

The Financial Secrecy Index: Shedding New Light on the Geography of Secrecy

Alex Cobham, Petr Janský, and Markus Meinzer

Abstract

Both academic research and public policy debate around tax havens and offshore finance typically suffer from a lack of definitional consistency. Unsurprisingly then, there is little agreement about which jurisdictions ought to be considered as tax havens—or which policy measures would result in their not being so considered. In this article we explore and make operational an alternative concept, that of a secrecy jurisdiction and present the findings of the resulting Financial Secrecy Index (FSI). The FSI ranks countries and jurisdictions according to their contribution to opacity in global financial flows, revealing a quite different geography of financial secrecy from the image of small island tax havens that may still dominate popular perceptions and some of the literature on offshore finance. Some major (secrecy-supplying) economies now come into focus. Instead of a binary division between tax havens and others, the results show a secrecy spectrum, on which all jurisdictions can be situated, and that adjustment for the scale of business is necessary in order to compare impact propensity. This approach has the potential to support more precise and granular research findings and policy recommendations.

JEL Codes: F36, F65

The Financial Secrecy Index: Shedding New Light on the Geography of Secrecy

Alex Cobham
Tax Justice Network

Petr Janský
Institute of Economic Studies, Faculty of Social Sciences, Charles
University in Prague

Markus Meinzer
Tax Justice Network

A version of this paper is published in *Economic Geography* (July 2015). John Christensen, Moran Harari, Andres Knobel, Richard Murphy, Nick Shaxson and Sol Picciotto are important contributors to the theoretical and practical development of the FSI, and we are grateful for their support. We are also grateful for the valuable comments of Dariusz Wojcik, the editors of *Economic Geography* and anonymous reviewers both there and at the Center for Global Development. Alex Cobham was a research fellow at the Center for Global Development while the paper was being prepared.

CGD is grateful for contributions from the Omidyar Network, Open Society Foundations, and the Joffe Charitable Trust in support of this work.

Alex Cobham, Petr Janský, and Markus Meinzer. 2015. "The Financial Secrecy Index: Shedding New Light on the Geography of Secrecy." CGD Working Paper 404. Washington, DC: Center for Global Development.
<http://www.cgdev.org/publication/financial-secrecy-index-shedding-new-light-geography-secrecy-working-paper-404>

Center for Global Development
2055 L Street NW
Washington, DC 20036

202.416.4000
(f) 202.416.4050

www.cgdev.org

The Center for Global Development is an independent, nonprofit policy research organization dedicated to reducing global poverty and inequality and to making globalization work for the poor. Use and dissemination of this Working Paper is encouraged; however, reproduced copies may not be used for commercial purposes. Further usage is permitted under the terms of the Creative Commons License.

The views expressed in CGD Working Papers are those of the authors and should not be attributed to the board of directors or funders of the Center for Global Development.

Contents

Defining Tax Havens: Approaches and Implications	3
Secrecy Scores, from Policy Measures	9
Global Scale: The Provision of Financial Services.....	13
The FSI: A New Geography of Financial Secrecy.....	16
Conclusions	20
References.....	22

Many citizens of developing (and developed) countries now have easy access to tax havens and the result is that these countries are losing to tax havens almost three times what they get from developed countries in aid.

—Jeffrey Owens, Director, Organization for Economic Cooperation and Development (OECD) for Tax Policy and Administration, in Owens (2009)

We will set down new measures to crack down on those tax havens that siphon money from developing countries, money that could otherwise be spent on bed nets, vaccinations, economic development and jobs.

—Gordon Brown, UK Prime Minister setting out the G20 agenda, in (Brown 2009)

Where are tax havens? In its special issue on tax havens, the *Economist* in 2013 (Valencia 2013) acknowledges the many ways in which the term, as much as its sibling *offshore financial center*, is blurred—to the point of conceding that Delaware, a U.S. state, can be a tax haven. In this article we argue that the term *tax haven* is an ill-defined misnomer, which has supported the creation of a misleading dichotomous economic geography of tax pariahs. Much as Sidaway and Pryke (2000) find the term *emerging economy* to be both interest driven and lacking a convincing definition, the imprecision of the term *tax haven* has led to various problems. In policy making, it has not only allowed questionable pressure on a group of typically small, politically isolated jurisdictions, but it has also underpinned the failure, to date, to find a comprehensive global response to the financial secrecy that thwarts the effective taxation of income and profit, and facilitates money laundering, abuses of market regulations, and the financing of terrorism.

In academic literature, the lack of clear and agreed definitions on tax havens and offshore finance has contributed to important and systematic weaknesses in the resulting analyses, whether in international political economy, economic geography, or international economics. The most obvious problem to stem from this failure of definition is the difficulty posed for the robustness of results, when the category of tax haven is not so much disputed as taken for granted without explicit definition. Without clear and verifiable criteria on how lists of tax havens have been derived, studies such as Hines and Rice (1994) or Johannesen and Zucman (2014) expose themselves to the risk of creating invalid results by falling prey to selection bias in the construction of their data.

The term *offshore financial center* (or later simply *offshore*) has widely assumed the successor role to the term *tax haven*, at least in economic geography (Johns 1983; Cobb 1998; Roberts 1994; Hampton 1996; Hudson 1998a, 2000; Maurer 2008; Warf 2002). However, it has arguably failed to break free from some of the constraints imposed by both the imprecise and binary nature of the terminology (e.g., the apparently contradictory results in the studies of Kudrle (2013) and Haberly and Wójcik (2014) on the relevance of time zone differences as causal factors for determining the use of offshore witness to the wanting robustness of empirical research findings relying on offshore as an independent variable). A solid base of comparable research findings is unlikely to emerge without greater consistency of definition.

This article's objective is to introduce the concept of a *secrecy jurisdiction* to economic geography. We argue that more robust research findings and greater definitional consistency are likely to emerge only when the focus of attention is shifted away from tax aspects or *offshoreness* onto (specific, measurable components of) the financial secrecy that is offered by jurisdictions. Largely underexplored and overlooked by academics in general, and economic geographers in particular, the issue of financial secrecy merits greater attention since it is an inherent part of most, if not all, of the economic activity undertaken offshore. For this purpose, we propose a new framework of analysis whose backbone is a secrecy jurisdiction.

A secrecy jurisdiction's central characteristics relate to the legislative provision of financial secrecy to those who are physically resident elsewhere. We propose criteria that reflect both the specific choices made by jurisdictions and the potential importance of those choices for other jurisdictions. The resulting Financial Secrecy Index (FSI) thereby captures both the intensity of jurisdictions' commitment to financial secrecy, and their external scale, giving a ranking of tax haven importance according to what Held et al. (1999) term *impact propensity*. Once explicit, detailed, and verifiable criteria are applied, the results cast doubt over the common, dichotomous distinction between countries and tax havens or offshore financial centers. Rather, all reviewed countries offer various components of financial secrecy, suggesting a *secrecy spectrum* upon which all jurisdictions can be situated. The mapping of financial secrecy is not, therefore, an exercise in separating sheep from goats. Like offshore for Wójcik (2012b), it is a matter of degree.

The geography of financial secrecy revealed by the FSI confirms some of the conventional wisdom. For example, Switzerland, Luxembourg, Hong Kong, Cayman Islands, and Singapore rank as the top five jurisdictions responsible for global financial secrecy and associated harm. More surprisingly perhaps, the United States ranks sixth and Germany eighth, and if the entire British sphere of influence was ascribed to London, the United Kingdom would rank far above all other jurisdictions as the single greatest provider of financial secrecy worldwide.

In terms of policy making, these results point to the fundamental importance of G8 nations leading by example, if they wish to make serious progress on areas such as offshore tax evasion, money laundering, and other forms of high-level corruption. The FSI suggests that the traditional, subjective lists of tax havens have given undue weight to relatively secretive but globally less important players—while the range of financial secrecy components are found to extend across most major economies.

This article contributes to the body of literature linking geographic approaches to various policy fields (e.g., Swords 2013; Dixon 2014, Kitchin et al. 2013; Loopmans 2008), which has been growing since Martin (2001) decried the *missing agenda* of policy-relevant economic geography research. The FSI establishes a critical, geographic, and policy-relevant perspective on the issues of offshore finance and tax havens. In addition, it contributes to the emerging strand of literature around the geography of secrecy or transparency by providing further indicators of transparency (Wójcik 2012b).

The article proceeds in four sections. The first section addresses the issue of defining tax havens, surveying the various approaches taken over time, and ultimately reaches a preference for the term *secrecy jurisdiction*. In the second section, we develop a set of metrics for this definition, on the basis of internationally comparable data. The third section outlines the approach taken to generate a measure of the relative scale of each jurisdiction in the global trade in financial services. In the fourth section, we combine the measures of secrecy and scale to propose a ranking, the FSI, and demonstrate how the implied geography of financial secrecy differs from that of a number of the main blacklists that are, or have been, in use. A brief conclusion reflects on policy and theoretical implications and offers suggestions for future research.

