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Why Is Elvis on Burkina Faso Postage Stamps? Cross-Country Evidence on the Commercialization of State Sovereignty

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Why would the country of Burkina Faso issue postage stamps featuring Elvis? In part, to make money, one example of what has been called the commercialization of state sovereignty. I could issue stamps, but no one would buy them. But many philatelists (stamp collectors) want countries' stamps, especially those with popular themes like Elvis or Disney characters, in their collection. I examine the commercialization of state sovereignty by first setting out a simple model and then, in the context of the predictions of this model, conduction an empirical examination of what determines whether a country will pursue a set of commercialization opportunities, from the benign to the malign. Three examples are examined: postage stamps, tax havens, and money laundering. The data analysis provides support for the idea that commercialization of state sovereignty is more likely in countries where it is more difficult to raise revenue in alternative ways, and less support for the role of costs of commercialization related to integrity and, for less benign activities, sanctions. The examined examples of commercialization that are more likely to directly raise revenue (stamp pandering and tax havens) are more attractive to poorer countries, and stamp pandering is more attractive to more agricultural countries at a given level of per-capita income. This provides some support to the notion that when revenue is difficult to raise in other ways, revenue-raising commercialization becomes more attractive. Being a tax haven or a stamp panderer is more attractive to small countries, a finding that is consistent with the Slemrod and Wilson (2007) hypothesis about tax havens that the benefits are unrelated to size

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but the costs are. The results corroborate and extend the Dharmapala and Hines (2007) finding that good governance is associated with tax haven status. Notably, governance has no partial association with the probability of being a money launderer. Thus, there is no evidence that bad governance as measured by the World Bank is associated with international unlawfulness. The fact that governance matters positively for the propensity to be a stamp panderer as well as to be a tax haven expands the Dharmapala-Hines interpretation that governance proxies for a country's credibility, and suggests that governance may also be associated with the capability to undertake domestic-welfare-enhancing activities and may help to explain why more of the most desperately poor nations of the world are not involved in the commercialization of state sovereignty.

I. Introduction

The May 14, 2007 issue of *Linn's Stamp News*, a leading publication for stamp collectors, announced the issuance of a set of six stamps commemorating the 400th anniversary of the founding of Jamestown, the first permanent English colony in America. The issuing jurisdiction of these stamps depicting a seminal moment in the history of the United States was not the United States, though—it was the Isle of Man. Another article in the same issue of *Linn's* announced that the country of Bhutan had just signed a contract with a company located in Pittsburgh, PA to produce its commemorative stamps for 2008, and noted that Bhutan has issued some of the world's most unusual stamps, including 3-D, scented, and silk stamps, as well as talking stamps in the shape of miniature phonograph records. One stamp dealer's advertisement listed for sale stamps picturing Elvis Presley issued by Burkina Faso, Chad stamps depicting Marilyn Monroe, Chechnya stamps picturing Groucho Marx, Grenada Grenadines stamps showing Bob (Elliot) and Ray (Goulding), Mongolia stamps with the Three Stooges and the X-Men, and Montserrat stamps with Jerry Garcia. Most of these stamps never reach the issuing country's shores, and are designed, produced, and marketed by a foreign agency to stamp collectors around the world.

The sale of postage stamps to collectors is an example of what Palan (2002) calls the "commercialization of state sovereignty." Putting Elvis on one's stamps seems to be a benign enough phenomenon, as do certain other acts of commercialization. The Pacific island nation of Tuvalu achieved some renown by selling the rights to use its Internet domain name (.tv), a deal that brings in about 15 percent of its GDP annually.[1] This staggering number suggests that such commercialization can bring nontrivial, indeed quite substantial, per-capita benefits to small countries like Tuvalu. The sale of passports was the founding issue for Tonga's pro-democracy movement, and there have been scandals over passport sales in Fiji and Samoa.

Other actions that take advantage of a country's sovereignty are not so benign. Some countries flout international law by, for example, ignoring intellectual piracy rules, facilitating money laundering, or harboring terrorists. In some cases, sanctions may be imposed. For example, $75 million worth of sanctions on imports were imposed on Ukraine by the United States in 2002 due to its continued egregious intellectual property right violations.[2] Other examples of the commercialization of state sovereignty include selling citizenship, hosting online casinos, and acting as routing centers for online pornography.[3]

One kind of commercialization of state sovereignty—tax havens—is particularly controversial, and has been the subject of considerable theoretical and empirical research in public economics. Indeed, the question of whether this activity is essentially benign, beneficial to other countries, or detrimental to other countries is at the heart of the controversy.

Although there is only a fairly small analytic literature on the commercialization of state sovereignty among countries, the related topic of competition among legal systems has been widely addressed, particularly in the legal literature and mostly with a normative rather than positive slant. In the U.S. context, the most prominent example is the competition over corporate

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[1]Tuvalu's agreement with VeriSign generates a flat $550,000 per quarter regardless of the number of domain name registrations. The $2.2 million annual guarantee amounts to about 15 percent of Tuvalu's annual GDP, or about $183 per resident. The issuance of a series of postage stamps, featuring Tuvaluans sporting traditional skirts and floral head decorations with a satellite dish and the ".tv" logo in the background, commemorated the sale. See http://www.bigempire.com/sake/tuvalu_tv.html. Presumably, the per-capita revenue from the registration of domain names (or postage stamps, for that matter) is even higher for Pitcairn Island, which has a population of about 50. Steinberg and McDowell (2003) call Pitcairn a "postage stamp republic" and call Niue, another Pacific island nation that has commercialized its domain name, a "TLD of convenience," where TLD refers to top-level domain name.

[2]U.S. Trade Representative (2001).

[3]See Sharman (2006:24), who also mentions as an example bargaining for recognition of either the Republic of China or the People's Republic of China.

charters, with Delaware's supposedly value-enhancing rules attracting about half of U.S. public corporations, and a bigger fraction of the largest public corporations. Incorporation fees have accounted for as much as 16 percent of Delaware's revenues. Alaska has established a niche in the law of perpetuities, which affords substantial estate tax benefits. Vermont has established itself as an "insurance haven," with state taxes owed on premiums accounting for 2 percent of Vermont's revenues.[4]

This article examines the commercialization of state sovereignty by first setting out a simple model and then, in the context of the predictions of this model, conducting an empirical examination of what determines whether a country will pursue a set of commercialization opportunities, from the benign to the malign.[5] Three examples are examined: postage stamps, tax havens, and money laundering.[6]

II. A Model of the Commercialization of State Sovereignty[7]

The governments of all countries raise resources from the private sector, whether they are acting benevolently in the interest of their residents,

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[4]Browning (2007) notes that in 2001 then-governor of Vermont, Howard Dean, declared that the state would "overtake Bermuda" as the place with the most captive insurance companies.

[5] Palan and Abbott (1996) address why some states adopt "parasitical" state strategies, but not with a systematic cross-country statistical analysis.

