Secrecy and Governance

On the relationship between secrecy jurisdiction status and quality of governance.

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# Introduction

## Background

Tax havens[[1]](#footnote-1) have lately become an object of much attention through both media and popular discussion. The use of these jurisdictions is widespread, but also widely acknowledged. For example, in the movie *The Social Network* when Mark Zuckerberg (played by Jesse Eisenberg) and his co-founders get Facebook rolling, he is set up in a meeting with two investors:

Investor 1: “We took a look at everything, and congratulations: We are going to start you off with a $500 000 investment. Maurice is going to talk to you about some corporate restructuring”

Investor 2: “So, we will file as a corporation in Delaware…”

(*The Social Network* 2010).

Though this sequence at best is a snappy and indirect criticism of secrecy jurisdictions, it illustrates a point highly relevant to this study: the popular opinion is aware that secrecy jurisdictions are widely used by investors, bankers, corporations and even private persons to evade taxes. Delaware, which even Hollywood seems to know is a secrecy jurisdiction, is one of the most apparent safe houses for tax evaders in this regard, but also other states in the US have similar characteristics. Yet, few of the major studies on the subject have classified the US (or any of its states) as a secrecy jurisdiction.

Thus, problems arise when studying secrecy jurisdictions, because no one can agree what they are, how they work or why they are secretive. All the studies referred to in this paper seems to have an opinion on which countries are secretive, but only Ahmed Zoromé (2007) even tries to offer an operational definition. This study will look at the relationship between secrecy jurisdiction status and quality of governance, in addition to the implications the terminology problem might offer. Dharmapala and Hines discovered, in their study *Which Countries Become Tax Havens?* (2006), that secrecy jurisdictions are significantly better governed than other countries. Indeed, they argue that “there are almost no poorly governed [secrecy jurisdictions]” (Dharmapala and Hines 2006: 1). This paper will try pick up the thread by exploring the relationship between secrecy jurisdictions and good governance further. It will be a quasi-replication of Dharmapala and Hines’s study, with a sideway glance at the problems offered by unclear terminology; an alternative classification of secrecy jurisdictions will be used to show how results can differ with different sets of definitions.

## Hypothesis

The overlying question of the study will be:

*Are all secrecy jurisdictions well-governed*?

Three hypotheses are derived from the question:

**H0:** There is no relationship between secrecy jurisdiction status and quality of governance.

**H1a**: Secrecy jurisdictions are jurisdictions with high quality of governance.

**H1b:** Secrecy jurisdictions are jurisdictions with low quality of governance.

What is important to note here is that quality of governance will be seen as a prerequisite for secrecy jurisdiction status, rather than a cause thereof: Well-governed jurisdictions are not expected to be secrecy jurisdictions, but secrecy jurisdictions are expected to be well-governed.

The definition applied to both secrecy jurisdictions and quality of government is somewhat given in this study, because of the data that is used, but to get a point of departure, and as a consequence of the unclear terminology regarding secrecy jurisdictions and quality of governance, an in-depth definition will be provided for both in the first section, along with some of the problems they carry. A deeper look and discussion around the findings of Dharmapala and Hines’s study will also be taken in the first section. The second part will be a brief explanation of methodology and data, before the third section, which will be the main analysis. It will consist of two separate binary logistic regression analyses: One with Dharmapala and Hines’s list of tax havens as the dependent variable and one with TJN’s secrecy jurisdiction list as the dependent variable. Most of the emphasis will be on the latter. The fourth section will be a discussion on the implications of the findings, before some concluding remarks.

As will be discovered, the main findings of Dharmapala and Hines are still valid, with both their original secrecy jurisdiction list, and with an expanded secrecy jurisdiction list; generally speaking, secrecy jurisdictions have high quality of governance. Furthermore, the effect of quality of governance on secrecy jurisdiction status seems to be greater with the TJN-list than with the Dharmapala and Hines-list. Also interesting is the findings that indicate an effect of British origin on secrecy jurisdiction status. Indeed, with Dharmapala and Hines’s list of secrecy jurisdictions, this variable has the highest correlation with secrecy jurisdiction status of the variables in the analysis.

# Definitions

## Secrecy jurisdictions

The term “tax haven” has been widely used since the 1950s. Yet there is no consensus as to what it means

(Palan et al. 2010: 17)

As Palan et al. so painfully points out, research on secrecy jurisdictions has yet to come up with a clarification on what a secrecy jurisdiction really is. The colloquial understanding of secrecy jurisdictions is that they are “places where taxes are low and where people choose to live or officially register their companies because taxes are higher in their own countries” (Oxford Advanced Learners Dictionary 2005: 1573 (“tax haven”)). Nevertheless, different studies identify different jurisdictions as secretive/havens, and use all sorts of different terms such as, for example, offshore financial center (OFC) (Zoromé 2007), international financial center (IFC) (Lane and Milesi-Ferretti 2010), tax haven (Dharmapala and Hines 2006), and secrecy jurisdiction (Murphy 2009a). There are hardly any studies that apply the same terminology and the same selection of secrecy jurisdictions. This is problematic when studying secrecy jurisdictions, because there is not always clarity on whether these studies are describing the same subject with different terms, different subclasses of secrecy jurisdictions, or something else. For the sake of clarity, this study will try to use the term “secrecy jurisdiction” consistently, as a superordinate, from now on.