Defining Tax Havens: Approaches and Implications

The term “tax haven” has been loosely defined to include any country having a low or zero rate of tax on all or certain categories of income, and offering a certain level of banking or commercial secrecy. Applied literally, however, this definition would sweep in many industrialized countries not generally considered tax havens, including the United States. (Gordon 1981, 14)

Therefore, the broadest definition of a tax haven would include any country whose tax laws interact with those of another so as to make it possible to produce a reduction of tax liability in that other country. By such a definition virtually any country might be a “haven” in relation to another. (Picciotto 1992, 132)

For rigorous analysis of the impact of jurisdictions offering financial secrecy, a specific and objectively quantifiable definition is needed.¹ The most common term—*tax haven*—is probably also the most problematic. In 1981, the Gordon Report to the U.S. Treasury finds that there was no single, clear objective test that permits the identification of a country as a tax haven—instead offering a range of potential definitions, which could potentially include any jurisdiction (Gordon 1981). It is interesting to note from the quote above that Gordon effectively rules out any definition that might include the United States as a tax haven. While originally understood to imply a jurisdiction with lower tax rates than elsewhere, the term came to be used to cover jurisdictions with a great range of functions, many largely unrelated to taxation. Gordon stresses opacity: "By definition, all of the jurisdictions with which we are concerned afford some level of secrecy or confidentiality to persons transacting business, particularly with banks" (1981, 15).

More recent literature has sought, more or less unsatisfactorily, to identify more specific definitions by drawing out subcategories. Eden and Kudrle (2005), for example, identify one group of havens based on type of taxation, following Palan (2002), and one based on activity, following Avi-Yonah (2000) and Kudrle and Eden (2003). Palan, Murphy, and Chavagneux (2010) create an *ideal typology* of tax havens refined by the niche strategies each tax haven may engage in. Notwithstanding the intersecting nature and complication of these

¹ This section draws on Cobham (2012).

various definitions, analysis under the heading tax haven tends to focus, understandably, on tax aspects. This view is most commonly associated with the Organization for Economic Cooperation and Development (OECD). While an earlier report (OECD 1987) focuses on reputation, there is somewhat more precision in an OECD (1998) report. Specifically, the 1998 report emphasizes no, or only nominal, taxes as the starting point for the identification of a tax haven, but it also emphasizes the lack of an effective exchange of information, lack of transparency, and the absence of *substantial activities*.

The overarching rationale for the existence of tax havens that emerges from this approach is the provision of relief to businesses or individuals from the rates of tax that apply elsewhere. To achieve this, either the economic activity (in substance) has to be moved to a new location from the original jurisdiction, or alternatively taxing rights have to be transferred by other means (manipulation of the form).

This dichotomous approach, separating jurisdictions into *nonhavens* and varying categories of tax havens, remains fraught with difficulty for research purposes. Two high-profile economic articles, two decades apart, illustrate the issue. Hines and Rice (1994) and Johannesen and Zucman (2014) assess the impact of tax havens on U.S. corporate tax and the true net foreign asset positions of rich countries, respectively. Hines and Rice (1994: 40) note the absence of a clear definition, and that “this vague characterization makes the process of classifying tax haven countries somewhat arbitrary,” before combining IRS and other lists, along with some ad hoc decisions around scale of finance. Johannesen and Zucman (2014) apply a list drawn from work undertaken by the OECD over the course of many years, which the authors have adjusted in vague terms.² Both articles, however, draw clear conclusions about the scale of impact of tax havens.

In early work by economic geographers on the subject, the term *tax haven* has been described as a narrow, outdated and possibly stigmatizing label, which the authors mostly discarded in favor of the (then) new, more neutral and broader term *offshore financial center* (e.g., Roberts 1994; Cobb 1998; Hampton 1996; Warf 2002; Hudson 1998b). Another implicit rationale for the shift toward using offshore financial center instead of tax haven was the greater relevance in the global economy resonating with the former term. This trend of ascribing a growing role to what is understood as offshore finance is encapsulated well by Maurer’s (2008: 160) famous quote: “Far from a marginal or exotic backwater of the global economy, offshore in many ways *is* the global economy.”

The uncertainty stemming from a dichotomous approach as to what should be rightfully labeled onshore or offshore has, however, been inherited from the tax haven terminology. By some, offshore is used to indicate virtually all cross-border economic phenomena, such as in the literature on offshoring (Clark and Monk 2013; Grossman and Rossi-Hansberg 2008). Others have used the terminology to include some subset of cross-border economic activity

² Similarly, Zucman (2014) provides no definition but offers a broad discussion of some typical activities and a list in the appendix.

by focusing on certain characteristics (such as low regulation, low taxation, or secrecy) (Wainwright 2013) or by comparing those characteristics with onshore (Roberts 1994). Hampton (1996) differentiates between tax havens and three types of offshore financial centers. While the former are defined by “no, or at best, low, direct and indirect tax rates compared with the other jurisdictions,” the latter are seen as centers that host “financial activities that are separated from major regulating units (states) by geography and/or by legislation” (Hampton 1996 4–5, 10). However, as the author acknowledges, the operationalization of both terms, as well as differentiating between them, remains very difficult.

The lines of the offshore/onshore dichotomy blur further in Hudson's (1998a) work. He defines offshore as meaning “beyond the regulatory reach of the onshore authority,” and frames the setting up of International Banking Facilities (IBFs) in New York as an attempt to create “offshores onshore,” adding valuable complexity but further eroding the conceptual clarity of a dichotomous divide Hudson's (1998a, 6). Wójcik (2012a, 7) explicitly acknowledges that being an offshore jurisdiction or not “cannot be answered with a simple yes or no. Just like world cityness, it is a matter of degree.” In a similar vein, Coe, Lai, and Wójcik (2014, 765) discuss the problems of drawing a clear-cut division between offshore and onshore by pointing to *midshore* finance centers, which are a chimera of both, or the counterintuitive finding that “some onshore jurisdictions (e.g. Delaware, Miami) could be more lax than offshore ones.”

The latest approach for empirical analyses around offshore is exemplified by (Wójcik 2012a, (7), who defines offshore jurisdictions as “jurisdictions that specialize in attracting the registration of [investment vehicles] with foreign sponsors.” Emphasis is placed on the term *investment vehicle*, which appears to exclude a priori important banking centers, such as Switzerland or Germany, by focusing heavily on the place of registration of certain legal entities such as shell companies, trusts, special purpose vehicles, and mutual funds. The operationalization of an offshore jurisdiction employed by Wójcik (2012a) relies on a consensual approach originally pioneered by Palan, Murphy, and Chavagneux (2009), later relabeled *expert agreement* (Haberly and Wójcik 2014).

This expert agreement approach relies on a metalist of tax havens, fed by a review and scoring of the numbers of *hits* by 11 lists of tax havens and offshore financial centers compiled over the course of over 30 years by different international organizations and researchers (Haberly and Wójcik 2014). The authors use varying levels of expert agreement around tax haven listings and offshore financial centers to empirically test the offshore-ness of foreign direct investment (FDI), acknowledging the possible futility in insisting on a conceptual division between tax havens and offshore financial centers. Instead, the authors maintain (Haberly and Wójcik 2014, 5) that “What defines offshore finance, however, is less the jurisdiction within which transactions are booked or conducted, than their conduct in a networked transnational legal space produced by the lack of a clear legal basis for multinational activity.” As this suggests, understanding tax havens and offshore finance requires an analysis of extraterritorial impact. The important challenge thus appears to be

how to move from a realization that offshore is a pervasive aspect of the world economy, rather than a group of troublesome (small) jurisdictions, to a definition that can be made operational for research and policy purposes.

Beyond economic geography, offshore financial center (or OFC) is preferred, for example, by the International Monetary Fund (IMF), the mandate of which is more closely aligned to issues of international financial regulatory oversight and stability than to issues of tax. Palan (1998, 64) explores some of the difficulties of consistent definition in this case, noting that in the financial literature “offshore is used [...] to describe unregulated international finance [...] Rather confusingly, however, the International Monetary Fund and the Bank for International Settlements consider only tax havens as Offshore Financial Centres, though the City of London, which does not qualify as a tax haven, is considered the hub of global offshore finance.”

An important IMF Working Paper by Zoromé (2007, 7) discusses the definitional issues in some detail, proposing a specific, measurable definition: “an OFC is a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy.” He goes on to identify such OFCs by examining the ratio of net financial service exports to gross domestic product (GDP) from IMF balance of payments data and by looking at jurisdictions with especially high values (an approach that we discuss further and build on later in this article).

The key difference between the IMF’s preexisting list and Zoromé’s (2007) findings is the addition of the United Kingdom, which neatly illustrates the value of using objective criteria: a level playing field (including politically uncomfortable findings) may be more likely to emerge. Where Hudson (1998b), for example, is explicit about London as the long-standing home to offshore business—most obviously, the Eurodollar market—neither the London nor the United Kingdom appears on any of the common lists. Despite the advantage achieved by using quantitative criteria, Zoromé’s (2007) approach retains the preference for a binary list of locations of concern.

The third main term used—and increasingly so since it was defined and promoted by Murphy (2008)—is *secrecy jurisdiction*. It is not entirely clear when the term was used for the first time, but, according to Peet and Dickson (1979), it featured in a report by the U.S. House of Representatives (1970). The focus remains on specific actions taken, but by employing the word jurisdiction, the legal realm is emphasized. This follows the logic of Palan (2002), who discusses the commercialization of sovereignty: the decision by certain jurisdictions to obtain economic advantage by allowing selected political decisions (over, for example, the taxation of nonresidents) to be dictated by those likely to benefit from the decision (for example, financial, legal, and accounting practitioners).³

³ The idea that political decision making can be distorted, so that becoming a secrecy jurisdiction may damage democratic representation, is explored further under the name *the finance curse* (Shaxson and Christensen 2013).

