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Equality of Opportunity Research Series #27
July 2023

University of Zurich[UZH]

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URPP Equality of Opportunity Discussion Paper Series No.27, July 2023

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The EU and the Politics of Blacklisting Tax Havens*

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July 3, 2023

Abstract

Blacklisting is a widespread and controversial instrument designed to induce tax havens to change their domestic policies. Since the Global Financial Crisis, several international organizations like the OECD and the EU have published tax haven blacklists, but these lists have been widely criticized as a flawed policy tool. In this paper, we use a mixed methods approach to explore the political rationale behind the establishment of the EU blacklist, and the causal mechanisms through which the list was expected to exert influence over governments in tax havens. First, we draw on process-tracing and expert interviews to establish that the list was less designed as an effective policy tool to induce compliance with international standards, and more as a political impetus to shape the overall problem definition, strengthen the Commissions bargaining position, and influence public opinion. Second, we conduct a survey experiment in Switzerland to determine if using a blacklist to name-and-shame and threaten economic sanctions can effectively shape public opinion in a low-tax jurisdiction. We find that "naming-and-shaming" and "economic threat" have a statistically significant effect on public opinion in favor of tax reform, but that this effect is modest.

*We gratefully acknowledge funding from the URPP Equality of Opportunity fund at the University of Zurich and the Social Sciences and Humanities Research Council of Canada.

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The European Union list of non-cooperative jurisdictions for tax purposes (EU blacklist) was first published in 2017 as a response to tax avoidance in the EU and beyond. At the time, 92 non-EU countries were screened for compliance with tax transparency, fair tax competition and anti-profit shifting regulations. Out of these 92 countries, 17 were placed on the blacklist, a mix of small island states and larger countries such as South Korea, Mongolia and Namibia.

With this first tax haven blacklist, the EU followed in the footsteps of other international organizations and states who have tried to "name and shame" and threaten economic sanctions, in order to induce secrecy jurisdictions to change their tax laws and commit to international cooperation. The Organization for Economic Cooperation and Development (OECD) published its first list of jurisdictions considered to be tax havens already in 2000. That same year, both the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) published lists of offshore financial centers they deemed non-cooperative with respect to money laundering and as posing a severe risk to international financial stability, respectively. In 2008, the International Monetary Fund published a list containing 52 tax haven jurisdictions. The non-profit Tax Justice Network regularly updates its list of more than 90 secrecy jurisdictions. Meanwhile, even though not universal, tax haven blacklists are nevertheless very common at the national level as well (Sharman, 2010).

The fact that so many international institutions, states and non-profit organizations publish tax haven blacklists is puzzling, since the effectiveness of such "naming and shaming" methods is highly disputed. The OECD and FATF blacklists seem to have had no effect on banking investment in and out of the listed tax havens (Kudrle, 2009), even though the threat of being put on a blacklist and potentially experiencing future economic damage might have pushed some states towards complying with new regulatory standards (Sharman, 2009). Furthermore, the rationale by which some countries are placed on the blacklists is anything but obvious, with small island states often times being included on such lists as a matter of fact, and recurrent mistakes in country names an indication that lists are simply being copied from one institution to the next (Sharman, 2010). Not least, in a globalized world with highly mobile networks of professionals and elites, the methodological nationalism of blacklists seems out of place (Cooley and Sharman, 2017).

The current paper therefore uses a mixed-methods approach to look at the rationale behind creating the EU tax haven blacklist. Using process-tracing, expert interviews and a survey experiment in Switzerland, we find that the blacklist was less designed as an effective policy tool to induce compliance with international standards, and more as a political impetus to shape overall problem definition and influence public opinion.

This paper contributes to a number of important international relations literatures. First, rankings, benchmarks, and global performance indicators, of which blacklists are one example, have become widely used in international relations. Various scholars have theorized the mechanisms through which these instruments might be effective (Busby and Greenhill, 2015; Broome and Quirk, 2015; Cooley and Snyder, 2015; Kelley and Simmons, 2015; Morse, 2019), and we add to this literature by exploring popular reactions, a crucial mechanism, in this domain. Many of these policy initiatives rely on public outrage to pressure governments into complying. Scholarship so far has, however, not looked into whether this crucial popular support mechanism actually works, even though research on mass attitudes with respect to other economic issues, such as international trade and foreign direct investment, is becoming more popular (Colantone and Stanig, 2018; Mansfield and Mutz, 2009; Milner and Tingley, 2011). The latter studies have yielded insights into the relationship between public opinion and policy making in a globalized economy and shown how essential mass attitudes towards key political economy phenomena are for understanding policy choices ultimately made by authorities. Very few scholars have, however, studied public opinion on one of the most important

and controversial aspects of global political economy: international taxation (Kneafsey and Regan, 2020).