### Dharmapala and Hines

If the results presented by Dharmapala and Hines (2006) were to be confirmed, there would be no doubt that secrecy jurisdictions are better governed than other jurisdictions. In their study, they looked at the effect quality of governance had on secrecy jurisdictions, and found that these jurisdictions “score very well on cross-country measures of governance quality […]” (Dharmapala and Hines 2006: 1). A critique, important for this paper, could be raised against the Dharmapala and Hines study: They identify 39 of 228 jurisdictions as secrecy jurisdictions, by following the OECD’s theoretical definition. The OECD requires that four criteria fulfilled to label a jurisdiction as a secrecy jurisdiction: (1) the regime imposes low or no taxes on the relevant income, (2) the regime is ring-fenced from the domestic economy, (3) the regime lacks transparency, and (4) there is no effective exchange of information with respect to the regime (OECD 1998: 27). Though this definition seems to have an adequate face validity, the OECD mysteriously failed to classify any of their own members (NOU 2009:19 2009: 18), for example, Switzerland. Dharmapala and Hines recognize this fact and chose to use a revised list of Hines and Rice (1994) (see Appendix 1). By doing so, their operational definition is not embedded in their theoretical definition. Indeed, it is somewhat unclear what attributes secrecy jurisdictions are selected by in their study.

This is, consequently, where the main reasons for testing their results lies: There is no uttered operation connected to the theoretical definition to justify the selection of cases, which then seems slightly arbitrary. And this gives their selection less validity, which means… (Hellevik 2002: 51). Also, they fail to classify key jurisdictions (USA, UK etc.) as secrecy jurisdictions. In this paper, their list will be treated as the minimum possible amount of secrecy jurisdictions, but can the definition offered by TJN improve the terminology problems?

### Tax Justice Network

The definition offered by TJN is as follows:

Firstly, secrecy jurisdictions create regulation that they know is primarily of benefit and use to those not resident in their geographical domain. [...] Second, secrecy jurisdictions create a deliberate, and legally backed, veil of secrecy that ensures that those from outside that jurisdiction making use of its regulation cannot be identified to be doing so. [...] These characteristics in combination define a secrecy jurisdiction.

(Murphy 2009a: 5)

As this is quite close to the OECD definition it deserves some explanation: The first element of this definition is often called “ring-fencing”, which means that the regulatory measures in the jurisdiction are in favor of foreign investors over local residents (NOU 2009:19 2009: 9). The second element, on the other hand, is that the jurisdiction hides the identity of the player behind the foreign money. In their Financial Secrecy Index (FSI), which covers fifteen key attributes of secrecy jurisdictions (Murphy 2009b), TJN identifies 72 countries as secrecy jurisdictions (see Appendix 1). TJN have more than doubled the amount of cases regarded as secretive compared, for example, to the OECD (1998) black-list that only listed 36 jurisdictions, and Ahmed Zoromé’s (2007) list with its 22 jurisdictions. Central to the definition provided by TJN is also that they look at jurisdictions, which “[…] are not necessarily countries or states, although some are”, which means that, for example, Isle of Man, Jersey, and Cayman Islands are treated as cases in this study, despite their status as dependencies or protectorates (Murphy 2009a: 4). This can also pose some problems, because countries like USA have several jurisdictions within itself that are not secrecy jurisdictions, but this is not considered in the analysis.

Unfortunately, the TJN study does not say much about non-secrecy jurisdictions. Indeed, the operation applied to identify a secrecy jurisdiction is to combine 11 lists that identify secrecy jurisdictions, and classify jurisdictions that are mentioned in more than two of these lists as secrecy jurisdictions. Though this is selection method seems better than Dharmapala and Hines’s, it might be problematic as there is no way of knowing if other jurisdictions might be secretive, or even if the lowest scoring jurisdictions, such as Denmark and Spain, really are secrecy jurisdictions. Only if also the secrecy scores of non-secrecy jurisdictions are calculated can one set a threshold for which countries can and can not be classified as secretive. Furthermore, the selection of secrecy jurisdictions is (as with Dharmapala and Hines) totally disembedded from the theoretical definition, which is problematic in terms of validity (Hellevik 2002: 51). Nevertheless, this study will test the findings of Dharmapala and Hines with the TJN selection, by looking at it as the largest possible selection of secrecy jurisdictions.