The emphasis on secrecy is necessary, Murphy (2008) argues, because it is this that allows nonresidents to take advantage of favorable features in the jurisdiction's legal framework with the confidence that they will not run afoul of the legal system in the places where they reside. There are thus two key characteristics that define a secrecy jurisdiction:

- “The secrecy jurisdiction creates regulation that they know is primarily of benefit and use to those not resident in their geographical domain”
- “The creation of a deliberate, and legally backed, veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so.” (Murphy 2008, 6)

By focusing on what makes them attractive, the secrecy jurisdiction concept therefore relies, above all, on an assessment of the comparative advantage of the jurisdictions in question. The route the secrecy jurisdictions have chosen, in order to attract (the declaration of) foreign economic or financial activity is the provision of relatively favorable terms to nonresident users. In effect, this indicates a reliance on regulatory arbitrage (potentially, but not necessarily, including tax regulation).

To be successful over time, such behavior should be hidden as far as possible from the views of regulators in *those other jurisdictions*, elsewhere, who may take countermeasures to frustrate the arbitrage. A major role of secrecy therefore is to facilitate changes in the form, but not the substance, of economic activity so that for regulatory purposes, it appears to take place elsewhere. In the extreme, structures are established such that activity appears for regulatory purposes to take place nowhere (Murphy 2008). For example, the recent U.S. Senate hearings into Apple discovered that the information technology giant had managed to create corporate entities in Ireland, which for tax purposes had *no jurisdiction*—most significantly, Apple Operations International, which reported net income of \$30 billion from 2009 to 2012 and filed no corporate tax return anywhere (U.S. Senate Permanent Subcommittee on Investigations 2013).

The ideal approach for the identification of secrecy jurisdictions might therefore contain two separate components: one reflecting each jurisdiction's (objectively measurable) performance against key indicators of secrecy—that is, how far they have gone in terms of Murphy's (2008) second criterion above—and one reflecting each jurisdiction's importance in the global provision of financial services to nonresidents (i.e., their quantifiable scale)—that is, their success according to Murphy's first criterion. Equally, these components can be considered in the terms of Held et al. (1999) as measures of intensity and extensity, combined to show impact propensity. In addition they combine emphasis on internal policy decisions, and—in line with van Hulten (2012)—extraterritorial reach. In the following two sections, we lay out the basis for our attempt to assess each component.

This approach has two main theoretical and conceptual advantages over the other two terminologies. First, by focusing on secrecy and transparency, the empirical determination of

a jurisdiction's intensity of providing secrecy becomes inherently easier than for tax or other regulatory aspects. Since properly enforced transparency should be easily observable in many cases, the comparative evaluation of a jurisdiction's policies becomes more feasible. The resulting secrecy spectrum on which a jurisdiction's policies can be positioned results in overcoming the *dichotomy trap*, a second major advantage over the other terminologies.

There is a potential, conceptual drawback to this approach. Popular views rely heavily on tax: for example, the Cayman Islands are a tax haven because of the absence of any taxes on individual income and corporate profits, and regardless of any other characteristics such as transparency.⁴ Arguably this viewpoint confirms the weakness of the term *tax haven*, for even in this example, the concern would not be with the Cayman Islands' competing, through low tax rates, to attract real activity. Rather, the concern is that the Cayman Islands may attract profits or incomes that are, in fact, derived from economic activity taking place elsewhere: so that the central feature of the behavior is not to offer lower tax for the same activity but to separate the recording and accounting of the tax base from the jurisdiction where it actually arises. What makes the low or zero tax rates attractive for this type of process, as opposed to the relocation of real activity, is the potential to hide relevant details from the jurisdiction where the tax base arises but from which it has now been separated.

Similarly, consider recent 'Luxleaks' (ICIJ 2014) revelations about near-zero taxation agreements for certain financial activity of multinationals in Luxembourg. Irrespective of their lawfulness, they resulted in major tax losses in other jurisdictions; but while this had been known in some circles for some time, it is only the current wave of public transparency that has resulted in political pressure to make such activity impossible. As such, the unacceptable feature (for other EU countries) of the process was not the low tax rates, but rather the ability to hide the large shifts of tax base. (Whether the key to acceptability was hiding this from tax authorities, or from citizens, is an interesting research question.)

Equally, revelations about Irish tax treatment of major multinationals (e.g. Pinsent Masons, 2014)) has caused intense pressure for adjustment of the approach. While again the low or zero tax rate provided the ultimate benefit for business, it was the lack of transparency that made the arrangements politically sustainable. In both the Luxembourg and Ireland cases, the true tax rate was itself hidden so that any external assessment based on the statutory rate or on effective rate constructed from public data would not have reflected the full *tax haven-ness* of these states.

An alternative approach to the secrecy jurisdiction focus could be to consider a jurisdiction's *tax haven-ness* as depending on the degree to which it is able to attract the tax base of economic activity that takes place elsewhere. This would align with an ongoing policy process: at the behest of the G8 and G20 groups of countries, the OECD is currently in the middle of a two-year process, the Base Erosion and Profit Shifting (BEPS) initiative, which has the explicit aim of reforming international corporate tax rules to achieve better alignment

⁴ We are grateful to an anonymous reviewer for highlighting this view.

between the location of corporate profits and the underlying, real economic activity (OECD 2013). BEPS Action Point 11 (out of 15) requires creation of a baseline estimate, hitherto lacking, on the extent of misalignment.

Current work using survey data on U.S. multinationals (IMF 2014) and global balance sheet data (Cobham and Loretz 2014) identifies a set of jurisdictions that systematically obtain a disproportionately high share of the corporate tax base in relation to their hosting of (real) economic activity: for example, Luxembourg, Ireland, and the Netherlands are identified in both studies. While the samples in these studies are dominated (in both home and host economies) by rich countries, it is conceivable that future work will overcome these constraints in order to produce a more balanced, global picture of the jurisdictions that lead in this measurable aspect of *tax haven-ness*. Even then, of course, being a hub for corporate profit shifting is just one aspect of *haven-ness* (probably the most researched so far as in Karkinsky and Riedel (2012) or Janský and Prats (forthcoming)); other measures would be needed to capture, for example, jurisdictions' role in the evasion of personal income and wealth taxation (see, e.g., Zucman 2014).

As the secrecy jurisdiction has not yet been used by economic geographers except for a cursory mention from Wójcik (2012a), it is an objective of this article to establish the concept. For the remainder of this article we define secrecy jurisdiction in line with Meinzer (2012a, 1) as a jurisdiction that “provides facilities that enable people or entities to escape or undermine the laws, rules and regulations of other jurisdictions elsewhere, using secrecy as a prime tool.”

Secrecy Scores, from Policy Measures

A situation of financial transparency may be characterized (1) by relevant information being placed on public record for all stakeholders to access; (2) by access on certain private financial data only by authorized authorities (such as tax administrations, police, etc.); or (3) by collecting, analyzing and sharing relevant information effectively with foreign counterparts. These are the areas in which we address the creation, by policy, of secrecy.

We have constructed 15 explicit, detailed, and verifiable indicators that measure the secrecy provided to nonresidents in the laws and regulations of jurisdictions. As a proxy for secrecy provided to nonresident investors, these key financial secrecy indicators (KFSI) change over time subject to refinement and data availability. Taken together, these indicators result in one compound secrecy score allocated to each jurisdiction. The scores are normalized to a range of zero (perfect transparency) to 100 (complete secrecy) and in practice vary between 32.4 (Sweden) and 88 (Samoa). For the FSI 2013, 82 jurisdictions are included, and the data set used for this article includes an additional five jurisdictions, bringing the total to 87.⁵

⁵ The relevant data on five additional countries were generated for the Center for Global Development, to be used as part of the Commitment to Development Index, which ranks rich countries on the development impact of their policies and incorporates the FSI (Janský forthcoming).

The data set underlying the 15 KFSIs is available online for review, and linked to underlying sources (FSI 2013a). The main and preferred data sources were official and public reports by the OECD; the associated Global Forum on Transparency and Exchange of Information for Tax Purposes (hereafter Global Forum; Meinzer 2012b); the Financial Action Task Force (FATF); IMF; and the U.S. State Department's annual International Narcotics Control Strategy Report (e.g., U.S. Department of State (2013), which in one volume contains country reviews, including specific and comparative anti-money laundering data.

In addition, specialist tax databases and websites such as by the International Bureau of Fiscal Documentation, PriceWaterhouseCoopers (Worldwide Tax Summaries), Lowtax.net, and others have been consulted.⁶ Furthermore, surveys have been sent to the ministries of finance and the financial intelligence units of all 87 reviewed jurisdictions, which included targeted questions about the jurisdiction's tax and regulatory system. The questionnaires sent to the ministries of finance and to the financial intelligence units can be viewed online: see FSI (2013b) and FSI (2013c), respectively. All jurisdictions had the opportunity to provide up-to-date information by answering the questionnaires.

Out of a maximum of 202 variables available in the database for each jurisdiction, up to 49 are used to compute the secrecy score. Each of the 15 indicators is weighed equally. For some indicators, data availability and comparability is a problem. For instance, a publication by the OECD (2013) with specific comparative information on tax administrations used for two of the 15 indicators contains information for a total of 52 countries, out of which only 34 are included in the FSI 2013. For these two indicators, this leaves 48 countries of the FSI 2013 without a primary data source. If a jurisdiction did not respond to the questionnaires, and if (in some cases) follow-up enquiries with local researchers did not yield additional insights, this absence of data is reflected in the database by marking the relevant field as *unknown*. However, when constructing the indicators, the jurisdictions without data have been assessed under these circumstances as if their policies with respect to the particular indicator under assessment provide secrecy. Absence of data was awarded a secrecy score.