[6]An earlier version of the article also examined countries designated as "flags of convenience" for international shipping, which refers to the practice of ships choosing to be associated with a country (fly its flag) other than the country of residence of the ship owner. The incentives for ship owners to use these "flags"' include relatively inexpensive registration fees, relatively lax regulation, and low or no taxes. See International Transportation Workers' Federation (2007).

[7]There is a small economics literature that models what benefits being a country may bring, largely in the context of studying the equilibrium determination of the number of political jurisdictions. For example, Alesina and Spolaore (2003) focus on the tradeoff between the benefits of large jurisdictions in terms of economies of scale and the costs of heterogeneity of large and diverse populations. However, this literature does not address the financial benefits that can accrue from making optimal use of *being* a jurisdiction. There is also an older literature on the economic consequences of the size of nations, well illustrated by the conference papers in Robinson (1963).

somehow aggregated, whether they are Leviathan maximizers, or some combination of the two. In modern times, explicit taxes account for the great majority of resource mobilization, although other means of acquiring resources, such as seigniorage, still account for a nontrivial fraction in many countries, in spite of most economists' views that this is an inferior way of raising resources.[8]

Consider the following simple, general model of the commercialization of sovereignty. A jurisdiction chooses a vector of sovereignty-related goods and services to sell, denoted **X**, in order to maximize:

$$\lambda \Sigma p_i(X_i, C)X_i + I(\mathbf{X}, C) - S(\mathbf{X}, E), \tag{1}$$

where X_i is a component and p_i is the associated price it receives per unit of what it sells. In Equation (1), $\Sigma p_i(.)X_i$ is the net revenue received from the sale of these goods and services, and λ is the shadow value of revenue, which will be higher the more costly it is to obtain resources in other ways, and the higher is the value of the marginal use of the resources by the government. The price received is inversely related to the amount sold, and may also depend on country characteristics, C, some of which may be endogenous to country choices and others that are exogenous. For example, the purchase of tax haven services may be more valuable when sold by a country whose government can credibly guarantee a functioning bank secrecy law, and the postage stamps issued by a former British colony may be more attractive to British, and other English-speaking, collectors.

Equation (1) has two other components that reflect the potential impact of commercializing sovereignty. The term I(.) stands for the flow value of "integrity capital," which may be eroded by certain commercial activities to a degree that may depend on country attributes. The integrity, or reputation, of the country is a pervasive topic in the tax haven practitioner literature, where the term "tax haven" itself is often taken to be pejorative because of its association with less respectable activities such as laundering of illegal drug profits. Indeed, the Economist Intelligence Unit states: "To be, but not be

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[8]In cross-country regressions of the determinants of seigniorage over the 1971–1990 period reported by Click (1998), the extent of seigniorage is negatively related to per-capita GNP, which he interprets as a proxy for the costs of conventional taxation, but not to the ratio of government spending to GDP. Seigniorage is also higher in countries when employment in the agricultural sector is high, lower when the countries collect a large portion of their revenues from taxes on income, profits, and capital gains, and higher in countries that collect a large portion of conventional revenues from taxes on international trade.

known as, a tax haven is the main challenge facing many small economies."[9] In part this is because the reputation of the companies tied to arguably shady activities might itself be at stake. An alternative modeling strategy would allow the attainable price of X_i to depend on the values of X_j, so that issuing Elvis stamps might reduce demand for its services as a tax haven.[10]

The term S(.) stands for the expected cost of sanctions imposed by other countries that may deem a particular activity as injurious to them. This cost depends on whether the activity is benign or not. It will also depend on effectiveness of sanctions, which in turn may depend on the jurisdiction's exposure to the world economy, here denoted E, because that will affect the potential damage caused by sanctions.[11]

Maximization of Equation (1) will determine the optimal involvement in each of the possible aspects of juridical entrepreneurship, so that:

$$X_i^* = X_i^*(\lambda, C, E). \tag{2}$$

This function will not be the same for each country or each manifestation of state sovereignty. It is to be expected, though, that $\partial X_i^*/\partial\lambda > 0$ for all values of i, as the value of revenue from commercializing state sovereignty will be higher the higher is the shadow value of revenue to be gained. Because these acts are subject to nonnegativity constraints, it is also to be expected that some countries do not engage in certain activities, and some countries do not engage in any.

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[9]In the 1980s, the Cayman Islands began marketing itself using the tagline: "Reputation is our most important asset." See Hudson (1998).

[10]This phenomenon has an analogy to private corporations that are concerned with brand value (or equity) dilution; for example, when BMW introduced low-priced versions of its branded car, it apparently negatively impacted sales of its higher-priced cars. Nonprofit organizations are not immune to such concerns. When it was announced that Abu Dhabi would pay France $1.3 billion to borrow the Louvre's name and hundreds of its artworks for a new arts center to be dubbed the "Abu Dhabi Louvre," the deal was vehemently criticized by many in France, including one honorary curator of the Louvre, who said: "It's a shame to see France selling out its heritage." See Moore (2007).

[11]Sharman (2006) argues that the OECD's public statements enumerating jurisdictions that did not meet international regulatory standards were sanctions in and of themselves, and more than an implied threat of sanctions, due to their effects on the listed countries' reputations.

III. Aspects of Commercializing Sovereignty

Countries undertake a vast range of activities designed to enhance the welfare of their citizens by making some aspect of the country more attractive to foreigners, ranging from advertising tourism and foreign investment promotion boards to establishing credible enforcement of contracts. There is no bright line between activities that fall under the rubric "commercialization of state sovereignty" and those that do not. Critical to the notion is that there is a fixed benefit per jurisdiction. For example, the dissolution of Czechoslovakia into the Czech Republic and Slovakia would, other things equal, increase the potential benefits from the commercialization of state sovereignty but not the benefits of state promotion of tourism. In the words of Steinberg and McDowell (2003:49), a "state's power is derived, at least in part, from its designation as a state."

In what follows, I investigate three examples of activities that arguably can be classified as commercialization of state sovereignty, but that may differ on at least one dimension—whether they are likely to be considered benign by other countries. The hope is that learning about what affects whether countries undertake these activities will shed light on the nature of this phenomenon.

A. Tax Havens

According to the OECD (1998), a tax haven is a jurisdiction that imposes no or only nominal taxes itself and offers itself as a place to be used by nonresidents to escape tax in their country of residence. A tax haven can offer this service because it has laws or administrative practices that prevent the effective exchange of information on taxpayers benefiting from the low-tax jurisdiction.[12] Although a previous literature has modeled tax havens as a benign phenomenon that helps high-tax countries reduce the negative impact of their own suboptimal domestic tax policies, there is considerable concern that the havens are "parasitic" on the tax revenues of the nonhaven countries, inducing them to expend real resources in defending their revenue base and in the process reducing the welfare of their residents.

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[12]The OECD report distinguished tax havens from cases in which countries raise significant revenues from the income tax but have preferential tax regimes for certain kinds of income, generally restricted to nonresidents. This article is about the kind of tax haven covered by the OECD's definition.