## Quality of governance

Another controversial term is *good governance* or *quality of governance*. An attempt to measure quality of governance has been made by the World Bank project of Worldwide Governance Indicators (WGIs). The methodology behind WGI defines quality of governance as “the traditions and institutions by which authority in a country is exercised. This includes (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.” (Kaufmann et al. 2010: 4). Each of these aspects has two indicators:

a1. Voice and Accountability

a2. Political Stability and Absence of Violence/Terrorism

b1. Government Effectiveness

b2. Regulatory Quality (not included in the analysis)

c1. Rule of Law

c2. Control of Corruption

(Kaufmann et al. 2010: 4)

The theoretical definition offered by Kaufmann et al. has been met with some critique, among others, by Rothstein and Teorell (2008), who labels the definition as too broad. Indeed, they argue that the definition “does not distinguish between issues that concern the *access* to power and those that are related to the exercise of power. Moreover, it fails to distinguish between the *content* of specific policy programs on the one hand and the governing *procedures* on the other.” (Rothstein and Teorell 2008: 168). They argue for the principle of impartiality, saying that when government officials implement laws and policies, they “shall not take into consideration anything about the citizen/case that is not beforehand stipulated in the policy or the law” (Rothstein and Teorell 2008: 170). Even though this definition is plausibly good, and application of it could be thought to alter the results of this analysis, it seems very hard to measure impartiality on an objective basis. Thus, the WGIs seem to be the best measurement for quality of governance available for the purpose of this study. Nevertheless, some caution must be applied in the reading of the results from this analysis, both because of the arguably broadness of the definition, but also because the margin of error in the WGI estimates is lost through the indexing of the four factors.

# Method and data

## Method

As mentioned, the analysis consists of two models – one for each secrecy jurisdiction list – realized by a logistic regression. There are two reasons for selecting logistic regression for the purpose of this paper. Firstly, because the dependent variable (secrecy jurisdiction status) is dichotomous and the distribution S-curved, the prerequisite of homoscedasticity (that the variation around the regression line is overall equal) needed in an OLS (ordinary least squares) regression model is not satisfied (Skog 2004: 237, 379-380). Secondly, in spite of Dharmapala and Hines’s use of the probit model to test the hypothesis, a logistic regression model seems more adequate here, as they arguably are more intuitive and usually give the same results (Skog 2004: 390). The results are, in any case, not directly comparable to Dharmapala and Hines’s results, because governance estimates are gathered for different years, and different control variables are used.

## The dataset and variables

The foundation of the dataset is based on the Worldwide Governance Indicators (WGI) dataset, supplemented with both variables from the Financial Secrecy Index (FSI) and Quality of Governance (QoG) dataset, and the World Development Indicators (WDI) database. All the variables are shortly summarized in table 1, but a brief discussion on the theory behind the selection of them will also be given here. Secrecy jurisdiction status (tjn\_sj) is the dependent variable in both analyses: in the first based on TJN’s list of secrecy jurisdictions and in the second based on Dharmapala and Hines’s list. Jurisdictions are coded as either secrecy jurisdictions (value = 1) if they appear on the list in question, or as non-secretive jurisdiction (value = 0) if they do not appear on the list in question.

The main independent variable in both analyses is the WGI index, which is an index of five of the six WGIs described above; regulatory quality is excluded, because it measures are partially based on attributes directly linked to secrecy jurisdiction status (Dharmapala and Hines 2006: 9). Year 2011 was chosen as it was the closest to the present with few missing values. This will make the results less comparable with Dharmapala and Hines’s results, as the governance measures might have changed from 2004, which they use in their analysis. The control variables are chosen independently from Dharmapala and Hines. It is also worth to mention that a factor analysis was done to control that the aggregation of the WGI index was adequate, and that of the seven missing values on the WGI index six are secrecy jurisdictions according to TJN and five according to Dharmapala and Hines.

A variable for area size is collected from the QoG dataset; missing values are replaced manually with the closest year available to 2011 by the courtesy of CIA – The World Factbook. The reason to control for the effect of area is the assumption that secrecy jurisdictions are small jurisdictions. Indeed, Dharmapala and Hines (2006: 1) discovered that all tax havens are small countries. The difference between the cases identified as secrecy jurisdictions is expected to nullify the effect of area in the TJN-based analysis, because some of the biggest jurisdictions (USA, India and Canada) are identified as secrecy jurisdictions here and not by Dharmapala and Hines.

Table 1. Description of the variables used in the analysis

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable name** | **Variable description** | **Values/Scale** | **Valid N** |
| tjn\_sj | Is the jurisdiction a secrecy jurisdiction (According to the TJN)? | 0 = No  1 = Yes | 150  72 |
| dnh\_sj | Is the jurisdiction a secrecy jurisdiction (According to Dharmapala and Hines (2006))? | 0 = No  1 = Yes | 183  39 |
| wgi\_index  (will be referred to as WGI index) | Mean of five Worldwide Governance Indicators.  (Missing values on: British Virgin Islands, Faeroe Islands, Gibraltar, Guernsey, Isle of Man, Montserrat, and Turks & Caicos Islands) | Scale variable with range from approximately -2.5 (worse governance) to 2.5 (better governance). | 215 |
| gdppc\_t | GDP per capita (thousands) in purchasing-power-parity-adjusted US$. | Scale variable with an actual range from 0,23 to 114,51. | 217 |
| wdi\_area | Jurisdiction area in square kilometers. | Scale variable with an actual range from 2,00 to 17098240,00. | 218 |
| col\_dum  (will be referred to as *British origin*, though this is a bit misleading) | Is the jurisdiction a former or present British colony, dependency or protectorate (settler colonies excluded)? | 0 = No  1= Yes | 155  62 |