The guiding principle for data collection was to always look for and assess the lowest standard (or denominator) of transparency available in each jurisdiction. For example, if a jurisdiction offered three different types of companies, two of which required financial statements to be published online, but the third is not required to disclose this information, then we have answered the particular question about the online availability of accounts with *no*.

The 15 KFSIs can be grouped around four broad dimensions of secrecy: (1) knowledge of beneficial ownership (three KFSIs); (2) corporate transparency (three KFSIs); (3) efficiency of tax and financial regulation (four KFSIs); and (4) international standards and cooperation (five KFSIs). A brief discussion of the four groups follows below; a more complete

⁶ These databases were accessible at the following addresses: <http://www.ibfd.org/IBFD-Tax-Portal/About-Tax-Research-Platform>, <http://taxsummaries.pwc.com/uk/taxsummaries/wmts.nsf/ID/PPAA-85RDKE>, <http://www.lowtax.net/>.

description of each indicator is provided in the Methodology report, available online (Tax Justice Network 2013a).

For the first group of indicators, the notion of beneficial ownership of assets and legal entities and structures has its roots in the anti-money laundering discourse that began in the 1990s (Blum et al. 1998; Cuellar 2003; Levi 2002; Pieth and Aiolfi 2003; Carrington and Shams 2008; Unger 2007; UN Office on Drugs and Crime 2007).

The FATF (2012, 110) defines beneficial owners as the “natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.” This view is shared only partly by the international tax community. In a report published at the request of the Financial Stability Forum, OECD (2001) explicitly uses the notion of a beneficial owner being a natural person. Contrary to this, the influential model tax convention of the OECD (2008) suggests that a beneficial owner can be a legal entity.

The OECD’s annual tax cooperation reports ((OECD 2006, 2007, 2008, 2009a, 2010)) 2006–10 also illustrate the confusion here. While OECD (2006, 148) clearly defines the term *legal owner*, it refers to the term *beneficial owner* only in circular logic: “Legal ownership refers to the registered owner of the share, which may be an individual, but also a nominee, a trust or a company, etc. Beneficial ownership reporting requirements refers to a range of reporting requirements that require further information when the legal owner is not also the beneficial owner.”

For the purposes of the FSI, we apply the concept of beneficial ownership broadly, as defined by the FATF, to bank accounts (KFSI 1), trusts and foundations (KFSI 2), and corporate entities with limited liability (KFSI 3).

The second dimension of financial secrecy relates to companies. Given the pervasiveness of companies in offshore finance as the basic vehicle to commit crimes and engage in abusive behavior, and considering their privileges granted by society, for instance, in terms of limited liability, it can be argued that corporations ought to be subject to a higher standard of transparency than merely submitting information to some registry. In order to prevent market failures and distortions through information asymmetries, the public at large, regulators, investors, and consumers should be able to easily find out about the activities of any corporate vehicle along various dimensions. KFSI 4 assesses if beneficial, or at the very least, legal ownership is accessible over the Internet for less than 10US\$/€. KFSI 5 reviews whether the financial statements of each type of company with limited liability is accessible online again for less than 10US\$/€. KFSI 6, in turn, asks if countries require companies to submit and publish certain financial data on a country-by-country basis.

Third, we are concerned with the efficiency of tax and financial regulation. While at first glance, efficient tax or financial regulation is not related directly to financial secrecy, one way

of preserving secrecy in financial matters is to encourage a culture of noncompliance by, among others, not monitoring domestic economic actors by failure to collect basic information (KFSI 7). Similarly, dispensing with basic tools for efficient tax administration (such as the reliance on taxpayer identification numbers for matching information from various sources) can help to encourage noncompliance (KFSI 8). Furthermore, if countries create strong incentives for other countries to enter into bilateral tax treaties, this opens new doors for tax avoidance and increases secrecy through complexity in international taxation (McGauran 2013; Weyzig 2012; Rixen 2008; Picciotto 1992). On the other hand, countries can also create strong incentives for other nations to lower their tax rates and thereby encourage investors from all over the world to seek low or zero tax rates, which, in turn, invite undeclared, secretive investments for tax evasion or avoidance purposes (KFSI 9).

Finally, compliance with international standards and the level of international cooperation is assessed. Over the last decades, international efforts at enhancing cooperation in financial matters have increased either by *hard* international law or through best practice standards and associated evaluations of their implementation (*soft law*; Abbott and Snidal 2000). Most relevant for assessing financial secrecy are the evolving anti-money laundering regimes (KFSI 11), various tax information exchange initiatives (KFSI 12 and 13), as well as generic international judicial cooperation (KFSI 15), as an important law enforcement tool mostly for high-profile crimes beyond *simple* tax evasion. Furthermore, a series of thematic international conventions contain commitments related to financial transparency (KFSI 14).

A possible drawback to the secrecy jurisdiction approach is the following. The conceptual basis allows objective, verifiable criteria to be used in place of the expert list approach that has been necessary to make any progress with the term *tax haven*. However, the choice of criteria is necessarily subjective, as in any index. While the criteria reflect a range of international standards and related mechanisms, any given observer could reasonably make a case for focusing only on some aspects—on, say, the extent of company beneficial ownership information and its international exchange, while setting aside banking secrecy and much else.

While the eventual choice of FSI criteria has developed over time through wide engagement with country and thematic experts, the basis for this particular choice is similar to that for expert lists of tax havens. One difference, of course, is that the process itself and the criteria are entirely transparent and verifiable, allowing any observers to corroborate the degree of secrecy of any particular jurisdiction or, instead, to fashion their particular choice of criteria into an alternative secrecy score.

In what follows, we present the FSI as published and consider how the resulting geography of secrecy differs from other analyses. At the same time, we recognize that narrower, broader, or differently weighted combinations of secrecy components would yield (sometimes substantial) variations. Equally, the FSI could be seen as a complementary instrument to the analysis of tax rates, for example. However, for the reasons discussed

above, robust measures of *haven-ness* based on public tax rate data alone are likely to remain elusive, even if definitional issues can be resolved.

Global Scale: The Provision of Financial Services

We are interested in which countries affect financial secrecy globally, rather than in countries with high secrecy scores, but without significant impact. Therefore the second component of the FSI is the global scale weight (GSW) attributed to each jurisdiction, and this is based on the assessment of the size of each jurisdiction's share of the global market for financial services provided to nonresident clients. We explain how this assessment is made, before considering potential criticisms of the approach. Our methodology for the calculation of the GSW builds on the work of Zoromé (2007). Zoromé relies on the relative *intensity* of the provision of financial services to nonresidents by taking a measure of financial services exports and scaling by jurisdictional GDP.

Here we are concerned not so much with intensity (domestically), but impact (globally), so we measure the market share of each jurisdiction (that is, each jurisdiction's provision of financial services to nonresidents, as a ratio to the total global provision of services to nonresidents across all jurisdictions, rather than as a ratio to the jurisdiction's own GDP). As Cobham (2012) shows, taking global contribution rather than relative intensity in the provision of financial services to nonresidents leads to quite a different picture: with 2007 data, the former criterion points to Cayman Islands, Luxembourg, Switzerland, the United Kingdom, and the United States, while the latter points, instead, to Bermuda, Cayman Islands, Guernsey, Jersey, and Luxembourg.

The global scale weights are based on publicly available data about the trade in international financial services of each jurisdiction. The preferred data source is the IMF's Balance of Payments Statistics (BOPS), which provides data on international trade in financial services, and this extends to 53 of our 87 jurisdictions. We employ data from BOPS based on two different manuals, BPM5 (IMF 1993) and BPM6 (IMF 2013a). When available—mostly years 2005 to 2011—we use data on the basis of BPM 6. Otherwise—mostly for years prior to 2005—we use an earlier edition, BPM 5. We do not find substantial empirical differences between the two. For 2011, the recent year with most available data, the BOPS cover 116 jurisdictions for exports.⁷

For the rest of the sample, we extrapolate from IMF data on stocks of internationally held financial assets to derive trade or flow estimates (again following Zoromé, 2007). Data on stocks of portfolio assets and liabilities are taken from two IMF sources: the Coordinated Portfolio Investment Survey (CPIS) (IMF 2013b) and the International Investment Position (IIP) (IMF 2013c) statistics, of which the latter is part of the BOPS. CPIS data for 2011 cover 76 jurisdictions for total portfolio assets, and 215 jurisdictions for total portfolio liabilities, which are derived from reported assets. IIP data for 2011 cover 112 jurisdictions,

⁷ The 2013 index is based on data available in mid-2013. More timely updates of this important data set would, in general, allow more recent data to be used.

and is filtered (again following Zoromé, 2007) to exclude FDI, reserve assets, and all assets belonging to general government and monetary authorities.

There is an argument for preferring liability data to asset data, since it ought to reflect—for example—that French clients holding assets in German banks create a German services export and a German liability. However, there are two reasons to use assets. First, it is assets that are directly reported by jurisdictions. These data are therefore more likely to capture the full range of assets, rather than liability data, which are inferred by inverting the stated asset claims of other jurisdictions, and hence are likely to be incomplete. Second, a jurisdiction's overseas assets, beyond a certain point dictated by their domestic economic structure (a different point for the United States compared to that for the island of Jersey, for example), will be managed on behalf of nonresidents and hence also indirectly reflect the export of financial services. As would be expected given the nature of financial markets, there is a strong correlation between assets and liabilities where data for both are present.