Second, the focus on the EU blacklist allows us to better understand how the EU shapes international (tax) developments. While research at the intersection of political science and political economy has been increasingly prolific in analyzing international tax governance, the role of the G20 and OECD or the power of the US (Christensen and Hearson, 2019; Eccleston and Smith, 2016; Hakelberg, 2020; Lips, 2019; Rixen, 2008), the EU has not received the same attention (Christensen, 2021; Römgens and Roland, 2021). So far left unexplored, the EU blacklist not only provides new insights into EU tax policy, it also illustrates the multifaceted but often underestimated role of the EU on the international stage.

Lastly, this paper seeks to make a contribution to the ever-expanding politicization literature. Politicization of a certain issue is generally understood to occur through a process of increasing issue salience, involvement of an expanding range of collective actors, and growing polarization (Börzel and Risse, 2018; De Wilde, Leupold and Schmidtke, 2016; Grande and Hutter, 2016; Voltolini, Natorski and Hay, 2020). Across all three dimensions, public opinion and pressure is a key factor. Although the politicization of corporate taxation in the EU has recently been analysed in relation to policy change, the dimension of public pressure deserves more attention (Römgens and Roland, 2021). This paper seeks to address this missing link by combining an analysis of politicization at the top (Schmidt, 2019) in case of the EU blacklist, with a look into public opinion on corporate tax reform in one of Europes most significant tax havens.

1 The EU blacklist

The EU list of non-cooperative jurisdictions for tax purposes — henceforth "the EU blacklist" — was first published on 5 December 2017 and included 17 jurisdictions.[1] The development of the EU blacklist was announced earlier, in 2015, as part of the European Commissions action plan for "a fair and efficient corporate tax system in the European Union" (European Commission, 2015). Its claimed intention was to develop a coordinated approach "to promote tax good governance globally" and to ensure a level-playing field between the EU and "third countries that refuse to respect tax good governance standards" (European Commission, 2016, 9).

The blacklist is made up of third countries only, which means that EU member states are not included. The third countries are screened by the Code of Conduct Group Business Taxation (COCG), an intergovernmental, legally non-binding instrument of the EU that was set up in 1997 to "identify and assess possible harmful preferential tax measures" (Council of the EU, n.d.) and is made up of representatives from all EU member states. While the groups primary focus is on the EU itself, its work extends beyond those borders.

There are three main criteria to assess whether a third country is cooperative for tax purposes, or not. The first criterium is tax transparency and is primarily concerned with a countrys commitment to both the automatic exchange of information (AEoI) and exchange of information on request. This criterium is directly linked to compliance with international standards set by the OECD.[2] The second

[1]These were: American Samoa, Bahrain, Barbados, Republic of Korea, United Arab Emirates, Grenada, Guam, Macao SAR, Marshall Islands, Mongolia, Namibia, Palau, Panama, Saint Lucia, Samoa, Trinidad and Tobago, Tunisia. 47 other jurisdictions, including Guernsey, Jersey, Hong Kong, Liechtenstein, and Switzerland were put on a grey list, and the review was postponed for 9 jurisdictions in the Caribbean region because of the hurricanes in September 2017.

[2]The European Union refers to the common reporting system (CRS) established by the OECD, and to the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCMAA).

criterium is fair taxation, which evaluates whether a jurisdiction offers preferential tax measures that could be considered harmful or facilitates offshore structures "aimed at attracting profits which do not reflect real economic activity in the jurisdiction" (Council of the EU, 2016, 6). Finally, cooperative countries should commit to the effective implementation of anti-BEPS minimum standards of the OECD, for which compliance is determined in peer-review assessments.