Policy actions by OECD countries certainly reflect this concern. Before an OECD report issued in 1998, action against tax havens was predominantly unilateral, as exemplified by the introduction in 1962 of the U.S. Subpart F provisions that addressed so-called passive income earned in tax haven countries and not distributed to the United States.[13] Later, many OECD countries enacted domestic tax rules designed to lessen the attractiveness of tax evasion and avoidance though tax havens.

The 1998 OECD report concluded that "governments cannot stand back while their tax bases are eroded through the actions of countries which offer taxpayers ways to exploit tax havens [and preferential regimes] to reduce the tax that would otherwise be payable to them" (1998:37). It offers a long list of recommendations concerning domestic legislation, tax treaties, and international cooperation. In the last category is a recommendation to produce a list of tax haven countries that would enable non-haven countries to coordinate their responses to the problems created by the havens and to "encourage these jurisdictions to reexamine their policies" (1998:57). In 2000, the OECD followed up by publishing the names of 35 countries called "non-cooperating tax havens," which were given one year to enact fundamental reform of their tax systems and broaden the exchange of information with tax authorities or face economic sanctions. The OECD cited six additional tax havens that were already committed to eliminating their harmful tax practices as laid out in the 1998 report. By 2005, almost all the blacklisted tax havens had joined the list of tax havens committed to eliminating their harmful tax practices by signing the OECD's Memorandum of Understanding agreeing to transparency and exchange of information.[14]

The 41 OECD-designated tax havens are nearly all small. Their average population is 319,028, and is 169,318 if the only two designated countries (Liberia and Panama) whose population exceeds 1 million are excluded. Although the 41 tax havens represent about 20 percent of the world's countries, their total population comprises just 0.207 percent of the world's

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[13]This history is recounted in Eden and Kudrle (2005).

[14]Public U.S. support for the OECD initiative flagged after 2000, as exemplified by statements by the Secretary of the Treasury suggesting that the U.S. government was no longer committed to fighting the tax havens. In addition, some other OECD countries, such as Ireland, Luxembourg, and Switzerland, have haven-like aspects of their own tax systems, and several other member countries provide privileges to certain tax havens through double tax treaties and other preferential tax regimes (Eden & Kudrle, 2005:123).

population (0.104 percent excluding Liberia and Panama). Of the 41 designated tax havens, 32 are island nations.[15]

In sharp contrast to the longstanding concern about the deleterious effects of havens, recent normative economic theory has focused on a potentially beneficial role for tax havens. The starting point is the well-known result that, under certain conditions, a small, open economy should levy no distorting tax on mobile factors such as capital. Countries do, however, levy distorting taxes on mobile capital, and much of the recent theoretical literature conceives of tax havens as a device to save these countries from themselves by providing them with a way to move toward the nondistorting tax regime they should, but for some reason cannot, explicitly enact. For example, in Hong and Smart (2005), citizens of high-tax countries can benefit from haven-related tax planning because it allows them to tax domestic entrepreneurs (in a lump-sum way) without driving away mobile multinational capital. The haven exists only as a construct allowing the parent to borrow from the low-tax affiliate and deduct the interest; the interest received by the haven affiliate is tax free. The presence of the haven reduces the (distorting) effective marginal tax rate for any given statutory tax rate.

In contrast, Slemrod and Wilson (2007) develop a model in which "parasitic" tax havens sell tax avoidance facilitation services to corporations, the home countries of which use resources in an attempt to limit the transfer of tax revenues to the havens. They demonstrate that the full or partial elimination of tax havens would improve welfare in nonhaven countries, in part because countries would be induced to increase their tax rates, which they have set at inefficiently low levels in an attempt to attract mobile capital. Notably, this model provides a theoretical explanation for why it is mostly small countries that are tax havens: the benefits of being a haven are unrelated to country size, but the costs (distortion of the domestic tax system and an increasing chance of having sanctions imposed by nonhaven countries) are positively related to size. Dharmapala and Hines (2007) examine what aspects of a country determine whether it becomes a tax haven and conclude

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[15]Some countries that levy low corporate tax rates do so in part to attract real investment, knowing that once multinational companies have made such an investment, it is in their interest to use transfer pricing and other strategies to shift taxable income into the low-tax host country and away from other high-tax jurisdictions in which they operate. For example, the analysis of havens in Hines (2005) covers a different set of countries than the OECD list, including some countries, most notably Ireland and Switzerland, that have the kind of dual motivation discussed in this footnote.

that a major factor is good governance, presumably because a well-governed country can more credibly commit to maintain the kind of financial secrecy regime that facilitates the operation of tax havens.

B. Postage Stamp Issuance

A postal system can run with a minimal variety of postage stamps,[16] but nearly all jurisdictions print many. The jurisdictions use the opportunity to honor their own citizens, induce pride in country, promote the attractions of the locale to potential tourists, and make political propaganda points. In addition, domestic users of the postal system may be more inclined to use it rather than private alternatives, if they exist, depending on how attractive the stamps are. However, many countries sponsor the production and sale of stamps that are marketed to collectors outside the country and, indeed, never see the country of issue at all.

Why *not* put Elvis on your postage stamps if it entices foreign collectors to buy your country's postage stamps (and never make use of the local postal services)? Some historical episodes suggest corruption-related costs. In a study of corruption in the South Pacific, Larmour (1997) found a link between smallness and corruption in the trade in "tokens of sovereignty," such as postage stamps, passports, and, in the case of Tuvalu, an Internet domain name. Larmour and Barcham (2005) note that in the 1970s in the Cook Islands the state agency charged with selling postage stamps to collectors became a slush fund for the government's election campaigning.

C. Money Laundering

If stamp issuance is a clearly benign form of the commercialization of state sovereignty and tax havens represent a controversial one, there is near-unanimous opinion that facilitating money laundering is mostly malign. The intergovernmental Financial Action Task Force on Money Laundering (FATF) wrote an initial report in February 2000 that identified the problem and defined the criteria it would use to identify money launderers in the

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[16]This is especially true in the United States now that it has issued "forever" stamps that are guaranteed to satisfy the first-class rate, whatever it might be in the future. Another technological innovation that allows "personalized" stamp designs blurs the meaning of the number of distinct stamp varieties.

future.[17] In June 2000, it issued a list of 15 countries that met these criteria. It continued issuing reports, each of which added and removed countries from the list as appropriate. The reports referred to sanctions that might be taken against countries that failed to take action to remedy the blacklisted behavior, including restrictions on banks from these jurisdictions being able to open branches and subsidiaries elsewhere. In October 2006, it issued its final report, removing the last country, Myanmar, from the list. Twenty-three countries were identified as money launderers during the course of these reports.