We use liabilities data to extrapolate values of assets where neither assets nor financial services exports are reported. The adjusted data on stocks of assets are then used to estimate current flows of financial services. We aim to improve on the IMF extrapolation by using a panel of data (2001–11) rather than a single year on which to base the extrapolation, which appears to allow marginally more accurate estimation of flows from stock data. The implied coefficients (all significant at the 1 percent level) are very similar regardless of the specification chosen, including fixed-effects panel regressions. We ultimately select a pooled ordinary least squares (OLS) regression to allow the constant to be constrained to zero (allowing a nonzero constant only trivially affects the goodness of fit, which is between 0.83 and 0.85 under each specification we consider).

We also use liabilities data to assess the reasonableness of reported assets, which leads us to identify a discrepancy specific to the Cayman Islands. Here the recorded value for liabilities—that is, that based on the recording of other jurisdictions—far exceeds the declared value for assets. To see this, we consider the difference in recorded values of liabilities minus assets, as a ratio to jurisdictions' GDP. This allows us to scale the size of the difference according to jurisdiction so that, for example, Jersey is not necessarily more likely to stand out than the United States. We use GDP from the World Bank's World Development Indicators (World Bank 2013) or, when not available, from the CIA's World Factbook (CIA 2013). Also, where necessary we use the values of GDP from the closest year available.

The ten highest recorded values of liabilities minus assets as a ratio to jurisdictions' GDP all relate to one jurisdiction: the Cayman Islands. For only one other jurisdiction is there a ratio greater than 10 in any year (for the Netherlands Antilles that no longer exists). For all 11 of the Cayman observations from 2001 to 2011, the ratio exceeds 250, with the highest values (in excess of 500 times GDP) all recorded in the most recent years.

This feature of Cayman-declared data is confirmed by IMF researchers Lane and Milesi-Ferretti (2010) and by Zucman (2014), who noted that it results from the Cayman Islands—unlike all other major reporters—reporting only on its banks’ portfolio holdings and excluding those of its large hedge fund industry.

We therefore impute a value for Cayman Island assets. We proceed with the assumption that the liabilities data—as recorded by all other reporting jurisdictions—is the most accurate reflection of the Caymans’ activity and therefore extrapolate an alternative asset measure.

To do this, we perform a simple OLS regression of our asset value on CPIS reported liabilities, with no constant, using the pooled data for all jurisdictions except the Cayman Islands, from 2001 to 2011. Taking the coefficient (2.05) as the average ratio of assets to liabilities in our data set, we multiply the 2001–11 values for Cayman Island liabilities by this to obtain a value for Cayman Island assets, which we believe reflects more closely the actual scale of Cayman Island activity in offshore financial services. Given the IMF analysis (Lane and Milesi-Ferretti 2010), this is likely if anything to be an underestimate.

In total, we are able to create flow data (true or extrapolated) for a total of 217 jurisdictions, which we believe cover the majority of the global provision of financial services to nonresidents (and a vast majority of the total of 245 jurisdictions considered in our analysis).

Finally, we can use the total level of financial service exports for the 217 jurisdictions and take the exports of each of the FSI jurisdictions with available data as a share of this global total. This creates a global scale weight reflecting the relative importance of each jurisdiction.

The Global Scale Weight is defined as

$$\text{Global Scale Weight}_i = \frac{\text{Exports of financial services (true or extrapolated)}_i}{\text{Sum of all world exports of financial services (true and extrapolated)}}$$

The total global scale weight for the 80 FSI jurisdictions with data is 96.85; rising to 97.27 when we include the additional five countries assessed separately.

It is important to note that this weighting alone does not imply harboring or supporting inappropriate behavior by the jurisdictions in question. Arguably, those near the top should be congratulated on their success in the field of international trade in financial services (although in light of recent examples, such as Iceland, Ireland, and Cyprus, they may, of course, also want to consider the extent of their reliance on this risky sector). Rather, the GSW is an indicator of the potential for a jurisdiction to contribute to the global problem of financial secrecy, *if* secrecy is chosen in the range of policy areas discussed above.

We believe that this methodology represents the most robust possible use of the available data, given its limitations, as a means to evaluate the relative contribution of different jurisdictions to the global total of financial services provided to nonresidents. The fact that

researchers must follow such a convoluted path to reach this point is evidence of the failure of policy makers to ensure that global financial institutions and national regulators have access to the necessary data to track and understand international finance.

The FSI: A New Geography of Financial Secrecy

The FSI reveals a new geography of financial secrecy, with two main features. First, the FSI reveals the dominant role of a number of major economies—in contrast with the emphasis on small island states that tax haven lists prepared by multilateral organizations have long exhibited. Second, the FSI shows a contrasting view of corruption to that of the most high-profile alternatives such as Transparency International’s Corruption Perceptions Index (CPI) (Transparency International 2012).

The final step in creation of the FSI is to combine the ranking by scale of activity with the secrecy scores, in order to generate a single number by which jurisdictions can be ranked, reflecting the potential global harm done by each. As with the choice of secrecy indicators and their relative weighting in the secrecy score, and with the focus on financial services exports to determine relative scale, the method of combination cannot be objective. Underlying the choice made is a desire for neither secrecy nor scale to dominate the final ranking.

In practice, there is significantly more variation in the scale weighting than the secrecy score, so we transform the two to generate a series with variations of a similar order. The simplest transformations that achieve this are to take the cube of the secrecy score and the cube root of the scale weight so that for each country i

$$\text{Financial Secrecy Index } 2013_i = \text{Secrecy Score}_i^3 * \sqrt[3]{\text{Global Scale Weight}_i}$$

The full index for 2013 is available online (Tax Justice Network 2013b). Table 1 compares the top 10 jurisdictions on the FSI, with those ranked separately by the secrecy score and by GSW. Clear differences in the geography of secrecy or of corruption are apparent: GSWs point to the largest financial centers, secrecy scores point to the smallest, traditionally noncooperative jurisdictions, while the FSI itself combines the last two to provide a picture of scale-weighted secrecy. Some major economies now come into focus, reflecting their importance in the global provision of financial services. The most secretive jurisdictions are of so little importance that they do not make the top 10 of the FSI overall; but most of the biggest players by scale are also sufficiently secretive to feature in the FSI top 10. Only the United Kingdom is sufficiently transparent to move far down the FSI (with a secrecy score just below 40, it ranks twenty-first in the FSI despite being responsible for 18.5 percent of global financial services exports).

Researchers using the index should, of course, consider the particular aims of their own work before deciding on the appropriate measure to use. Research focusing on the relative risk of illicit financial flows in transactions with different jurisdictions, for example, may require pure secrecy scores. In contrast, understanding global changes in secrecy may require

a weighting, such as that in the index, in order not to be unduly swayed by the experience of a few small, highly secretive jurisdictions. The combined FSI also allows for comparison of the extraterritorial importance of jurisdictions' financial secrecy.

Table 1 shows two related indices: the CPI (Transparency International 2012), which combines 13 different sources based on expert opinion surveys to rank countries according to the perception of corruption and has been criticized for presenting only the perceptions of an international, largely corporate elite (Christensen 2007; Cobham 2013); and the Basel Anti-Money Laundering Index (BAMLI) (Basel Institute on Governance 2013), which is more obviously similar to the FSI and rates countries according to money laundering and terrorist financing risk, on the basis of components including international organizations' ratings. We use the detailed BAMLI Expert Edition Data, as of July 15, 2013. Note that the BAMLI includes components based on scores from the CPI (10 percent) and the FSI (25 percent).

In the BAMLI meanwhile, and above all in the CPI, some of the lowest-income countries perform worst. Simple regressions of each index or component on per capita income confirm this pattern: there is a significant positive correlation for the CPI, with income *explaining* 57 percent of variation in *corruption*, and the BAMLI (R^2 of 37 percent). Secrecy scores also tend to be worse for lower-income countries, but income only *explains* 20 percent of the variation in secrecy; for the overall FSI, the pattern disappears, with explanatory power of income falling to just 8 percent.⁸

⁸ Regressions not reported; available on request.

Table 1*Top Ten Jurisdictions by FSI, FSI Components, and Other Indices*

Ranking by	FSI	Secrecy Score	GSW	BAMLI	CPI
1	Switzerland	Samoa	United States	Somalia	Afghanistan
2	Luxembourg	Vanuatu	United Kingdom	Afghanistan	Korea, DR
3	Hong Kong S.A.R. of China	Seychelles	Luxembourg	Iran, Islamic Rep.	Somalia
4	Cayman Islands	St. Lucia	Switzerland	Cambodia	Sudan
5	Singapore	Brunei Darussalam	Cayman Islands	Tajikistan	Myanmar
6	United States	Liberia	Germany	Iraq	Turkmenistan
7	Lebanon	Marshall Islands	Singapore	Guinea-Bissau	Uzbekistan
8	Germany	Barbados	Hong Kong S.A.R. of China	Haiti	Iraq
9	Jersey	Belize	Ireland	Eritrea	Venezuela, Rep. Bol.
10	Japan	San Marino	France	Myanmar	Burundi
Average Secrecy Score	69.0	83.4	59.3	n/a	n/a
Sum of GSW	58.9%	0.07%	80.4%	0.023%	0.014%

Note: FSI and BAMLI results for 2013, CPI results for 2012. Secrecy scores have not been calculated for any of the top 10 countries by BAMLI or by CPI.