Furthermore, a dummy variable of former or present British colonies, dependencies or protectorates is made (recoding of the “ht\_regtype” variable of the QoG dataset). Behind this is the “British spider’s web” theory articulated by Nicholas Shaxson, saying that Britain, from the 1960s, successfully constructed “a London-centred web of half-British territories scattered around the world [...] offering lightly taxed, lightly regulated and secretive bolt holes for money.” (Shaxson 2011: 103). Finally, GDP per capita PPP is used as a control variable, and is provided by WDI; missing values are supplemented manually with the closest year to 2011 by the courtesy of CIA – The World Factbook.

# Analysis

## Binary logistic regression – TJN

The first logistic regression is done in one block. The independent variables in block 1 are WGI index, British origin, GDP per capita (in thousands), and area (sq.km); the dependent variable is SJ-status according to TJN. Table 2 shows how block 1 improve the model from block 0. Block 0 is a model with no independent variables, and is used to decide if the model is better with or without independent variables (Christophersen 2009: 179). Table 2 also shows that the difference between two log-likelihoods is reduced from block 0 to block 1, which indicates an improvement in the model (Christophersen 2009: 179). The log-likelihood change of 85,690 from block 0 to block 1 with 4 degrees of freedom indicates that the block improves the model with 33% (R²HL) from a model with no independent variables; block 1 is also a significant improvement from block 0 (p < .05).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | -2LL | Change in –2LL | Df. | R²HL | Sig. |
| Block 0 | 259,826 |  |  |  |  |
| Block 1 | 174,172 | 85,690 | 4 | 33,0% | ,000 |

Table 2. Log-likelihood change - TJN

The Hosmer-Lemeshow test shows that the deviation between predicted and observed values is not significant (p = ,988 > ,05), which means that the model fits the data and can not be rejected (Christophersen 2009: 181). Block 1 explains between 33,5% (Cox & Snell R Square) and 47,2% (Nagelkerke R Square) of the variation in SJ-status, and correctly classified 80% of cases. It is also interesting to observe that four cases are listed in the casewise listing of residuals, which show cases with specially deviated residuals (Christophersen 2009: 179). These cases, who all have low values on WGI index, are Guatemala (-,57), Lebanon (-,77), Liberia (-,68) and Philippines (-,54).

Table 3 shows that two of the independent variables are significant at the 1%-level: WGI index and British origin. Both have a positive effect. Odds ratio (Exp(B)) shows “how many times bigger (or smaller) the odds is when the independent variable increases with one unit” (Skog 2004: 377). Odds ratio values over 1 indicate positive effects and values below 1 indicate negative effects (Hellevik 2002: 249).

Table 3. Block 1 estimates - TJN

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | B | S.E. | Wald | df | Sig. | Exp(B) | 95% C.I.for EXP(B) | |
| Lower | Upper |
| WGI index | 1,848 | ,350 | 27,881 | 1 | ,000 | 6,349 | 3,197 | 12,608 |
| GDP per capita | -,001 | ,012 | ,007 | 1 | ,933 | ,999 | ,976 | 1,022 |
| Area (sq. km) | ,000 | ,000 | ,737 | 1 | ,391 | 1,000 | 1,000 | 1,000 |
| British origin | 1,201 | ,405 | 8,773 | 1 | ,003 | 3,323 | 1,501 | 7,357 |
| Constant | -1,573 | ,320 | 24,095 | 1 | ,000 | ,207 |  |  |

The odds ratio of WGI index is estimated to 6,349. This means that the odds of being a secrecy jurisdiction is estimated to be over 6 times (or (6,349 – 1)\*100 = 534,9%) higher per unit increase on WGI index. Put differently, this means that the odds of being a secrecy jurisdiction increases by 534,9% from Romania with a WGI index of 0,03 to Cyprus with a WGI index of 1,03. Similar, British origin has a odds ratio of 3,323, which indicates that the odds of being a secrecy jurisdiction is estimated to be over 3 times higher for jurisdiction with British origin.

The confidence interval (CI for Exp(B)) shows the “range of values that we can be 95 per cent confident encompasses the true value of the odds ratio” (Pallant 2010: 178). The span on the WGI index is quite large, but the lower bound does not cross 1, which means that H0 and H1b can be rejected with 95 per cent certainty. Thus, we can say that H1a stands, which means that secrecy jurisdictions tend to have high quality of governance. It is also interesting to note that British origin have a positive effect on SJ-status, which is in line with Shaxon’s “spider’s web” theory.

Both the variable for area size and GDP per capita is not significant, and has close to no effect on SJ-status. In the case of area size, this is contrastive to Dharmapala and Hines’s findings, where all tax havens are regarded as small.

## Binary logistic regression – Dharmapala and Hines

As Table 4 suggest, also the model with Dharmapala and Hines’s list of secrecy jurisdiction show an improvement from a model with no independent variables to the model with the selected independent variables with a block improvement of 43,2% (R²HL).