In case a listed country would fail to comply with these criteria, both the EU and its member states are entitled to impose defensive measures in non-tax and tax areas (see Annex for full overview). Third countries could be excluded from certain EU funds, such as the European Fund for Sustainable Development (EFSD) and the European Fund for Strategic Investments (EFSI). In the area of taxation, EU member states can take administrative measures that increase monitoring of transactions as well as taxpayers who benefit from listed jurisdictions. Member states can also take legislative measures that would levy some type of taxes on (previously) exempted income.

As of October 2021, the blacklist included only 9 jurisdictions: American Samoa, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, US Virgin Islands, Vanuatu. Jurisdictions that do not meet the necessary criteria but have shown commitment to comply, can also be placed on what is commonly known as the grey list. Switzerland was placed on the grey list when it was first published in December 2017 but was subsequently removed in October 2019 when the Council found it "to be compliant with all commitments on tax cooperation" (Council of the EU, 2019).

2 *The politics of blacklisting*

Blacklists are expected to work through to two principal mechanisms. First, blacklists aim to "name and shame": by spotlighting certain countries' deficiencies, the blacklist creators hope that the targets will seek reform due to reputational and legitimation costs. Naming and shaming is used in particular by states, international institutions, nongovernmental organizations, and news media with respect to human rights abuses (Keck and Sikkink, 2014; Risse et al., 1999), although in recent history it has also spread more widely to other domains, such as environment, money laundering, non-proliferation or intellectual property rights (Kelley and Simmons, 2015).

Notwithstanding the proliferation of "naming and shaming" tactics, the findings from the literature are very mixed as to whether they actually have an effect. When examining human rights violations in the aggregate, governments put in the spotlight for abuses seem to continue and even increase violations, either because publicity threatens their hold on power, or because they have to further repress nonstate actors that use terror to gain global exposure (Hafner-Burton, 2008). When, however, looking at specific types of rights violations, transnational advocacy networks do seem to have the potential to reduce the severity of genocides through "naming and shaming" tactics (DeMeritt, 2012; Krain, 2012). The effectiveness of these tactics might furthermore be dependent on both specific institutional contexts, and the source and targets of the shaming. Democracies and hybrid regimes paradoxically make rulers less likely to change their course of action as here leaders can better estimate domestic political costs and benefits and therefore sometimes ignore international norms (Hendrix and Wong, 2013). By grouping various actors, blacklists can also have the unintended consequence of creating new alliances that push back against the stigmatization (Sharman, 2006). With respect to sources of shaming, some actors have much more clout and can either generate more confidence in the appropriateness of the blacklisting (Lebovic and Voeten, 2009), or can withdraw much-needed funds from shamed countries (Esarey and DeMeritt, 2017).

This last point brings us to the second mechanism through which blacklists are expected to work:

the threat of economic sanctions and restrictions. Often, blacklists not only name "bad" actors, but also impose financial costs on targeted states. The latter can range from imposing withholding taxes, and limiting access to settlement systems and clearing houses, to trade bans, economic embargoes, and revoking banking licenses. Such sanctions are expected to coerce the targeted actor into changing its behavior. Nonetheless, the larger literature on sanctions points out that in a majority of cases, sanctions are ineffective (Bapat et al., 2013; Hufbauer, Schott and Elliott, 1990; Pape, 1997). Sanctions can be withstood or circumvented through increased shadow activity (Andreas, 2005) and third-party states who engage in sanctions-busting behavior (Early, 2009). Elites often times can circumvent traditional sanctions more easily than the larger population, leaving policies in place (Shagabutdinova and Berejikian, 2007). On the other hand, "smart" sanctions can sometimes work, as select actors can be more efficiently coerced than states (Drezner, 2011; Masciandaro, 2005). With respect to blacklists more specifically, studies here have also found mixed effects with respect to their efficiency, some arguing no effects are found (Kudrle, 2009), others highlighting that if there is credibility and severity of financial and reputational costs, blacklists work (Eggenberger, 2018), while yet others finding that reactions differ depending on the potential for countermeasures to be enacted (Rusina, 2020).