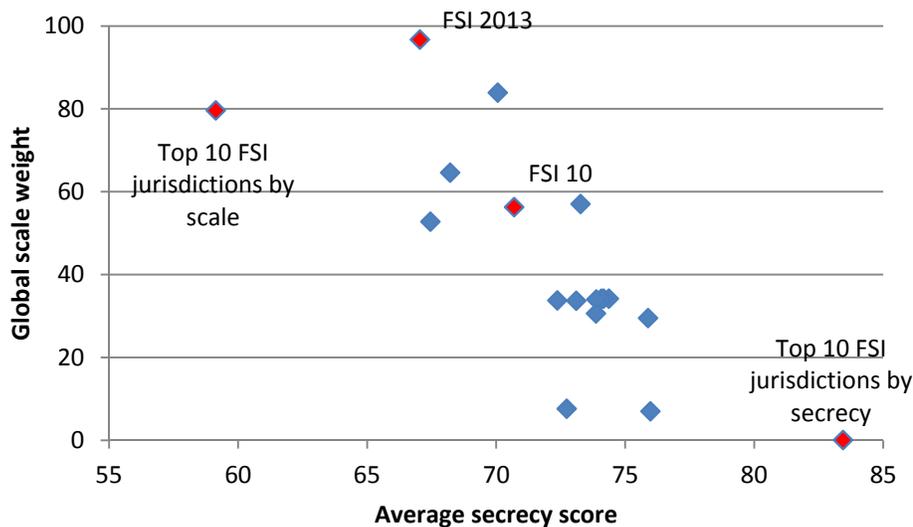
In Figure 1, we compare the FSI results with 14 current and historic lists of tax havens by average secrecy score of included jurisdictions and total global scale weight. The information on 11 lists come directly from Murphy (2009), Irish (1982), Hines Jr. and Rice (1994), Financial Stability Forum (2000), IMF (2000), OECD (2000), FATF (2000, 2002), Hampton and Christensen (2005), Lowtax.Net (2008), Zoromé (2007), and Levin (2007).

We also include three more recent lists: that of the U.S. Government Accountability Office (2008); OECD (2009), and ActionAid UK (2013), as used by the Enough Food For Everyone IF campaign, which saw more than 100 nongovernmental organizations campaign beginning in 2012 for the United Kingdom and other governments to deliver policy changes at the 2013 G8 summit. Six small jurisdictions that appear separately on one or more lists are dropped because we either do not analyze them (Anjouan, Campione d'Italia, Ingushetia, and Turkish Republic of Northern Cyprus), or include them elsewhere (Alderney and Sark).

In addition, we include the top 10 jurisdictions by scale, by secrecy, and on the FSI overall. With only one exception, the listed jurisdictions account in total for a smaller share of the GSW than the 10 biggest jurisdictions in the FSI—while their average secrecy is generally, but not always, somewhat higher than the average secrecy score for either the whole FSI or the top 10. The lists, almost without exception, have focused attention on smaller, somewhat more secretive jurisdictions—to the exclusion of only somewhat more transparent, much bigger players.

While this assessment is far from definitive, two main conclusions are suggested. One is that measures of de facto and de jure compliance with specific anticorruption measures—whether in the BAMLI or FSI secrecy score components—seem much less strongly correlated with per capita income levels than is the CPI. The other is that by including a measure of the scale of jurisdictions’ potential contribution to the global problem of secretive flows, rather than seeing each jurisdiction in isolation, the FSI highlights the major financial players—instead, perhaps, of jurisdictions with poor performance but minimal impact on others. In this way the FSI presents a new view of the geography of financial secrecy: one that highlights the influence that jurisdictions exert extraterritorially through financial secrecy.

Figure 1. Tax haven lists and the FSI (by secrecy and scale).



Conclusions

The FSI reflects an effort to assess financial secrecy on the basis of verifiable, empirical data. As such, it shows a spectrum of secrecy rather than a binary distinction between tax havens and others. The resulting global mapping reflects the pervasiveness of secrecy and the leading role of some major economies including those of the United States and the United Kingdom. This article's theoretical contribution lies in two strands of literature. Martin's (2001) landmark discussion of the "missing agenda" of policy-relevant economic geography research has created a body of literature that theorizes around institutional change (Varró 2014; Isserman and Markusen 2013; Woods and Gardner 2011, among many others) or relates geographic approaches with specific policy fields such as industrial agglomeration (Swords 2013), finance (Dixon 2014), social media (Kitchin et al. 2013) or urban planning (Loopmans 2008). The FSI contributes to both strands of policy-relevant economic geography by providing an economic geographic perspective in the policy field of international taxation and "tax competition." At the same time, the FSI argues that a shift is required from a narrow tax focus onto broader financial secrecy and transparency matters in order to facilitate effective policy change. Because increased financial transparency has the potential for educating and mobilizing the electorate about the harm caused through financial secrecy, there is greater likelihood for democratic societies to overcome the resistance of powerful vested interests in favor of maintaining the status quo (Meinzer forthcoming).

In an earlier work on an ill-defined but popular term, Sidaway and Pryke (2000: 187) consider the case of *emerging markets*. Among their findings is that the use of the term to reflect the strange and exotic other "belies deeper continuities with colonial geographical imaginations"; in other words, the use of the term, and its uncertain definition, reflects, to some extent, a power dynamic and a set of interests.

The parallel here is that the use of the term *tax havens* by policy makers is almost uniquely associated with expressions of dismay and belligerence (cracking down, or shutting havens), or of denial and otherness (the common refrain, *we are not a tax haven*).⁹ While many of the jurisdictions in question are revealed in the FSI to be highly secretive, and sometimes to play a potentially major role in global secrecy, the difference in our approach is that major economies are ranked by the same standard—rather than being able to rely on political power to ensure they remain outside any lists compiled.

The largely futile attempts to tackle tax havens over the last decades bear witness to the inadequacy of the chosen terminology and methods. Johannesen and Zucman (2014, 65) show that the recent crackdown only modestly affected offshore funds, and at best "caused a relocation of deposits [to] the benefit of the least compliant havens." We argue that the misguided division into tax havens and others lies at the heart of this failure to provide a more comprehensive (and effective) response. In contrast, the policy agenda developed at

⁹ For a collection of recent statements of this form from jurisdictions, see <http://www.taxjustice.net/2014/03/14/tax-haven/>.

the G20 and more recently at the 2013 G8 summit mirrors the shift undertaken by the FSI in focusing on financial secrecy instead of direct tax aspects, and hence in starting with major economies rather than small financial centers.

It is not inconceivable that a rigorous, widely held definition of tax havens could emerge; and over time, advances in data could allow such a definition to become robustly measurable in a way that supports more nuanced findings and more detailed research and policy analysis. At present, however, only the FSI or some variation on this approach appears to offer that possibility.

The shift of emphasis away from tax, which is embodied by the FSI, leads to a second, emerging strand of economic geography literature on the geography of transparency (Wójcik 2012b). As Wójcik (2012b) finds for country-by-country reporting by multinational companies, the FSI seeks on a broader basis to “help keep alive a public deliberation on the architecture of the international tax system.” The FSI’s criteria-based approach, and the resulting spectrum of secrecy, offers the potential to inform more sustainable and effective policies for changes. In a similar way, it could also contribute to more robust research findings than those that rely on tax haven lists. The detailed secrecy scores can also allow researchers to explore whether particular types of secrecy play a particular role in determining, for example, the benefits, or otherwise, of particular economic and financial flows (e.g., is economic growth more or less likely to result from FDI made through jurisdictions that allow secrecy about company ownership?).

Further extensions could include the development of country-specific rankings, recognizing that different secrecy jurisdictions will be more relevant for some countries than for others. The construction of such a ranking would rely on the same scoring of secrecy but would substitute for GSWs with weights to reflect the importance of bilateral partner jurisdictions for the country in question—so we might call this a *bilateral FSI*. Such an analysis carried out for the Czech Republic, using the 2011 FSI, revealed a top five of Austria, United States, Belgium, the Netherlands, and Panama.

This approach can identify country-specific vulnerabilities, revealing further detail about the geography of financial secrecy. As Cobham (2014) illustrates for a range of African countries, it is also possible to use other bilateral economic data in order to rank vulnerabilities in other areas (e.g., to compare the risk a country faces in its direct and portfolio investment). This kind of analysis could be particularly useful for countries with limited resources to tackle illicit financial flows, by highlighting for policy makers the most relevant secrecy jurisdictions for a given country and type of economic activity.