Table 4. Log-likelihood change – Dharmapala and Hines

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | -2LL | Change in –2LL | Df. | R²HL | Sig. |
| Block 0 | 182,658 |  |  |  |  |
| Block 1 | 103,661 | 78,997 | 4 | 43,2% | ,000 |

The Hosmer-Lemeshow test indicate that the model also fits the data (p = ,610 > ,05), and the model actually correctly predicts 91,4% of the cases. Noteworthy is it also that block 1 also explains between 31,4% (Cox & Snell R Square) and 54.0% (Naglkerke R Square) of the variation in the dependent variable. In all these aspects the model seems quite similar to the TJN-model, but what about the estimates?

Table 5. Block 1 estimates – Dharmapala and Hines

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | B | S.E. | Wald | df | Sig. | Exp(B) | 95% C.I.for EXP(B) | |
| Lower | Upper |
| WGI index | .879 | .446 | 3.892 | 1 | .049 | 2.410 | 1.006 | 5.773 |
| GDP per capita | .015 | .013 | 1.298 | 1 | .255 | 1.015 | .990 | 1.040 |
| Area (sq. km) | .000 | .000 | 6.265 | 1 | .012 | 1.000 | 1.000 | 1.000 |
| British origin | 1.324 | .518 | 6.539 | 1 | .011 | 3.759 | 1.362 | 10.371 |
| Constant | -1.712 | .512 | 11.166 | 1 | .001 | .181 |  |  |

It is immediately registered that the expected effect of the WGI index is lower with this dependent variable, and that British origin actually correlates stronger than the WGI index. Both are also significant at the 5% level together with measures for area size, which, nevertheless, has no effect on the dependent variable. The odds of being a secrecy jurisdiction is 275,9% higher for jurisdictions with British origin, and 141,0% per value increase on the WGI index.

The confidence interval suggest that the effect could be somewhat lower or higher than the expected effect, but it can be stated with 95% certainty that the effect is (barely) positive. This means that also with Dharmapala and Hines’s list of secrecy jurisdictions H0 and H1b is rejected, while H1a stands, though it should be noted that the lower bound of the confidence interval is as good as equal to no effect.

## Implications of the results

The results of the analysis bring some questions to mind: What does the result of the analyses imply? Is the relationship between secrecy jurisdictions status and quality of governance causal? Which (if any) of the two analyses should be more trusted? And where do we go from here?

With regard to which of the analyses should be trusted more, I would argue that none of the two should be completely trusted. Both Dharmapala and Hines’s and TJN’s selection of secrecy jurisdictions seem slightly arbitrary, because both of them base their selection of secrecy jurisdiction on other selections, and neither of them offers a good operational definition. TJN might offer the best possibility for an improvement here though. Their FSI could be calculated for non-secrecy jurisdictions as well, which then would mean that a threshold could be set for who are secrecy jurisdictions and who are not. The resources necessary for such a project would probably be quite large, but it would also make further research a lot more reliable than what is now possible.

An alternative interpretation could be to see Dharmapala and Hines’s list as the minimum amount of secrecy jurisdictions, while the list provided by TJN can be seen as the maximum amount of cases regarded as secrecy jurisdictions. That would imply that the actual amount of secrecy jurisdictions lies somewhere between Dharmapala and Hines’s 39 jurisdictions and TJN’s 72 jurisdictions, and then state quite surely state that secrecy jurisdictions generally are well-governed. Exactly how strong the correlation is might be hard to tell, but it is interesting that it is much stronger with more secrecy jurisdictions (TJN’s list) in the analysis.

In extension of this, it is also important to point out is that not all well-governed jurisdictions are secrecy jurisdictions; the six highest scoring countries on the WGI index, for instance, are not secrecy jurisdictions. It seems probable that the correct interpretation of this is that secrecy jurisdictions generally are well-governed and not that good governance causes secrecy jurisdiction status. This is a distinction Dharmapala and Hines does not seem to draw clearly. They ask why not more of the well-governed countries are secrecy jurisdictions, and indirectly suggest that this would be the rational thing to do by offering two alternative explanations for the results: Firstly, “that better governed countries make better [sic] policy choices”, or, secondly, “that all small countries ideally would like to be [secrecy jurisdictions] […] but that only better-governed countries can credibly commit not to expropriate foreign investors” (Dharmapala and Hines 200: 22). The first argument seems to indicate that they are not considering that government policies – especially in highly developed democracies – might be influenced by the popular ideology in the individual country, and many of these have quite low opinions on tax evasion (see, for example, McGee et al. 2005 on the German opinion). Nevertheless, they may have a point with their second argument saying that foreign direct investment tends to go where their money is safe: “Foreign investors are likely to invest where expected profitability is high and risk is low [..] For example, low corruption and strong protection of property rights attract FDI [..]” (Knutsen 2011: 184).

