choices for competing economically; these constraints include the internal lack of resources discussed above, as well as the external constraint of international disapprobation awaiting them if they decided to become tax havens. As it turns out, this external constraint is no match for the economic forces pushing these jurisdictions to become tax havens. This disapprobation does not come with an actual price tag; the United Nations (UN) has never attempted to levy sanctions against a tax haven. Indeed, levying such sanctions would be nearly impossible, given that 34 of its members are themselves tax havens, which illustrates one reason why international anti-tax haven efforts are so lackluster – the organizations that undertake them either have tax havens as their members in good standing, or have members whose colonies or dependencies are tax havens. Even if the member countries of the organizations are not formally connected to tax havens, their elites are connected informally as customers. As a result, recent anti-tax haven efforts, both bilateral and multilateral, have been watered down. While naming and shaming campaigns can be effective in moderating state behavior in certain circumstances (Dai, 2005), the anti-tax haven campaigns undertaken at the turn of the millennium were compromised from the start.

And these campaigns were the height of international anti-tax haven activity. The results from this dissertation reinforce the general suspicion that these campaigns have always been ineffective, not least because tax havens have been an integral part of the global economy since their inception. The rich and powerful have always needed a place to hide their money – from the state, from the poor, from each other – and in the "golden age" of the 1970s and 1980s, they were joined by a new group of customers: criminals and, in the 1990s, terrorists seeking to both hide their profits and gain a foothold in the international financial system in order to better operate transnationally. It is this new class of customer on whom I will focus as my research moves forward – namely, the role tax havens played in helping organized crime syndicates and terrorist organizations transition from national to transnational organisms, similar in structure to the multi-national corporations who also use the tax havens evade billions of dollars in corporate income tax. I also intend to focus on another class of customer: dictators, who use tax havens to help them become kleptocrats as they hollow out their countries' economies. My theory is that the end result of the actions taken by these three groups and the tax havens that enable them is instability in the states in which they operate. It is my suspicion that one reason that non-tax havens have lower governance scores than tax havens is that these groups avoid operating in tax havens so as not to destabilize them, thereby maintaining the stability of the financial structure on which their organizations are based. One general argument made in favor of anti-tax haven collective action is that their presence destabilizes non-tax havens by depriving them of tax revenue they would have available to them if tax havens did not exist (Dharmapala, 2008). I believe that an additional reason for this destabilization is that tax havens enable violent non-state actors like terrorist groups and organized crime syndicates to more effectively operate in non-tax havens. States are caught in a pincer attack, prey to destabilizing activity from one group while being deprived of the tax revenue they would need to help counter that activity and govern effectively by the other. I further believe that the states that are the least well-governed are that way due to these two factors as well as the predations of a third: a dictator who, by definition, puts his own welfare above that of the citizens in his charge, neglecting their effective governance in favor of becoming a kleptocrat and stealing as much as possible without being ousted. All with the help of the tax havens who are, after all, being rational and seizing the opportunities the global marketplace gives them.

Limitations of Findings

There are two potential limitations to drawing conclusions from the data and analysis in this dissertation: endogeneity; and the inability to rule out other, equally plausible, explanations. Or, in other words, it is difficult to determine from the data and results presented whether jurisdictions become tax havens because they are well-governed small states, or whether jurisdictions become well-governed small states because they are tax havens, or whether there is some other force at work driving this relationship. While the data and the analysis do provide robust support for the argument this dissertation presents, logical imputation is all there is: the lack of direct observation of the process each jurisdiction has undergone precludes a more concrete conclusion from being reached.