Sharman (2006) argues that supporters of global tax regulation purposely played up the connection between tax havens on the one hand and money laundering and even terrorist finance on the other hand, on the grounds that fighting international crime provides a more compelling narrative than one that must distinguish between benign and harmful tax competition. Indeed, Jeffrey Owens of the OECD has written that:

> Individuals and corporations that engage in money laundering, bribery, and other corrupt practices are also likely to engage in tax evasion and an acceptance that in some way tax evasion is morally defensible, because it merely involves refusing to give your money to the government is likely not only to undermine the ethical basis of tax systems but also to encourage other international criminal activities. Similarly, the jurisdictions which tolerate or facilitate international tax evasion are in some case, although not all, the same jurisdictions which facilitate money laundering and bribery.[18]

IV. Categorization of Countries

Although countries may engage in each aspect of commercial sovereignty to a greater or lesser degree and with more or less success, in the analysis that follows, each country will be designated as either engaging in it or not. This

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[17]The intergovernmental Financial Action Task Force on Money Laundering (FATF), established by the G-7 Summit that was held in Paris in 1989, is charged with examining money laundering techniques and trends, reviewing action already taken at a national or international level, and setting out the measures that still needed to be taken to combat money laundering. The secretariat of the FATF is housed in the Paris headquarters of the OECD, has almost perfectly overlapping membership with the OECD, and, according to Sharman (2006:32), issues its press releases on OECD stationery and uses OECD business cards.

[18]Owens (2002).

is facilitated for the two activities other than stamp issuance by the availability of a public designation of countries as being "in" or "out."

For postage stamps, no similar public designation exists. I construct a single measure for stamp pandering, based on whether or not a country issues large quantities of distinct stamp varieties that depict what I refer to as a "pandering" subject. I consider three examples of pandering subjects: stamps that depict Elvis Presley, stamps that depict Princess Diana (or one of her children), and stamps that depict a Disney character. These are subjects unrelated to the country's history or culture (other than for the United States and the United Kingdom), but that are widely collected throughout the world by philatelists. Because these issuances are less regular, for these categories I aggregate all issues over the relevant periods (the date of his death for Elvis, the date of her wedding to Prince Charles for Princess Diana, and for Disney the year of the first stamps depicting such characters). I then convert the number of stamps issued into a 0–1 variable by choosing a cut-off number of stamps that produces the top 25 or so countries in each of the three categories. Because there is a great deal of skewness in the number of stamps issued, summarizing the data in this way does not dispense with a lot of information.[19] Since I am interested in stamp pandering in aggregate, as opposed to why countries choose to print Elvis rather than Disney stamps, I use these three measures to create a single "stamp pandering" measure, which takes the value of 1 if a country pandered with respect to any of the three individual measures.

Limitations on data availability restrict the number of countries in the analyses that follow to the sample of 194 countries listed in Table 1. Table 2 shows, for this sample, which countries engage in each activity. Summary statistics are provided in Table 3. See also the Appendix.

V. Empirical Analysis

A. *Overlap*

Table 4 depicts the overlap between each pair of the three indicators of commercialization of state sovereignty. The first panel shows that there is a

[19] One-hundred-seventeen countries have issued some Diana stamps, six is the median for those with at least one and 55 is the maximum; for Elvis, 54 countries have issued at least one stamp, three is the median for those that have issued at least one and 39 is the maximum; for Disney, 47 countries have issued at least one, 12 is the median for those that have issued at least one, and the maximum is 270(!).

Table 1: Country List

Afghanistan	Croatia	Kiribati
Albania	Cuba	Korea, Democratic People's Republic of
Algeria	Cyprus	Korea, Republic of
Angola	Czech Republic	Kuwait
Anguilla	Denmark	Kyrgyz Republic
Antigua and Barbuda	Djibouti	Lao People's Democratic Republic
Argentina	Dominica	Latvia
Armenia	Dominican Republic	Lebanon
Aruba	Ecuador	Lesotho
Australia	Egypt	Libya
Austria	El Salvador	Liechtenstein
Azerbaijan	Equatorial Guinea	Lithuania
Bahamas	Eritrea	Luxembourg
Bahrain	Estonia	Macau
Bangladesh	Ethiopia	Macedonia, the Former Yugoslav Republic of
Barbados	Fiji	Madagascar
Belarus	Finland	Malawi
Belgium	France	Malaysia
Belize	Gabon	Maldives
Benin	Gambia	Mali
Bermuda	Georgia	Malta
Bhutan	Germany	Marshall Islands
Bolivia	Ghana	Mauritania
Bosnia and Herzegovina	Greece	Mauritius
Botswana	Grenada	Mexico
Brazil	Guatemala	Micronesia, Federated States of
Brunei	Guinea	Moldova
Bulgaria	Guinea-Bissau	Mongolia
Burkina Faso	Guyana	Morocco
Burundi	Haiti	Mozambique
Cambodia	Honduras	Myanmar
Cameroon	Hong Kong	Namibia
Canada	Hungary	Nepal
Cape Verde	Iceland	Netherlands
Central African Republic	India	Netherlands Antilles
Chad	Indonesia	New Zealand
Chile	Iran	Nicaragua
China	Iraq	Niger
Colombia	Ireland	Nigeria
Comoros	Israel	Niue
Congo, Democratic Republic of the	Italy	Norway
Congo, Republic of the	Jamaica	Oman
Cook Islands	Japan	Pakistan
Costa Rica	Jordan	
Cote d'Ivoire	Kazakhstan	
	Kenya	

Table 1. *Continued*

Palau	Slovenia	Tonga
Panama	Solomon Islands	Trinidad and Tobago
Papua New Guinea	Somalia	Tunisia
Paraguay	South Africa	Turkey
Peru	Spain	Turkmenistan
Philippines	Sri Lanka	Tuvalu
Poland	St. Kitts and Nevis	Uganda
Portugal	St. Lucia	Ukraine
Qatar	St. Vincent and the Grenadines	United Arab Emirates
Romania	Sudan	United Kingdom of Great Britain and Northern Ireland
Russian Federation	Suriname	United States of America
Rwanda	Swaziland	Uruguay
Samoa	Sweden	Uzbekistan
Sao Tome and Principe	Switzerland	Vanuatu
Saudi Arabia	Syrian Arab Republic	Venezuela, Bolivarian Republic of
Senegal	Tajikistan	Vietnam
Serbia and Montenegro	Tanzania, United Republic of	Yemen
Seychelles	Thailand	Zambia
Sierra Leone	Timor-Leste	Zimbabwe
Singapore	Togo	
Slovak Republic		

large overlap between tax haven status and money laundering status. A haven is 5.6 times more likely than a nonhaven to be on the money laundering list. A money laundering jurisdiction is 4.8 times more likely than a nonlaunderer to be a haven. Based on the *p* value, this relationship could happen by chance with a probability of less than 0.1 percent. For stamp pandering, there is only significant overlap with tax haven status. A haven is 2.5 times more likely to produce pandering stamps than is a nonhaven. A stamp pandering country is 2.9 times more likely to be a tax haven. There is also a positive overlap between stamp pandering status and money laundering status; a money laundering country is 1.6 times more likely to be a stamp panderer, and a stamp panderer is 1.8 times more likely to be on the money laundering list. This last relationship is not, though, statistically significant.