It may also seem counterintuitive that secrecy jurisdictions are well-governed, and some evidence found by La Porta et al (1999: 266) might even suggest that “better performing governments are larger and collect higher taxes.” At a closer look, however, it is possible to assert that the usage of ring-fencing (supplied with company registration fees and such) let secrecy jurisdictions maintain a relatively high government income. This is somewhat confirmed by the fact that the mean of GDP per capita is between two and three times higher (depending on the list) for secrecy jurisdictions compared to non-secrecy jurisdictions (see Appendix 2).

The question on causality, on the other hand, needs to be further researched on; in-depth case studies on the anatomy of secrecy jurisdictions would be a major leap forward in our understanding of the subject. It is hard to find out what causes and effects of a phenomenon when the phenomenon is as ambiguously defined as secrecy jurisdictions are.

Lastly, a few comments should be added on the correlation between secrecy jurisdiction status and British origin. Shaxson (2011) argue that there are four groups of secrecy jurisdictions: the European havens, the British influenced, the American influenced and some unclassified oddities. He also asserts that the British influenced is the most important, and account for about half of the world’s secrecy jurisdictions (14-15). The results of the analyses confirm these suspicions. Especially with Dharmapala and Hines’s list of secrecy jurisdictions is the correlation high.

# Conclusion

This study has shown that secrecy jurisdictions with much certainty can be said to be well governed, and this is in line with the findings of Dharmapala and Hines (2006). The alternative secrecy jurisdiction list, provided by TJN, showed that the correlation might be even stronger than with Dharmapala and Hines’s list. A somewhat more surprising discovery is that British origin also has strong correlation with secrecy jurisdiction status, which means that the influence Britain have and is practicing over these jurisdictions could make an interesting extension to this study.

How strong the correlation between governance and secrecy jurisdiction status is can not be answered without some uncertainty though, because of the fuzzy terminology. It is evident that this will need to be straightened out before the study of secrecy jurisdiction can get more explanatory power. Good descriptions are the basis for good classifications, and good classifications are the basis of good theories (Landman 2003: 21). On this aspect the researchers of both political science and economics have skipped the second part and focused mostly on the third. There is a huge possibility for improvement despite the lack of ability to define secrecy jurisdictions. TJN’s FSI might offer the road to salvation here: If secrecy scores for non-secrecy jurisdictions were also provided, it could give an opportunity to set a threshold for how much secrecy a jurisdiction must have to be a secrecy jurisdiction. Also, case studies of each jurisdiction and how they function as a secrecy jurisdiction might be a good start for a classification.

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# Appendix 1

**List of secrecy jurisdictions according to TJN and Dharmapala and Hines**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | T  J  N | D&H |  | TJN | D&H |  | T  J  N | D  &  H |
| ANDORRA | 1 | 1 | GRENADA | 1 | 1 | MONACO | 1 | 1 |
| ANGUILLA | 1 | 1 | GUATEMALA | 1 | 0 | MONTSERRAT | 1 | 1 |
| ANTIGUA & BAR. | 1 | 1 | GUERNSEY | 1 | 0 | NAURU | 1 | 0 |
| ARUBA | 1 | 0 | HONG KONG | 1 | 1 | NETHERLANDS | 1 | 0 |
| AUSTRIA | 1 | 0 | HUNGARY | 1 | 0 | NETH. ANTILLES | 1 | 1 |
| BAHAMAS | 1 | 1 | INDIA | 1 | 0 | PANAMA | 1 | 1 |
| BAHRAIN | 1 | 1 | IRELAND | 1 | 1 | PHILIPPINES | 1 | 0 |
| BARBADOS | 1 | 1 | ISLE OF MAN | 1 | 1 | PORTUGAL | 1 | 0 |
| BELGIUM | 1 | 0 | ISRAEL | 1 | 0 | SAMOA | 1 | 0 |
| BELIZE | 1 | 1 | ITALY | 1 | 0 | SAN MARINO | 1 | 0 |
| BERMUDA | 1 | 1 | JAPAN | 1 | 0 | SEYCHELLES | 1 | 0 |
| BOTSWANA | 1 | 0 | JERSEY | 1 | 1 | SINGAPORE | 1 | 1 |
| BRIT. VIR. ISL. | 1 | 1 | JORDAN | 0 | 1 | SPAIN | 1 | 0 |
| BRUNEI | 1 | 0 | KOREA, REP. | 1 | 0 | ST. KITTS & NEVIS | 1 | 1 |
| CANADA | 1 | 0 | LATVIA | 1 | 0 | ST. LUCIA | 1 | 1 |
| CAYMAN ISLANDS | 1 | 1 | LEBANON | 1 | 1 | ST. VINCENT | 1 | 1 |
| COOK ISLANDS | 1 | 1 | LIBERIA | 1 | 1 | SWITZERLAND | 1 | 1 |
| COSTA RICA | 1 | 0 | LIECHTENSTEIN | 1 | 1 | TURKS & CAICOS | 1 | 1 |
| CYPRUS | 1 | 1 | LUXEMBOURG | 1 | 1 | UAE | 1 | 0 |
| DENMARK | 1 | 0 | MACAO | 1 | 1 | UNITED KINGDOM | 1 | 0 |
| DOMINICA | 1 | 1 | MALAYSIA | 1 | 0 | USA | 1 | 0 |
| FRANCE | 1 | 0 | MALDIVES | 1 | 1 | URUGUAY | 1 | 0 |
| GERMANY | 1 | 0 | MALTA | 1 | 1 | VANUATU | 1 | 1 |
| GHANA | 1 | 0 | MARSHALL ISLANDS | 1 | 1 |  |  |  |
| GIBRALTAR | 1 | 1 | MAURITIUS | 1 | 0 | TOTAL | 72 | 39 |