Greater certainty would require deeper analysis, possibly in the form of several case studies. The "four islands" sketch is merely intended to illustrate the process of how jurisdictions become tax havens with the assistance of the battery of outside experts that descend on likely jurisdictional candidates. In addition to mapping the political processes that led to tax haven creation, extensive analysis of when the appropriate laws were passed in each jurisdiction, as well as determining when each jurisdiction began their marketing campaign. If, as this dissertation posits, these jurisdictions are rational actors, then it follows logically that elites in each jurisdiction would recognize the necessity of marketing themselves as a tax haven in addition to creating the environment necessary to attract customers. It further follows that, if this were the case, that indicators like FDI inflows and GDP per capita would increase following the imposition of these laws and the instantiation of these campaigns. As this research project evolves, the fruits of this research will be included in future work.

Possible Solutions

As the analysis of this dissertation illustrated, previous attempts to prevent tax havens from operating have been ineffective. Indeed, it is possible that the primary attempt – the 2000 international anti-tax haven naming and shaming campaign – had the opposite effect, increasing FDI flows to tax havens in the years following the campaign. That this finding is the opposite of the one arrived at by Barry et al (2013) suggests that naming and shaming campaigns can be effective at deterring foreign investment in some cases – human rights abuses – but not in others – tax havens. Part of the problem may be that the bulk of anti-tax haven campaigns take the form of requiring a certain level of compliance from tax havens. Since these campaigns are hamstrung by elites within the states carrying out the campaigns – elites who benefit from the tax havens' continued operations – it is relatively costless for the tax havens to comply. Tax havens can usually comply in the form of signing a memorandum of understanding promising to change their laws and practices, or by changing reporting laws that effect a certain level of international cooperation while still protecting their core practices that allow them to continue to function. In addition, tax havens will cooperate with the Financial Action Task Force (FATF) in their identification and prosecution of criminals or terrorists using their banks for money laundering and financing terror attacks via the Financial Intelligence Units (FIUs) the FATF operates in each tax haven. This cooperation – still relatively limited – as well as shifting the focus to money laundering and terrorism financing has the effect of improving the tax haven's public image while protecting the multi-billion-dollar core business of tax avoidance and evasion they facilitate (FATF, 2017).

Solutions involving punitive international collective action, like the creation of country by country reporting accounting standards requiring multi-national corporations (MNCs) to itemize their transactions in each country in which they do business on income tax statements and annual reports, or a global financial registry recording exactly who owns which stocks and bonds, or making public registries of beneficial ownership for each jurisdiction mandatory upon pain of trade sanctions, seem unrealistic as options, as the main obstacle to these plans is that the economic hegemons of the world – namely, the US and the UK – are not enthusiastic about their implementation (Christensen, 2011, 2012; Murphy, 2017; Zucman, 2015). This conclusion does not preclude the possibility of collective action against tax havens in general, however. Avi-Yonah (2000) proposes a uniform withholding tax on portfolio investment, in which any entity paying interest or dividends would pay the tax rather than the individual or firm receiving it. As Avi-Yonah (2000) points out, tax havens may be good places for storing money, but high investment returns are gained by investing in the US, Japan, or Europe – Organization for Economic Cooperation and Development (OECD) member countries, in other words. States can make up some of the lost tax revenue in this way when the money repatriates as investment capital. In addition, a tax regime similar to this was in place until 1984, so precedent for this sort of cooperation among OECD states does exist (Avi-Yonah, 2000; Dean, 2006-2007).

Changing tax haven behavior itself, however, must proceed from the assumption that tax havens are as much rational actors as any other state. This dissertation has tested this assumption and found support for it: given a series of constraints, tax havens maximize their economic well-being by becoming – and continuing to behave as – tax havens. Furthermore, given the threat of international censure via naming and shaming campaigns, tax havens again made the calculation to either take symbolic compliance measures but continue operating as before, or ignore the campaigns altogether, and emerged better off than before. Given that an international sanctioning campaign with such relatively mild punishments had so little deterrent effect on tax haven behavior, expecting the international community to band together to administer stiffer penalties seems naïve at best. One possibility would be for international enforcement organizations like FATF to partner with OECD and create economic incentive packages – tax breaks on consumer products, for example – linked to increased cooperation in the exchange of information on individuals or groups engaged in illegal activity. Given a healthy enough incentives package to replace lost income, this cooperation could include targeted, specific information exchange on tax evasion (as opposed to avoidance). Tax havens, being rational, will agree to cooperate only if it is in their interests to do so, and this cooperation would require determining the amount of income the tax haven would lose by cooperating and replacing it while not endangering their core business. It is important to remember when considering approaches to gaining cooperation that these strategies must also be palatable to the elites in the states making the offer, as those elites are tax haven customers and liable to subvert an unpalatable deal. Therefore, any attempt to gain tax haven cooperation must preserve, to some extent, the tax havens' ability to continue to operate as tax havens.