This pattern of association is completely consistent with the loose characterization of stamp pandering, tax haven, and money laundering as lying on a continuum from benign to not benign. According to this characterization, there is significant overlap between engaging in “neighboring” activities (i.e., between completely benign and arguably benign as well as between clearly malign and arguably malign) but not between the two

Table 2: Country Categories

Tax Haven Countries		
Anguilla	Cyprus	Niue
Antigua and Barbuda	Dominica	Panama
Aruba	Grenada	Samoa
Bahamas	Liechtenstein	Seychelles
Bahrain	Maldives	St. Kitts and Nevis
Barbados	Malta	St. Lucia
Belize	Marshall Islands	St. Vincent and the Grenadines
Bermuda	Mauritius	Tonga
Cook Islands	Netherlands Antilles	Vanuatu
Stamp Pandering Countries		
Anguilla	Guyana	Niue
Antigua and Barbuda	Jamaica	Palau
Belize	Korea, Democratic People's Republic of	Romania
Bhutan		Sierra Leone
Burkina Faso	Kyrgyz Republic	Somalia
Central African Republic	Lesotho	St. Kitts and Nevis
Chad	Madagascar	St. Lucia
Congo, Republic of	Maldives	St. Vincent and the Grenadines
Cook Islands	Mali	Tanzania
Dominica	Marshall Islands	Togo
Gambia	Micronesia, Federated States of	Turkmenistan
Ghana		Tuvalu
Grenada	Mongolia	Uganda
Guinea	Mozambique	United States of America
Guinea-Bissau	Niger	
Money Laundering Countries		
Bahamas	Indonesia	Niue
Cook Islands	Israel	Panama
Dominica	Lebanon	Philippines
Egypt	Liechtenstein	Russian Federation
Grenada	Marshall Islands	St. Kitts and Nevis
Guatemala	Myanmar	St. Vincent and the Grenadines
Hungary	Nigeria	Ukraine

activities that are completely benign (stamp pandering) and clearly malign (money launderers).

Of course, the fact that a country participates in some nefarious or arguably nefarious activity does not in itself render its other activities nefarious, but considerable overlap among these aspects of commercialization of state sovereignty does suggest that there may be common underlying factors driving these decisions.

Table 3: Summary Statistics

Variable	*Mean*	*SD*	*Min.*	*Max.*
Tax haven	0.139	0.347	0	1
Stamp pandering	0.216	0.413	0	1
Money laundering	0.108	0.311	0	1
Governance index	–0.039	0.923	–2.035	1.961
GDP per capita[a]	10.222	11.358	0.4	68.719
Agriculture[a]	0.161	0.148	0	0.65
Adult literacy	0.829	0.193	0.218	1
Aid per capita[a]	0.081	0.193	–0.135	1.25
Air distance[a]	4.162	2.396	0.14	9.59
Small population	0.227	0.42	0	1
Island	0.263	0.441	0	1
U.K. or U.S. “colonial” influence	0.34	0.475	0	1
Asia and the Pacific	0.206	0.406	0	1
Europe & Central Asia	0.247	0.433	0	1
Americas	0.201	0.402	0	1
Middle East & Northern Africa	0.345	0.477	0	1

[a]In thousands.

Table 4: Cross-Tabulation Results

		Money Laundering		
		No	*Yes*	*Total*
Tax haven	No	156	11	167
	Yes	17	10	27
	Total	173	21	194
		Stamp Pandering		
		No	*Yes*	*Total*
Tax haven	No	137	30	167
	Yes	15	12	27
	Total	152	42	194
		Stamp Pandering		
		No	*Yes*	*Total*
Money laundering	No	138	35	173
	Yes	14	7	21
	Total	152	42	194

NOTE: The Pearson X^2 test rejects the null that the rows and columns are independent at the 1 percent level.

B. Regression Analysis: Specification and Methodological Challenges

Although there is considerable overlap among the categories, the overlap is obviously not perfect. To understand better what shared characteristics underlie the overlap, I next estimate a series of cross-country linear probability regressions. All the data choices and sources are detailed in the Appendix.

The specification of the regressions is motivated by the reduced-form expression for X* in Equation (2), and in particular by a search for empirical counterparts for the arguments of X(.). The shadow value of government revenue, λ, will depend on the cost of raising revenue in other ways. A standard proxy for this is the extent of the economy that is agricultural, due to the notorious and ubiquitous difficulty of collecting taxes from farmers. Another is the degree of literacy, on the ground that certain taxes—notably income taxes—cannot be efficiently and equitably collected absent literacy. Arguably, GDP per capita is also a measure of λ; in his study of the extent to which countries use seigniorage, another revenue-raising alternative to taxation, Click (1998) uses per-capita GNP as an explanatory variable, which he interprets as a proxy for the cost of conventional taxation.

As mentioned in their investigation of why countries become tax havens, Dharmapala and Hines (2007) stress the importance of the quality of governance. To measure governance, they create an index based on an average of five of the six governance indicators from Kaufmann et al. (2006), dropping "regulatory quality" because there is reason to suspect that, due to its construction, it has a mechanical correlation with the decision to become a tax haven. I use this same measure in my analysis.

Size and location are also potentially important variables. Small countries have been shown to be more likely to be tax havens by Dharmapala and Hines (2007), and Slemrod and Wilson (2007) argue that this occurs because the benefits are unrelated to size, while the costs are. To control for population size, I use a dummy variable to indicate countries with a population under 1 million. Location is potentially important, as this may affect the demand for the services offered by the sovereignty commercializing countries. To control for location, I include a measure for air distance to a major financial center, and dummy variables for four world regions. Related to both size and location, I use an indicator variable to control for being an island. I also include a measure for whether or not the country has had a recent colonizing or similar influence by Britain or the United States because such past ties may affect the probability that stamp collectors will be attracted to their stamps, or that countries can easily tailor their financial system to be tax havens or financial centers for money laundering.

Finally, I investigate the association of these choices with the amount of aid received per capita. The volume of aid could be a measure of exposure to sanctions and/or an indicator of need, even for a given GDP per capita. Indeed, Sharman (2006) argues that reduction in bilateral aid in the 1990s pushed small island countries toward offshore finance as a solution to development problems.

I also investigated a few other characteristics of countries that are plausibly related to the attractiveness of commercializing state sovereignty for which the analysis did not suggest a significant partial relationship with the three aspects of commercialization and for that reason are not included in the analyses reported here. One was the degree of exposure of a country's domestic economy to the world economy—measured as the ratio of imports plus exports to GDP—motivated by the notion that it may be associated with the effectiveness of potential sanctions against activities that other countries object to but arguably not affect the use of clearly benign commercial activities of sovereign nations.[20] I also examined the extent of tourism relative to size, and the degree of ethnolinguistic diversity. None of these measures has a significant association with the probability of a country undertaking any of the three activities, holding other characteristics constant; in the case of ethnolinguistic diversity, data availability severely limits the sample size.