The conditional findings from both the "naming and shaming", as well as the economic sanctions literature, seem to suggest that studies here rely on a number of implicit, but undertheorized assumptions. One important oversight, which we address in this paper, is that scholarship has neglected to carefully look at the public reaction to blacklisting. Who the actors that are shamed are, and what their emotional response to shaming is, are important indicators for whether blacklisting will work (Ilgit and Prakash, 2019). Different shades of shame can elicit different types of responses. "Constructive shame" for instance might motivate actors to do better, while "primitive shame" is more a narcissistic inability to tolerate mistakes, which might incline actors to lash out and defend themselves (Nussbaum, 2004). Similarly, groups can experience "moral shame", when the group's actions violate an important moral value, or "image shame," when their social image has been tarnished, with different types of implications (Rees, Allpress and Brown, 2013). Criticism can result in embarrassment or guilt, depending on a group's position vis-a-vis others (Subotic and Zarakol, 2013) so that often times strategies that are supposed to elicit shame and compliance, only end up creating anger, rejection or defiance. Most current studies rely on market indicators to gauge reactions, and not the public's response to blacklisting, an important puzzle concerning the effectiveness of these instruments (see Ausderan (2014) for an exception).

3 *Political rationale behind the EU blacklist*

In the previous section we described two general mechanisms through which tax haven blacklists could exert influence: naming and shaming, and economic threat. We took a broader view of those mechanisms, and explained that they were shared by several related policy instruments in international relations, outside the field of taxation. We also noted that prior research had yielded mixed results with respect to the efficacy of those mechanisms.

Now, we bring the focus back to the EU listing of tax havens. We draw on original elite interviews and on secondary literature, in an attempt to gauge the political rationale behind the EU tax haven blacklist. In terms of effectiveness and consequences, the EU - as a powerful and credible actor - should have had the ability to influence the behaviour of targeted states. We, however, argue that the blacklist failed to provide an appropriate and legitimate policy instrument and should be

understood as a political impetus in the context of politicization of corporate taxation instead (Roland and Römgens, 2022). We arrive at this conclusion through a discussion of both the critiques and positive feedback on the EU blacklist, from various perspectives.

The EU blacklist has been subject to much criticism, which can be divided into several categories. First, the criteria and listing process itself have been contested. While the first and third criteria are easily "measurable" (Int_3, NGO Member), the second criterion of fair taxation is less straightforward and allows for "backroom politics and the exclusion of jurisdictions that should be listed in the name of diplomatic interests" (Lips and Cobham, 2017, 8). This lack of legitimacy in the listing process is reinforced by the fact that the screening of the third countries is undertaken by the COCG, an EU body regularly criticized for its secretive character and non-transparent working mode (Nouwen, 2020):

> "*...when council conclusions were published, and these criteria were outlined, this was the first thing that we said: well, you have three criteria, but () you would need to tell us what is tax fairness. For instance, one of the main discussions was around would, for instance, zero percent tax be included as a criterion against tax fairness or not? Some would argue, "well, yes" or "no", but not having this information, you also don't fully understand how some of these countries were assessed, and why some of them were not included in the blacklist in the end*" (Int_3, NGO Member).

Second, the hypocrisy of the blacklists has often been pointed out. As Staffans (2016) notes, the EU blacklist is no exception as it constitutes "another example of European double standards", which is evident in the conspicuous absence of several powerful and rich countries that function as crucial centers in the global offshore system. This is a problem for blacklists as policy tools but also applies to methodological definitions often used by scholars (see Cobham, Janskỳ and Meinzer (2015) for a detailed argument). It leads to "scapegoating" of the usual suspects (Janskỳ, Meinzer and Palanskỳ, 2018) that are often small economies compared to the EU own tax havens, such as Luxembourg, Ireland and the Netherlands. The usual suspects themselves have also emphasized the contradictions behind the blacklisting practice, as Crasnic (2022, 18-9) has demonstrated in the case of the Bahamas when it was threatened to be put on the OECDs blacklist in the early 2000s. Because of incomplete blacklists, the problem, namely tax avoidance and evasion by corporations and rich individuals, can only be partly tackled, given that European countries (including the UK and Switzerland) are responsible for nearly 44% of global tax losses, while lower-income countries account for only 2% (Cobham et al., 2020).