References

- Abbott, K. W., and Snidal, D. 2000. Hard and soft law in international governance. *International Organization* 54:421–56.
- ActionAid UK. 2013. FTSE 100 tax haven tracker: The new data. Available online: <http://www.actionaid.org.uk/tax-justice/ftse-100-tax-haven-tracker-the-new-data>.
- Avi-Yonah, R. S. 2000. Globalization, tax competition, and the fiscal crisis of the welfare state. *Harvard Law Review* 113:1573–1676.
- Basel Institute on Governance. (2013). *Basel AML Anti–Money Laundering Index*. <http://index.baselgovernance.org/>
- Blum, J. A., Levi, M., Naylor, R. T., and Williams, P. 1998. *Financial havens, banking secrecy and money-laundering*. New York: UN Office for Drug Control and Crime Prevention. Available online: <http://amnet.org.il/joomla/attachments/UN-FINANCIAL%20HAVENS%20laundering.pdf>.
- Brown, G. 2009. *Declaration on strengthening the financial system, G-20 London Summit*. Available online: http://www.g20ys.org/upload/files/London_2.pdf.
- Carrington, I., and Shams, H. 2008. Elements of an effective AML/CFT framework: legal, regulatory, and best institutional practices to prevent threats to financial stability and integrity. In *Seminar on current development in monetary and financial law, October 23–27 October*. Vol. 5, ed. International Monetary Fund, 377-413. Washington, DC: IMF.
- Christensen, J. 2007. Mirror, mirror on the wall, who’s the most corrupt of all. *Tax Justice Network*. A paper prepared for the *World Social forum 2007 in Nairobi*. http://www.taxjustice.net/cms/upload/pdf/0701_Mirror_Mirror_corruption.pdf.
- CIA. 2013. World Factbook. Retrieved from <https://www.cia.gov/library/publications/the-world-factbook/>
- Clark, G. L., and Monk, A. H. 2013. The scope of financial institutions: in-sourcing, outsourcing and off-shoring. *Journal of Economic Geography* 13:279–98.
- Cobb, S. C. 1998. Global finance and the growth of offshore financial centers: The manx experience. *Geoforum* 29:7–21.
- Cobham, A. 2012. Tax havens and illicit flows. In *Draining development? Controlling flows of illicit funds from developing countries*, ed. P.Reuter, 337–72. Washington, DC: World Bank. Available online: <https://openknowledge.worldbank.org/handle/10986/2242>.
- _____. 2013. Corrupting perceptions. *Foreign Policy*, July 22. <http://foreignpolicy.com/2013/07/22/corrupting-perceptions/>.
- _____. 2014. The impacts of illicit financial flows on peace and security in Africa. Tana High Level Forum on Peace and Security in Africa Discussion Paper. Available online: http://www.tanaforum.org/y-file-store/2014_Docs/IFFs%20and%20Security.pdf
- Cobham, A., and Loretz, S. L. 2014. International distribution of the corporate tax base: Implications of different apportionment factors under unitary taxation. International Centre for Tax and Development Working paper 24. Available online: <http://ictd.ac/sites/default/files/ICTD%20WP27.pdf>.
- Coe, N. M., Lai, K. P., and Wójcik, D. 2014. Integrating finance into global production networks. *Regional Studies* 48:761–77.
- Cuellar, M.-F. 2003. The tenuous relationship between the fight against money laundering and the disruption of criminal finance. *Journal of Criminal Law and Criminology* 93:311–466.

- Dixon, A. D. 2014. *The new geography of capitalism: firms, finance, and society*. Oxford: Oxford University Press.
- Eden, L., and Kudrle, R. T. 2005. Tax havens: Renegade states in the international tax regime?*. *Law & Policy* 27:100–27.
- FATF. 2000. *Report on non-cooperative countries and territories*. Paris: Financial Action Task Force. Available online: <http://www.fatf-gafi.org/media/fatf/documents/reports/1999%202000%20NCCT%20ENG.pdf>.
- _____. 2002. *Report on non-cooperative countries and territories*. Paris: Financial Action Task Force. Available online: <http://www.fatf-gafi.org/media/fatf/documents/reports/2001%202002%20NCCT%20ENG.pdf>
- _____. 2012. *International standards on combating money laundering and the financing of terrorism & proliferation—The FATF recommendations*. Available online: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf
- FSI. 2013a. Mapping financial secrecy. Available online: <http://www.financialsecrecyindex.com/database/menu.xml>.
- _____. 2013b. The questionnaire sent to the ministries of finance. Available online: http://www.financialsecrecyindex.com/PDF/FSI2013_JurisdictionQuestionnaire_MoF.pdf.
- _____. 2013c. The questionnaire sent to the financial intelligence unit. Available online: http://www.financialsecrecyindex.com/PDF/FSI2013_JurisdictionQuestionnaire_FIU.pdf.
- Financial Stability Forum. 2000. *Report of the working group on offshore centres*. Basel: Financial Stability Forum. Available online: http://www.financialstabilityboard.org/publications/r_0004b.pdf?noframes=1
- Gordon, R. A. 1981. *Tax havens and their use by United States taxpayers: An overview*. Washington, DC: Books for Business.
- Grossman, G. M., and Rossi-Hansberg, E. 2008. Trading tasks: A simple theory of offshoring. *American Economic Review* 98:1978–97.
- Haberly, D., and Wójcik, D. 2014. Tax havens and the production of offshore FDI: an empirical analysis. *Journal of Economic Geography*, 15:75–101
- Hampton, M., and Christensen, J. 2005. Tax havens of the world. In *Tax us if you can*, ed. (pp.). Tax Justice Network, 36–37. Available online: http://www.taxjustice.net/cms/upload/pdf/tuiyc_-_eng_-_web_file.pdf
- Hampton, M. P. 1996. *The offshore interface: Tax havens in the global economy*. Basingstoke, UK: Palgrave Macmillan.
- Held, D., McGrew, A., Goldblatt, D., and Perraton, J. 1999. *Global Transformations: Politics, Economics, and Culture* (1 edition). Stanford, Calif.: Stanford University Press.
- Hines Jr., J. R., and Rice, E. M. 1994. Fiscal paradise: Foreign tax havens and American business. *Quarterly Journal of Economics* 109:149–82.
- Hudson, Alan C. 1998a. Offshore Onshore: Re-Shaping the Financial Regulatory Landscape, in: Martin, Ron (Ed.): *Money and the Space Economy*, London, 139-145.
- Hudson, Alan C. 1998b. Placing Trust, Trusting Place: on the Social Construction of Offshore Financial Centres, in: *Political Geography* 17: 8, 915-937.

- _____. 2000. Offshorenness, Globalization and sovereignty: A postmodern geo-political economy? *Transactions of the Institute of British Geographers* 25:269–83.
- ICIJ. 2014. *Luxembourg leaks: Global companies' secrets exposed*. International Consortium of Investigative Journalists. <http://www.icij.org/project/luxembourg-leaks>
- IMF. 1993. Fifth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).
<https://www.imf.org/external/pubs/ft/bopman/bopman.pdf>
- _____. 2000. Offshore financial centers. IMF Background Paper. Washington, DC: International IMF. Available online:
<http://www.imf.org/external/np/mae/oshore/2000/eng/back.htm>.
- _____. 2013a). Sixth Edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6).
<http://www.imf.org/external/pubs/ft/bop/2007/bopman6.htm>
- _____. 2013b). Coordinated Portfolio Investment Survey. <http://cpis.imf.org/>
- _____. 2013c). International Investment Position.
<https://www.imf.org/external/np/sta/bop/bop.htm>
- _____. 2014. Spillovers in international corporate taxation. IMF Policy paper. Available online: <http://www.imf.org/external/np/pp/eng/2014/050914.pdf>.
- Irish, C. R. 1982. Tax havens. *Vanderbilt Journal of Transnational Law* 15:449–510.
- Isserman, N., and Markusen, A. 2013. Shaping the future through narrative: The third sector, arts and culture. *International Regional Science Review* 36:115–36.
- Janský, P. Forthcoming. Updating the rich countries' commitment to development index: How they help poorer ones through curbing illicit financial flows. In *Social Indicators Research*.
- Janský, P., and Prats, A. Forthcoming. International profit shifting out of developing countries and the role of tax havens. *Development Policy Review*.
- Johannesen, N., and Zucman, G. 2014. The end of bank secrecy? An evaluation of the G20 tax haven crackdown. *American Economic Journal: Economic Policy* 6:65–91.
- Johns, R. A. 1983. *Tax havens and offshore finance: A study of transnational economic development*. New York: St. Martin's Press.
- Karkinsky, T., and Riedel, N. 2012. Corporate taxation and the choice of patent location within multinational firms. *Journal of International Economics* 88:176–85.
- Kitchin, R., Linehan, D., O'Callaghan, C., and Lawton, P. 2013. Public geographies through social media. *Dialogues in Human Geography* 3:56–72.
- Kudrle, R. T. 2013. The future of offshore finance as a global policy problem. *Deconstructing Offshore Finance, Oxford, 2-3 September 2013*.
<http://www.smithschool.ox.ac.uk/events/Kudrle%20Future%20of%20Offshore%20Finance%20final.pdf>.
- Kudrle, R. T., and Eden, L. 2003. Campaign against tax havens: Will it last? Will it work? *Stanford Journal of Law, Business and Finance* 9:37-69.
- Lane, P. R., and Milesi-Ferretti, G. M. 2010. Cross-border investment in small international financial centers. IMF working paper 38. Available online:
<http://www.imf.org/external/pubs/ft/wp/2010/wp1038.pdf>.
- Levi, M. 2002. Money laundering and its regulation. *Annals of the American Academy of Political and Social Science* 582:181–94.