C. Regression Analysis: Results

Table 5 shows the results of the three linear probability regressions, estimated as seeming-unrelated regressions (SUR) to allow for cross-equation correlations among the error terms.[21] We can reject the null that there is no cross-equation correlation among the error terms at the 1 percent level. The only substantial (and positive) cross-error correlation arises between tax

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[20]Alternative measures based on the amount of inward FDI would be attractive except that they are more likely to be endogenous with respect to tax haven status.

[21]The qualitative results reported also apply to multivariate probit estimation, with two notable exceptions. The partial effects of governance and GDP per capita on tax haven status move from marginal statistical significance to being insignificant, with *t* statistics of 1.08 and 0.64, respectively.

Table 5: SUR Regression Results

	Tax Haven	*Stamp Pandering*	*Money Laundering*
Governance index	0.05790*	0.12917***	–0.02303
	(0.03275)	(0.04819)	(0.04124)
GDP per capita	–0.00468*	–0.00734*	–0.00285
	(0.00257)	(0.00379)	(0.00324)
Agriculture	0.04551	0.98947***	0.15269
	(0.17767)	(0.26143)	(0.22374)
Adult literacy	0.11751	–0.22051	0.36163**
	(0.14323)	(0.21076)	(0.18038)
Aid per capita	–0.07131	0.61459***	0.21831*
	(0.10481)	(0.15422)	(0.13198)
Air distance	–0.00212	–0.01729	–0.02925**
	(0.00960)	(0.01412)	(0.01209)
Small population	0.40453***	0.11643	0.02906
	(0.05425)	(0.07983)	(0.06832)
Island	0.17548***	–0.03873	0.03731
	(0.05229)	(0.07695)	(0.06585)
U.K. or U.S. “colonial” influence	0.06235	0.07662	0.06243
	(0.04185)	(0.06158)	(0.05271)
Europe and Central Asia	0.06773	0.01176	–0.07651
	(0.06670)	(0.09814)	(0.08399)
Americas	0.18615***	0.18694**	0.03498
	(0.05678)	(0.08355)	(0.07151)
Middle East and Africa	0.08754	0.10454	0.02055
	(0.05366)	(0.07896)	(0.06758)
Constant	–0.14502	0.22284	–0.11722
	(0.13927)	(0.20493)	(0.17539)
N	194	194	194
R^2	0.550	0.311	0.114

NOTE: Standard errors in parentheses. ***indicates $p < 0.01$; **indicates $p < 0.05$; *indicates $p < 0.10$. The Breusch-Pagan test of independence rejects the null that there is no cross-correlation of the error terms across the three equations at the 1 percent level.

haven and money laundering status, suggesting that there is some unmeasured factor that affects the attractiveness of both activities.

1. Tax Havens

The results are broadly consistent with the finding of Dharmapala and Hines (2007) that good governance increases the probability that a country will be a tax haven, holding other factors constant. Unlike in their analysis, though, real GDP per capita also has a negative association with the likelihood of being a tax haven, which is statistically significant at the 10 percent standard. This correlation suggests that the value of revenue relative to the potential cost due to loss of integrity capital (or sanctions) is higher for poorer nations. Notably, though, the other variables that are meant to proxy for the difficulty of raising revenue (the importance of agriculture and the adult literacy rate) do not have a statistically significant partial correlation with tax haven status. This calls into question whether the choice of being a tax haven strongly fits the model's assumption that government revenue is its principal attraction. The region dummy variables for Africa and the Middle East and the Americas are significant and positive.[22] Being an island is also positive and significant, reflecting the fact that most tax havens are islands. The existence of a colonizing or territorial influence by the United States or Britain is positive, but lies just outside the 10 percent level of significance.

With some new findings, the basic results are familiar from the empirical analysis of tax havens presented in Dharmapala and Hines (2007). In what follows, I attempt to gain more insight into the varieties of how states commercialize their sovereignty by examining two other examples where the benignity is not as controversial: stamp pandering and money laundering.

2. Stamp Issuance

For pandering stamp issuance, the most striking result is that both the governance index and real GDP per capita have a statistically significant relationship of the same signs (positive and negative, respectively) as in the tax haven equation. Indeed, the point estimates of the partial effect in both cases are far larger in absolute value in the stamp pandering equation. The finding that poor and well-governed countries are more likely to use stamp pandering raises the possibility that the governance index may in part be picking up whether a country has the capacity to identify and carry out beneficial activities, in addition to poor countries seeing this as a way to raise funds when other funds are not readily available. In the case of stamp pandering, the percentage agriculture is also positive and significant, emphasizing the relative importance of raising otherwise difficult to raise funds in explaining this dimension of the commercialization of state sovereignty.

Size and some location variables are also significant. Having a small population is positively related to stamp pandering; this relationship lies just outside the 10 percent significance level. This is consistent with the notion

[22]The Middle East and Africa dummy becomes insignificant in the multivariate probit model.

that the benefit of issuing collectible stamps has a fixed per-country component. Unique among the three studied activities, aid per capita has a strong positive association with the likelihood of stamp pandering. This is consistent with the idea that aid is a (negative) measure of underlying affluence and the ability to raise revenue through taxation; if it is also (positively) associated with the cost of sanctions, it makes sense that this would be less of an offsetting factor for the one uncontroversial benign activity.[23] Being located in the Americas increases the probability that a country will produce pandering stamps relative to being elsewhere, just as in the case of tax havens. It is also interesting to note that being a British colony or U.S. territory is not significantly associated with issuing pandering stamps, even though the stamps in question have either a U.S. or British association. Island status does not have a significant partial association with stamp pandering.

3. Money Laundering

Facilitating money laundering is different from either being a tax haven or being a stamp panderer in at least two ways. First, its negative international spill-over effects are not controversial. Second, it does not obviously provide funds to the central government. However, it also shares some characteristics with the other two activities, in the interconnection with financial services and the necessity of some state support. For these reasons, it is especially interesting to investigate what characteristics of countries are associated with a country engaging in this activity, and how the relationships differ from, or are similar to, the other two activities.

Table 5 shows that the differences are just as striking as the similarities. Higher per-capita GDP has a negative association with the likelihood of facilitating laundering but, unlike for stamp pandering, this is not a statistically significant relationship. Notably, better governance is *not* positively related to money laundering and, indeed, the insignificant point estimate is negative. Nor is being small related to the propensity to facilitate money laundering, in contrast to the finding for both tax haven and stamp pandering status.[24] The importance of agriculture is not a significant correlate, nor

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[23]This explanation is not, however, consistent with the positive partial association of aid per capita with the Table 6 finding that aid per capita is also positively associated with being involved in any pair of sovereignty commercialization activities.