Dai (2005) concludes that domestic elites have to buy in to any international agreements for them to succeed, and that this process occurs in both states making the compliance rules and states being asked to comply with these rules. Any policy recommendations concerning tax havens must follow from this conclusion, and from the assumption of rationality stated at the beginning of this section. Tax havens are weak states in the traditional sense, but they are not weak in the sense that they can successfully resist any attempts at coercion by traditionally stronger states because of their utility to elites in those self-same stronger states. Selectorates in both tax havens and states attempting to enforce anti-tax haven agreements benefit from the failure of those agreements if the agreements are too punitive, that is, if they harm the ability of tax havens to continue to provide low tax rates and high levels of secrecy. This dissertation demonstrates that elites have been using tax havens for the bulk of the 20th and 21st centuries, and these elites, who are also members of the selectorates of the states attempting to impose anti-tax haven regimes, personally benefit from the failure of those regimes. In addition, the elites that make up the selectorates in the tax havens being targeted have staked their livelihoods on the success of the tax havens' continued operation, and as a result they too personally benefit from the failure of anti-tax haven regimes. The people who would benefit from the success of an anti-tax haven regime – the other 6 billion or so people in the world – are not members of the selectorate in any meaningful way, and therefore have little impact upon the regime's success.

Therefore, any international collective action attempt to mitigate the deleterious impact tax havens have will by necessity need to focus on the carrot rather than the stick.

This effort will need to be a collaborative one with the tax havens as willing partners rather than targets, meaning that the tax havens will need to benefit from any attempt to curtail their activity. The combination of an economic benefits package that makes importing goods cheaper and easier to accomplish – especially to the more remote tax havens like the Maldives or the Seychelles – combined with an expansion of the targeted efforts by the FATF and other enforcement organizations to focus on illegal activities – is a possible policy solution that will serve to reinforce norms of good financial conduct, international cooperation, information sharing, and transparency while having the possibility of being more than a symbolic success. Tax havens may be weak, but they're rational, and they have strong allies, and any successful anti-tax haven campaign must be mindful of this reality.

Appendix: Jurisdictions by Category and Population Size

Tax Havens:

More than Four Million (n=3)	*More than 1.5 million, fewer than 4 million (n=7)*	*More than 1 million, fewer than 1.5 million (n=1)*	*Fewer than 1 million (n=40)*
	Data set for 4 million	*Data set for 4 million* *Data set for 1.5 million*	*Data set for 4 million* *Data set for 1.5 million* *Data set for 1 million*
Hong Kong, Malaysia, Switzerland	Costa Rica, Jordan, Latvia, Lebanon, Liberia, Panama, Singapore	Mauritius	Andorra, Anguilla, Antigua & Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Cook Islands, Curacao, Cyprus, Dominica, Gibraltar, Grenada, Guernsey, Isle of Man, Jersey, Liechtenstein, Luxembourg, Macao, Maldives, Malta, Marshall Islands, Monaco, Montserrat, Nauru, Niue, Samoa, San Marino, Seychelles, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Tonga, Turks & Caicos, Vanuatu, Virgin Islands (US)

Resource Dependent Jurisdictions:

More than Four Million (n=30)	*More than 1.5 million, fewer than 4 million (n=6)*	*More than 1 million, fewer than 1.5 million (n=3)*	*Fewer than 1 million (n=7)*
	Data set for 4 million	*Data set for 4 million* *Data set for 1.5 million*	*Data set for 4 million* *Data set for 1.5 million* *Data set for 1 million*
Algeria, Angola, Azerbaijan, Bolivia, Cameroon, Chad, Chile, Dem Rep of the Congo, Ecuador, Guinea, Indonesia, Iran, Iraq, Libya, Kazakhstan, Malaysia, Mali, Mauritania, Mexico, Nigeria, Norway, Papua New Guinea, Peru, Russia, Saudi Arabia, Sudan, Syria, Venezuela, Vietnam, Yemen, Zambia	Congo, Kuwait, Mongolia, Oman, Turkmenistan, UAE	Botswana, Gabon, Trinidad and Tobago	Bahrain, Brunei, East Timor, Equatorial Guinea, Guyana, Mauritania, Qatar, Suriname
Source: (Baunsgaard, Villafuerte, Poplawski-Ribiero, & Richmond, 2012)			

Neither Tax Havens nor Resource Dependent Jurisdictions:

More than Four Million (n=85)	*More than 1.5 million, fewer than 4 million (n=18)*	*More than 1 million, fewer than 1.5 million (n=2)*	*Fewer than 1 million (n=24)*
	Data set for 4 million	*Data set for 4 million* *Data set for 1.5 million*	*Data set for 4 million* *Data set for 1.5 million* *Data set for 1 million*
Afghanistan, Argentina, Australia, Austria, Bangladesh, Belarus, Belgium, Benin, Brazil, Bulgaria, Burkina Faso, Burundi, Cambodia, Canada, China, Colombia, Croatia, Cuba, Czech Rep, Denmark, Dominican Republic, Egypt, El Salvador, Ethiopia, Finland, France, Germany, Ghana, Greece, Guatemala, Haiti, Honduras, Hungary, India, Ireland, Israel, Italy, Ivory Coast, Japan, Kenya, Korea, Kyrgyzstan, Laos, Madagascar, Malawi, Morocco, Mozambique, Myanmar, Nepal, Netherlands, New Zealand, Nicaragua, Niger, North Korea, Pakistan, Paraguay, Philippines, Poland, Portugal, Romania, Rwanda, Senegal, Serbia, Sierra Leone, Slovakia, Somalia, South Africa, South	Albania, Armenia, Bosnia and Herzegovina, Eritrea, Gambia, Georgia, Guinea-Bissau, Jamaica, Kosovo, Lesotho, Lithuania, Macedonia, Moldova, Namibia, Puerto Rico, Slovenia, Togo, Uruguay	Central African Republic, Estonia	American Samoa, Bhutan, Cape Verde Islands, Comoros, Djibouti, Faroe Islands, Fed States of Micronesia, Fiji, French Polynesia, Greenland, Guam, Iceland, Kiribati, Montenegro, New Caledonia, Northern Mariana Islands, Palau, Sao Tome and Principe, Sint Maarten (Dutch Part), Solomon Islands, St. Martin (French Part), Swaziland, Tuvalu

Sudan, Spain, Sri Lanka, Sweden, Taiwan, Tajikistan, Tanzania, Thailand, Tunisia, Turkey, Uganda, UK, Ukraine, USA, Uzbekistan, West Bank & Gaza Strip, Zimbabwe			

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PROFESSIONAL POSITIONS HELD:
Assistant Professor of Political Science, University of Idaho
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SCHOLASTIC AND PROFESSIONAL HONORS:
Political Research Quarterly 2016 Outstanding Reviewer Award

PROFESSIONAL PUBLICATION:
"Offshore Gas Intermediary Companies in Eurasia," co-authored with Stacy Closson, Central Asian Survey, 2015, Volume 34, Issue 1L 29-45.