# Appendix 2

**Descriptive statistics – TJN**

**Summary statistics with TJNs list of secrecy jurisdictions**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Secrecy jurisdictions | | | | | Non-secrecy jurisdictions | | | | |
| Mean | Median | Min. | Max. | N | Mean | Median | Min. | Max. | N |
| WGI index | ,77 | ,91 | -,77 | 1,84 | 66 | -,34 | -,42 | -2,28 | 1,86 | 149 |
|  |  |  |  |  |  |  |  |  |  |  |
| GDP per capita | 28,17 | 22,32 | ,37 | 114,51 | 71 | 9,38 | 3,63 | ,23 | 98,10 | 146 |
|  |  |  |  |  |  |  |  |  |  |  |
| Area (sq. km) | 387635,6 | 2840,0 | 2,0 | 9984670,0 | 71 | 740311,2 | 199951,0 | 26,0 | 17098240,0 | 147 |
|  |  |  |  |  |  |  |  |  |  |  |
| British origin | 0,47 | ,00 | ,00 | 1,00 | 72 | 0,23 | ,00 | ,00 | 1,00 | 150 |

**Descriptive statistics – Dharmapala and Hines**

**Summary statistics with Dharmapala and Hines’s list of secrecy jurisdictions**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Secrecy jurisdictions | | | | | Non-secrecy jurisdictions | | | | |
| Mean | Median | Min. | Max. | N | Mean | Median | Min. | Max. | N |
| WGI index | ,74 | ,97 | -,77 | 1,72 | 34 | -,14 | -,30 | -2,28 | 1,86 | 181 |
| GDP per capita | 29,44 | 17,33 | ,37 | 114,51 | 38 | 12,57 | 4,97 | ,23 | 98,10 | 179 |
| Area (sq. km) | 12319,5 | 455,0 | 2,0 | 111370,0 | 38 | 754887,4 | 169915,0 | 21,0 | 17098240,0 | 180 |
| British origin | ,64 | 1,00 | ,00 | 1,00 | 39 | ,24 | ,00 | ,00 | 1,00 | 183 |

# Appendix 3

**Syntax from SPSS:**

\*Dharmapala and Hines replication.

\*Merged the FSI values into the WGI dataset.

\*Merged World Bank GDP per capita with the WGI dataset.

\*NB! Some missing values has been replaced with estimates as close as possible to 2011 from the CIA - The World Factbook.

\*Dataset available from https://www.dropbox.com/s/kwc63gj8dhxbplc/hinesreplikasjon.sav.

\*Selecting cases with YEAR=2011, and deleting others.

FILTER OFF.

USE ALL.

SELECT IF (YEAR=2011).

EXECUTE.

\*Making dummy variable, where secrecy jurisdictions=1, and others=0 according to TJN-list of secrecy jurisdictions.

RECODE fsi\_ss (SYSMIS=0) (30 thru 100=1) INTO tjn\_sj.

VARIABLE LABELS tjn\_sj 'Secrecy jurisdiction status (according to TJN)'.

VARIABLE LEVEL tjn\_sj (ORDINAL).

FORMATS tjn\_sj (F1.0).

VALUE LABELS

tjn\_sj

1 'Secrecy jursidictions'

0 'Non-secrecy jurisdictions'.

EXECUTE.

\*Making dummy variable, where tax havens=1 (manual input), and others=0.

RECODE dnh\_sj (SYSMIS=0).

VARIABLE LABELS dnh\_sj 'Secrecy jurisdiction status (according to D&H)'.

VARIABLE LEVEL dnh\_sj (ORDINAL).

FORMATS dnh\_sj (F1.0).

VALUE LABELS

dnh\_sj

1 'Tax havens'

0 'Nonhavens'.

EXECUTE.

\*Controlling that the right amount of cases = 1 on tjn\_sj and dnh\_sj.

FREQUENCIES VARIABLES = tjn\_sj dnh\_sj

/FORMAT=LIMIT(10)

/ORDER=ANALYSIS.

\*Making list of the jurisdictions identified as secretive according to the two variables.

CTABLES

/VLABELS VARIABLES=COUNTRY tjn\_sj dnh\_sj DISPLAY=LABEL

/TABLE COUNTRY [COUNT F40.0] BY tjn\_sj + dnh\_sj

/CATEGORIES VARIABLES=COUNTRY ORDER=A KEY=VALUE EMPTY=EXCLUDE

/CATEGORIES VARIABLES=tjn\_sj [1] EMPTY=INCLUDE

/CATEGORIES VARIABLES=dnh\_sj [1] EMPTY=INCLUDE.