[24]Although the estimated coefficient in the stamp pandering equation is just short of being significantly different from zero.

is being an island. Clearly, being involved in money laundering is quite a different case than being a tax haven or stamp panderer. The list of countries involved suggests that this activity attracts some "rogue" states, and one suspects that the propensity to be a rogue state is not well measured by the set of explanatory variables investigated here.

Air distance is a significant and negative correlate, suggesting that it is preferable for a money laundering country to be closer to a major financial center, which is consistent with the connection to financial system presence. Somewhat surprisingly, adult literacy has a positive and significant association with being a money launderer.

D. Multiple, and No, Activities

With the exception of allowing covariance of the error terms in the SUR analysis, to this point the empirical analysis has for the most part treated the three aspects of commercialization of state sovereignty as separate activities. Table 6 reports the determinants of the probability that countries engage in pairs of activities, or none at all.[25] Of particular interest are the regression equations explaining the propensity to be a tax haven and a stamp panderer or to be a money launderer and a tax haven, as these pairs of activities are likely adjacent in an ordering based on how benign they are.

These results generally corroborate the narrative that has already been developed. Small countries and poorer countries are much less likely than otherwise to engage in none of the three aspects of commercialization of state sovereignty. Countries with a big agricultural sector, which, other things equal, find it more difficult to raise tax revenues, also are less likely to resist engaging in any of the three studied activities. The same is true for countries in Africa or the Middle East, which may be picking up otherwise unmeasured aspects of a country that make commercialization of state sovereignty attractive. For the most part, the same characteristics that are associated with being a stamp panderer or a tax haven separately are associated with doing both. Many fewer characteristics are related to the likelihood of being a money launderer as well as either of the other two behaviors, undoubtedly because the analysis is much less successful in identifying which countries choose to facilitate laundering; a notable exception is aid received: the more aid

[25]Each country that is a stamp panderer and a money launderer is also a tax haven, so the results for countries that are both of the former are identical to the results for countries that are all three.

Table 6: Multiple, or No, Activities Regression Results

	None	*SH*	*HM*	*SM*
Governance index	–0.08639	0.03909	0.03856	0.01584
	(0.05859)	(0.02799)	(0.02808)	(0.02315)
GDP per capita	0.00753	–0.00483**	–0.00250	–0.00123
	(0.00460)	(0.00220)	(0.00221)	(0.00182)
Agriculture	–0.99570***	0.04247	0.14950	0.11739
	(0.31786)	(0.15185)	(0.15234)	(0.12558)
Adult literacy	–0.14788	0.00585	0.10490	0.08885
	(0.25625)	(0.12241)	(0.12282)	(0.10124)
Aid per capita	–0.19552	0.28159***	0.28449***	0.34971***
	(0.18750)	(0.08957)	(0.08987)	(0.07408)
Air distance	0.03398**	–0.00763	–0.00705	–0.00247
	(0.01717)	(0.00820)	(0.00823)	(0.00678)
Small population	–0.27945***	0.16016***	0.11041**	0.05150
	(0.09705)	(0.04636)	(0.04652)	(0.03834)
Island	–0.14470	0.02189	0.00747	0.03589
	(0.09355)	(0.04469)	(0.04484)	(0.03696)
U.K. or U.S. “colonial” influence	–0.13881*	0.06379*	–0.00120	0.00289
	(0.07488)	(0.03577)	(0.03589)	(0.02958)
Europe and Central Asia	0.02459	0.03078	–0.00321	–0.00286
	(0.11932)	(0.05700)	(0.05719)	(0.04714)
Americas	–0.14957	0.14920***	0.10930**	0.07726*
	(0.10159)	(0.04853)	(0.04869)	(0.04014)
Middle East and Africa	–0.18228*	0.00766	0.02270	0.01808
	(0.09600)	(0.04586)	(0.04601)	(0.03793)
Constant	0.96304***	0.00530	–0.08166	–0.10449
	(0.24917)	(0.11903)	(0.11942)	(0.09844)
N	194	194	194	194
R^2	0.292	0.366	0.243	0.277

NOTE: Standard errors in parentheses. ***indicates $p < 0.01$; **indicates $p < 0.05$; *indicates $p < 0.10$. None corresponds to not being a tax haven, stamp panderer, or money launderer. SH corresponds to being a stamp panderer and a tax haven. HM corresponds to being a tax haven and a money launderer, SM corresponds to being a stamp panderer and a money launderer. The results for countries that are stamp panderers, tax havens, and money launderers are the same as SM, and are not repeated here.

received, the more likely is a country to be involved in two or more aspects of commercialization of its sovereignty.

VI. Summary

The data analysis provides support for the idea that commercialization of state sovereignty is more likely in countries where it is more difficult to raise revenue in alternative ways, and less support for the role of costs of commercialization related to integrity and, for less benign activities, sanctions. The examined examples of commercialization that are more likely to directly raise revenue (stamp pandering and tax havens) are more attractive to poorer countries, and stamp pandering is more attractive to more agricultural countries at a given level of per-capita income. This provides some support to the notion that when revenue is difficult to raise in other ways, revenue-raising commercialization becomes more attractive. Plausible indicators of the potential effect of sanctions, such as the extent of tourism and trade, do not explain the likelihood of facilitating money laundering or being a tax haven. Only for stamp pandering does foreign aid associate positively, which is consistent with the idea that for the other two activities, the threat of losing foreign aid offsets the otherwise positive effect due to its correlation with need.[26]

Being a tax haven or a stamp panderer is more attractive to small countries, a finding that is consistent with the Slemrod and Wilson (2007) hypothesis about tax havens that the benefits are unrelated to size but the costs are. The results corroborate and extend the Dharmapala and Hines (2007) finding that good governance is associated with tax haven status. Notably, governance has no partial association with the probability of being a money launderer. Thus, there is no evidence that bad governance as measured by the World Bank is associated with international unlawfulness. The fact that governance matters positively for the propensity to be a stamp panderer as well as to be a tax haven expands the Dharmapala-Hines interpretation that governance proxies for a country's credibility, and suggests that governance may also be associated with the capability to undertake domestic welfare enhancing activities and may help to explain why more of the most desperately poor nations of the world are not involved in the commercialization of state sovereignty.

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[26]See, however, the qualification in footnote 23.

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Appendix

Country/Territory Universe

Countries and territories are included if they are a U.N. member or an internally self-governing territory of a U.N. country (where internally self-governing or its equivalent is declared by the U.N. country or the CIA *World Factbook*). The one exception is Liberia, which is excluded, following Dharmapala and Hines (2007), because of recent political turbulence. To be included in the analysis, data on all the regression variables must be available.

Sources for the definition of internally self-governing: CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook), Department for Constitutional Affairs, U.K. (http://www.dca.gov.uk/constitution/crown/crwdep.htm), Foreign & Commonwealth Office, Overseas Territories Country Profiles, U.K. (http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1013618138315), and Office of Insular Affairs, U.S. (http://www.doi.gov/oia/).