- Levin, C. 2007. A bill to restrict the use of offshore tax havens and abusive tax shelters to inappropriately avoid federal taxation, and for other purposes law proposal. US Senate, 1st Session, 110th Congress, S.681. Washington, DC: US Senate. Available online: <http://www.gpo.gov/fdsys/pkg/BILLS-110s681is/pdf/BILLS-110s681is.pdf>.
- Loopmans, M. 2008. Relevance, gentrification and the development of a new hegemony on urban policies in Antwerp, Belgium. *Urban Studies* 45:2499–2519.
- Lowtax.Net. 2008. Lowtax.Net, web site promoting secrecy jurisdictions.
- Martin, R. 2001. Geography and public policy: The case of the missing agenda. *Progress in Human Geography* 25:189–210.
- Maurer, B. 2008. Re-regulating offshore finance? *Geography Compass*, 2:155–75.
- McGauran, K. 2013. Should the Netherlands sign tax treaties with developing countries? Available online: http://www.somo.nl/publications-en/Publication_3958/at_download/fullfile.
- Meinzer, M. 2012a. *Where to draw the line? Identifying secrecy for applied research*. Tax Justice Network. Available online: http://www.taxjustice.net/cms/upload/pdf/FSI_2012_Cut-Off-Point.pdf.
- _____. 2012b. The creeping futility of the global forum’s peer reviews. Tax Justice Network. Available online: <http://www.taxjustice.net/cms/upload/GlobalForum2012-TJN-Briefing.pdf>.
- _____. Forthcoming. Towards an international yardstick for identifying tax havens and facilitating reform. In *Global tax governance—normative and institutional issues*, ed. Thomas Rixen and Peter Dietsch. London: European Consortium for Political Research.
- Murphy, R. 2008. *Finding the secrecy world: Rethinking the language of “offshore.”* London: Tax Research LLP. <http://www.taxresearch.org.uk/Documents/Finding.pdf>
- _____. 2009. *Where are the world’s secrecy jurisdictions?*. Tax Justice Network. Available online: http://www.secrecyjurisdictions.com/PDF/SJ_Mapping.pdf.
- OECD. 1987. *Issues in International taxation. International tax avoidance and evasion*. Paris: OECD.
- OECD. (1998). *Harmful tax competition: an emerging global issue*. Paris: OECD.
- _____. 2000. *Towards global tax co-operation: Report to the 2000 Ministerial Council meeting and recommendations by the Committee on Fiscal Affairs: Progress in identifying and eliminating harmful tax practices*. Paris: OECD. Available online: <http://www.oecd.org/tax/transparency/44430257.pdf>.
- _____. 2001. *Behind the corporate veil: Using corporate entities for illicit purposes*. Paris: OECD. Available online: <http://www.oecd.org/daf/ca/43703185.pdf>.
- _____. 2006. *Tax Co-operation 2007: Towards a Level Playing Field*. Paris: OECD.
- _____. 2007. *Tax Co-operation 2007: Towards a Level Playing Field*. Paris: OECD.
- _____. 2008. *Tax Co-operation 2008: Towards a Level Playing Field*. Paris: OECD.
- _____. 2008. *OECD Model tax convention on income and on capital—An overview of available products*. Paris: OECD.
- _____. 2009a. *Tax Co-operation 2009: Towards a Level Playing Field*. Paris: OECD.
- _____. 2009b. *A progress report on the jurisdictions surveyed by the OECD Global Forum in implementing the internationally agreed tax standard. Progress made as at 2nd April 2009*. Paris: OECD. Available online: <http://www.oecd.org/ctp/42497950.pdf>.
- _____. 2010. *Tax Co-operation 2010: Towards a Level Playing Field*. Paris: OECD.

- _____. 2013. *Action plan on base erosion and profit shifting*. Paris: OECD. Available online: <http://www.oecd.org/ctp/BEPSActionPlan.pdf>.
- Owens, J. 2009. Tax and development: Why tax is important for development. *Tax Justice Focus* 4:1–3. Available online: http://www.taxjustice.net/cms/upload/pdf/TJF_4-4_Next_Steps.pdf.
- Palan, R. 1998. Trying to have your cake and eating it: how and why the state system has created offshore. *International Studies Quarterly* 42:625–43.
- _____. 2002. Tax havens and the commercialization of state sovereignty. *International Organization* 56:151–76.
- Palan, R., Murphy, R., and Chavagneux, C. 2009. *Tax havens: How globalization really works*. Ithaca, NY: Cornell University Press.
- Peet, C. D. J., and Dickson, T. P. 1979. The United States. *International Business Lawyer* 7:280–284.
- Picciotto, S. 1992. *International business taxation, A study in the internationalization of business regulation*. London: Weidenfeld and Nicholson.
- Pieth, M., and Aiolfi, G. 2003. *Anti-money laundering: levelling the playing field*. Basel: Basel Institute on Governance.
- Pinsent Masons. 2014. European Commission: agreements between Apple and Irish tax authorities may have been illegal state aid. *Out-Law.com*. <http://www.out-law.com/en/articles/2014/september/european-commission-agreements-between-apple-and-irish-tax-authorities-may-have-been-illegal-state-aid/>
- Rixen, T. 2008. *The political economy of international tax governance*. Basingstoke, UK: Palgrave Macmillan.
- Roberts, S. 1994. Fictitious capital, fictitious spaces: The geography of offshore financial flows. In *Money, power and space*, ed. S. Corbridge; N. J. Thrift, and R. Martin, 91–115. Oxford: Blackwell.
- Shaxson, N., and Christensen, J. 2013. *The finance curse: How oversized financial sectors attack democracy and corrupt economics*. Margate, UK: Commonwealth Publishing.
- Sidaway, J. D., and Pryke, M. 2000. The strange geographies of emerging markets?. *Transactions of the Institute of British Geographers*, 187–201.
- Swords, J. 2013. Michael Porter's cluster theory as a local and regional development tool: The rise and fall of cluster policy in the UK. *Local Economy* 28:369–83.
- Tax Justice Network. 2013a. Financial Secrecy Index 2013 methodology. Available online: <http://www.financialsecrecyindex.com/PDF/FSI-Methodology.pdf>.
- _____. 2013b. Financial Secrecy Index. Available online: <http://www.financialsecrecyindex.com/>.
- Transparency International. (2012). Corruption Perceptions Index 2012. Retrieved from <http://www.transparency.org/cpi2012/results>
- Unger, B. 2007. Money laundering, tax evasion, capital flight, tax havens, the rule based and the risk based approach: Keep it simple. Paper presented at the Seminar on Money Laundering, Tax Evasion and Financial Regulation, Transnational Institute, June 12–13, Amsterdam. Available online: www2.econ.uu.nl/users/unger/publications/Keep%20it%20simple.doc.

- UN Office on Drugs and Crime. 2007. An overview of the UN conventions and the international standards concerning anti-money laundering legislation. Available online: <http://www.imolin.org/pdf/imolin/overview.pdf>.
- U.S. Department of State. 2013. *2013 International Narcotics Control Strategy Report*. <http://www.state.gov/j/inl/rls/nrcrpt/2013/>
- U.S. Government Accountability Office. 2008. International taxation: Large U.S. corporations and federal contractors with subsidiaries in jurisdictions listed as tax havens or financial privacy jurisdictions. Available online: <http://www.gao.gov/products/GAO-09-157>.
- U.S. House of Representatives. 1970. *The United States House of Representatives report on the Bank Secrecy Act No. 91-975*. United States House of Representatives.
- U.S. Senate Permanent Subcommittee on Investigations. 2013. Offshore profit shifting and the U.S. Tax Code—Part 2 (Apple Inc.). Available online: http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_part-2
- Valencia, M. 2013. Storm survivors. Special reports of *The Economist* on offshore finance. *The Economist*, February 16. Available online: <http://www.economist.com/news/special-report/21571549-offshore-financial-centres-have-taken-battering-recently-they-have-shown-remarkable>
- Van Hulten, A. 201. Remapping the fiscal state after the global financial crisis. *Economic Geography*, 88(3), 231–253.
- Varró, K. 2014. Making (more) sense of political-economic geographies of continuity and change: Dialoguing across ontological divides. *Progress in Human Geography* doi: 10.1177/0309132514521480.
- Wainwright, T. 2013. Emerging onshore-offshore industries: The case of asset-backed securities markets in Europe. *Deconstructing Offshore Finance*, September 2–3, Oxford. Available online: http://www.smithschool.ox.ac.uk/events/Wainwright_Offshore_FirstFullDraft070813.pdf.
- Warf, B. 2002. Tailored for Panama: Offshore banking at the crossroads of the Americas. *Geografiska Annaler: Series B, Human Geography* 84:33–47.
- Weyzig, F. 2012. Tax treaty shopping: Structural determinants of foreign direct investment routed through the Netherlands. *International Tax and Public Finance* 20:910–37.
- Wójcik, D. 2012a. Where governance fails: Advanced business services and the offshore world. *Progress in Human Geography* 37:330–47.
- _____. 2012b. Accounting for globalization: Evaluating the effectiveness of country-by-country reporting. Employment, Work and Finance working paper no. 08. Available online: <http://papers.ssrn.com/abstract=2163456>.
- Woods, M., and Gardner, G. 2011. Applied policy research and critical human geography Some reflections on swimming in murky waters. *Dialogues in Human Geography* 1:198–214.
- World Bank. (2013). World Development Indicators. Retrieved from <http://data.worldbank.org/data-catalog/world-development-indicators>
- Zoromé, A. 2007. Concept of offshore financial centers: in search of an operational definition IMF working paper no. 87. Available online: <http://www.imf.org/external/pubs/ft/wp/2007/wp0787.pdf>.

Zucman, G. 2014. Taxing across borders: Tracking personal wealth and corporate profits.
Journal of Economic Perspectives 28:121–48.