\*Verified that the WGIs could be indexed by doing a factor analysis and reliability test of the 5 relevant variables.

FACTOR

/VARIABLES VA\_EST PV\_EST GE\_EST RL\_EST CC\_EST

/MISSING LISTWISE

/ANALYSIS VA\_EST PV\_EST GE\_EST RL\_EST CC\_EST

/PRINT INITIAL EXTRACTION

/CRITERIA MINEIGEN(1) ITERATE(25)

/EXTRACTION PC

/ROTATION NOROTATE

/METHOD=CORRELATION.

RELIABILITY

/VARIABLES=VA\_EST PV\_EST GE\_EST RL\_EST CC\_EST

/SCALE('ALL VARIABLES') ALL

/MODEL=ALPHA.

\*Variable showing number of missing values on the WGIs.

COMPUTE antmiss=NMISS(VA\_EST, PV\_EST, GE\_EST, RL\_EST, CC\_EST).

VARIABLE LABELS antmiss 'Number of cases with missing values'.

EXECUTE.

\*Making index of the WGI estimates, excluding RQ\_EST, and giving mean value on missing if antmiss < 3.

IF (antmiss < 3) wgi\_index=MEAN(VA\_EST, PV\_EST, GE\_EST, RL\_EST, CC\_EST).

VARIABLE LEVEL wgi\_index (scale).

VARIABLE LABELS wgi\_index 'Index of five WGIs'.

FORMATS wgi\_index (F8.2).

EXECUTE.

\*Making dummy variable for former/present British colonies.

RECODE ht\_colonial (5=1) (SYSMIS=SYSMIS) (ELSE=0) INTO col\_dum.

FORMATS col\_dum (F8.2).

VARIABLE LABELS col\_dum 'Dummy of British colonies'.

VARIABLE LEVEL col\_dum (ORDINAL).

VALUE LABELS col\_dum

1 'Former/present British colony'

0 'Never British colony'.

EXECUTE.

\*Descriptive statistics comparing secrecy jurisdictions and non-secrecy jurisdictions (TJN).

CTABLES

/VLABELS VARIABLES=wgi\_index gdppc\_t wdi\_area col\_dum tjn\_sj DISPLAY=LABEL

/TABLE wgi\_index [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] + gdppc\_t [S][MEAN, MEDIAN,

MINIMUM, MAXIMUM, VALIDN F40.0] + wdi\_area [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] +

col\_dum [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] BY tjn\_sj [C]

/CATEGORIES VARIABLES=tjn\_sj [1, 0] EMPTY=INCLUDE

POSITION=AFTER.

\*Descriptive statistics comparing secrecy jurisdictions and non-secrecy jurisdictions (D&H).

CTABLES

/VLABELS VARIABLES=wgi\_index gdppc\_t wdi\_area col\_dum dnh\_sj DISPLAY=LABEL

/TABLE wgi\_index [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] + gdppc\_t [S][MEAN, MEDIAN,

MINIMUM, MAXIMUM, VALIDN F40.0] + wdi\_area [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] +

col\_dum [S][MEAN, MEDIAN, MINIMUM, MAXIMUM, VALIDN F40.0] BY dnh\_sj [C]

/CATEGORIES VARIABLES= dnh\_sj [1, 0] EMPTY=INCLUDE

POSITION=AFTER.

\*OLS-regression to check for collinearity and tolerance of dataset.

REGRESSION

/MISSING LISTWISE

/STATISTICS COEFF OUTS COLLIN TOL

/CRITERIA=PIN(.05) POUT(.10)

/NOORIGIN

/DEPENDENT tjn\_sj

/METHOD=ENTER wgi\_index gdppc\_t wdi\_area col\_dum.

\*Significant effect of governance on whether the jurisdiction is secretive or not.

\*Collinearity is ruled out as all variables = VIF < 5.

\*Logistic regression with tjn\_sj as dependent variable.

LOGISTIC REGRESSION VARIABLES tjn\_sj

/METHOD=ENTER wgi\_index gdppc\_t wdi\_area col\_dum

/SAVE=PRED RESID

/CLASSPLOT

/CASEWISE OUTLIER(2)

/PRINT=GOODFIT CI (95)

/CRITERIA=PIN(0.05) POUT(0.10) ITERATE(20) CUT(0.5).

\*Logistic regression with dnh\_sj as dependent variable.

LOGISTIC REGRESSION VARIABLES dnh\_sj

/METHOD=ENTER wgi\_index gdppc\_t wdi\_area col\_dum

/SAVE=PRED RESID

/CLASSPLOT

/CASEWISE OUTLIER(2)

/PRINT=GOODFIT CI (95)

/CRITERIA=PIN(0.05) POUT(0.10) ITERATE(20) CUT(0.5).

1. The terms “tax havens” and “secrecy jurisdictions” will be used as describing the same, but the latter is preferred over the first. “Secrecy jurisdictions” will also be used when referring to Dharmapala and Hines’s study, though they use the term “tax haven” themselves. [↑](#footnote-ref-1)