Tax Haven Status

This binary dependent variable is constructed using OECD (2000). The variable takes on a value of 1 if the country is a tax haven. A country is designated as a tax haven in the data set if it is among the list of 41 countries designated by the OECD in 2000 as a tax haven (either cooperative or noncooperative). The OECD's definition of a tax haven requires that the jurisdiction in question "has no or nominal taxation on financial or other service income and offers or is perceived to offer itself as a place where non-residents can escape tax in their country of residence. Other key factors are used to confirm the existence of a tax haven . . . that focus on transparency, exchange of information, and local business activities of foreign enterprises. The fact that a jurisdiction may impose no or nominal tax on the relevant income is a necessary but not sufficient condition for the jurisdiction to be considered a tax haven. Whether a jurisdiction meets the tax haven criteria is determined based upon all the facts and circumstances, including whether the jurisdiction has a significant untaxed offshore financial/other services sector relative to its overall economy" (2000:10).

Money Laundering

This dependent binary variable is constructed using the FATF Non-Cooperative Countries and Territories (NCCT) Reports (2000–2006) (http://www.fatf-gafi.org/findDocument/0,3354,en_32250379_32237267_1_32247550_1_1_1,00.html). The variable takes on a value of 1 if the country is a money launderer. A country is designated a money laundering site if the FATF categorized it as such during the evaluations issued between 2000 and 2006. The criteria it uses to identify money laundering countries were set out in its February 2000 report and fall into four major categories: (1) "No or inadequate regulations and supervisions of financial institutions," (2) "Inadequate rules for the licensing and creation of financial institutions, including assessing the backgrounds of their managers and beneficial owners," (3) "Inadequate customer identification requirements for financial institutions," and (4) "Excessive secrecy provisions regarding financial institutions" (2000:10) The FATF evaluated countries approximately once per year.

Stamp Pandering

This binary dependent variable was constructed using data from the American Topical Association and the author's calculations. It takes on a value of 1 if the country issues large quantities of distinct stamp varieties that depict what I refer to as a "pandering" subject. I consider three examples of pandering subjects: stamps that depict Elvis Presley, stamps that depict Princess Diana (or one of her children), and stamps that depict a Disney character. I aggregate all issues over the relevant periods (the date of his death for Elvis, the date of her wedding to Prince Charles for Princess Diana, and for Disney the year of the first stamps depicting such characters). I then convert the number of stamps issued into a binary variable by choosing a cut-off number of stamps that produces the top 25 or so countries in each of the three categories. Combining these three measures, I generate a single "stamp pandering" measure, which takes on a value of 1 if a country pandered with respect to any of the three individual measures.

Governance Index

This index was constructed by Dharmapala and Hines (2007). They take the average of five of the six governance measures calculated in Kaufmann, Kraay, and Mastruzzi (2006) for 2004. The measures used are: (1) "voice and accountability," (2) "political stability," (3) "government effectiveness," (4) "rule of law," and (5) "control of corruption." The sixth subindex, "regulatory quality," is not used because there is reason to suspect that, due to its construction, it has a mechanical correlation with the decision to become a tax haven. Each measure is centered around 0 and has been normalized so that it ranges from −2.5 to 2.5. If some of the measures are missing for a given country, the average is constructed using the available measures.

GDP per Capita

These data were constructed by Dharmapala and Hines (2007). The primary source for this measure is World Development Indicators Online (WDI) (http://econ.worldbank.org) for 2004. If they are unavailable from WDI for a given country, the data come from the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook) for 2004, or the nearest year available. GDP per capita is constructed by these sources in U.S. dollars using the PPP formulation.

Agriculture

This measure comes from the the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook) for 2004, or the nearest year available. It is measured as the percentage of GDP generated by agriculture.

Adult Literacy

This measure comes primarily from the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook). The data source for Tuvalu and Kiribati is the "NZAid Annual Review—2004–05" (www.nzaid.govt.nz/library/docs/ar-nzaid-2004-05.pdf). For Solomon Islands, the source is *Human Development Report 2006* (hdr.undp.org/enreports/global/hdr2006). All data are for 2004, or the nearest year available. However, if more recent factbooks choose to revert to older data for a given country, I also use data from the earlier year. Adult literacy is most commonly defined as the percentage of the population "age 15 and over [that] can read and write" (CIA *World Factbook*). In a few cases, countries have a lower age specification or have a different stipulation than read and write (e.g., the stipulation for Hong Kong is "ever attended school" (CIA *World Factbook*)). For more details on how it was calculated for specific countries, see the country's source.

Air Distance

This measure comes from Gallup et al. (1999). If it is missing for a given country, the data come from WebFlyer (http://www.webflyer.com/travel/milemarker/). If it is missing from both sources, it is assigned the value of the nearest country. Air distance was defined by Gallup et al. (1999) as the

"the smallest distance of the country's capital city to one of the following three cities: New York, Rotterdam, or Tokyo" (Gallup et al., 1999:4–5). It is measured in kilometers.

Small Population

This binary measure was constructed using population data primarily from WDI (http://econ.worldbank.org) for 2004. When data for a given country were not available from WDI, the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook) data were used for 2004, or the nearest year available. The variable equals 1 when the population is under 1 million, 0 otherwise.

Island Status

This measure was constructed using information from the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook). The binary variable takes on a value of 1 when the country is defined by the *Factbook* as an island or group of islands, archipelago, or group of atolls, 0 otherwise. Note that countries such as Haiti and the Dominican Republic, which share a single island, are both counted as islands according to this measure.

Net Inflow of Foreign Aid per Capita

This measure comes primarily from WDI (http://econ.worldbank.org) for 2004, or the nearest year available. When data for a given country were not available from WDI, the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook) data for 2004, or the nearest year available, were used instead. The variable is constructed as inflow of foreign aid and development assistance, net of repayments, divided by the population.

World Regions

This measure was constructed by Dharmapala and Hines (2007). It is based on the World Bank system of regional classifications. It classifies regions exclusively for low- and middle-income economies, so this definition is expanded to all countries in the data set. The resulting regions are: (1) Americas ("Latin America and the Caribbean" and North America), (2) Middle East and Africa ("Middle East and Northern Africa" and "Sub-Saharan Africa"), (3) "Europe and Central Asia," and (4) Asia and the Pacific ("South Asia," "East Asia and the Pacific," and Australia). There is a binary variable for each region that takes on a value of 1 for each country that is in the given region, 0 otherwise.

Colony of Britain or United States

This binary measure was constructed using data from the Institute for Commonwealth Studies (http://commonwealth.sas.ac.uk/rg_colonies.htm), the Office of Insular Affairs (http://www.doi.gov/oia/), and the CIA *World Factbook* (www.cia.gov/library/publications/the-world-factbook). This variable takes on a value of 1 if it was or is a "colony" of the United Kingdom or the United States. For the United Kingdom, we include all "Former British-Administered Territories and Commonwealth Countries" that gained their independence after 1900 or became part of the Commonwealth, as defined by the Institute for Commonwealth Studies. For the United States, we include all current and former U.S. possessions and territories.