Third, Dean and Waris (2021) have rightfully pointed out that such blacklists continuously reinforce the racialized image of tax havens as tropical island nations and predominantly "Black" and "Brown" jurisdictions, and therefore contribute to existing dynamics of dependency and global inequality. The EU blacklist is no different. As a worst case, rich western countries wield their (economic) power to force small economies out of the tax haven business to make their own beneficial tax regimes more competitive. Indeed, the EU blacklist "also has a very simple other message: if we are too tough on business [in the EU] and business has a better deal outside, we can make the outside less sweet." (Int_7, EU official). This can have a destructive impact on developing countries specifically. The scope of the (grey) list was, indeed, "poorly defined" (Int_5, OECD Official) because it featured many developing countries, such as Namibia or Mongolia, which were structurally unable to implement the OECD standards (CRS or BEPS):

> "*I believe that the scope of their list was poorly defined from the start because they included developing countries. And you can't, in my opinion, ask developing countries*

like Namibia, Swaziland or Mongolia to do automatic information exchange, otherwise they would be blacklisted. And that, frankly, is a mistake they made, in my opinion" (Int_5, OECD Official).

Hence, the last point of critique relates to the much-repeated lack of inclusivity in the setting of global tax policy. The EU blacklist exacerbates this as international standards set by the OECD and its 36 rich and powerful members that headquarter the majority of the worlds largest corporations feature so prominently in the criteria determining a (un)cooperative jurisdiction. The EU blacklist functions as another tool to force unwilling developing countries into what Dean (2021, 3) has called "predatory cooperation" where benefits are concentrated within a small group of rich countries, while burdens and costs of these regulatory arrangements also fall on developing countries. As such, the reference to international standards of information exchange can be understood as an attempt to whitewash European tax havens:

"*It was precisely the implementation of these international standards that also serve as criteria for the European list. So, even if tomorrow we were to evaluate the Member States according to these criteria, it is normal, by definition, that none of them would be on the list*" (Int_2, National Official).

While the EU blacklist proved to be a flawed policy tool in many respects, it had the merit that it contributed to the politicization of corporate taxation in the EU and beyond as it stimulated political dynamics in the fight against tax evasion and tax avoidance. First, the blacklist has "brought lots of positive things" (Int_3, NGO Member) and "shaken up things" (Int_4, NGO member), because it developed relatively plausible criteria for the blacklisting process, including tax transparency and harmful tax practices. As such, the blacklist went beyond the criteria of tax transparency alone and broadened the problem definition of tax haven:

"*We have always called for a blacklist of tax havens because it is a good way to recognize the problem. The big problem is how to recognize the problem properly? And to recognize the problem, we need criteria. The European Union was the first to create, to be an enormous economic power that created criteria that included transparency and harmful tax practices. This was quite innovative in terms of blacklisting tax havens*" (Int_4, NGO Member).

Moreover, according to some the listing process has actually pushed the Code of Conduct Group (COCG) to increase openness with regard to their decision-making process:

"*The Code has made a lot of improvements regarding sharing information. Any time they take a decision, they release a lot of background information just after, not three years after, especially on the blacklist. (...) They released all information about: what were the schemes that were problematic? What were the letters from all the jurisdictions? They share a lot. I'm not sure if there is any other process at European level that is as transparent now.*"(Int_6, NGO member)

Not only did it change this intra-EU institutional dynamic, it also had an effect on the OECD. The blacklist had the benefit that it was "more challenging" (Int_1, EU Official, Commission) and "largely inspired the work of the OECD" (Int_2, National Official). At that time, the OECD list took only into consideration whether jurisdictions complied with transparency requirements (exchange of information on request) and included a single country: Trinidad and Tobago (OECD, 2017). By contrast, the EU blacklist followed "a much broader approach", whose principles were ultimately "taken over" by the OECD (Int_2, National Official):

"*The OECD list at the beginning was only transparency. Moreover, there was only one state on it, which was Trinidad and Tobago. So the European Union took a much broader approach, which was much criticized at the time, including indirectly by the OECD. Today, the OECD also evaluates harmful taxation. So clearly, the OECD has in a way taken over the principles of the European list*" (Ibid).

By integrating the BEPS standards into the criteria of the blacklist, the EU was indeed able to "create its own dynamic" and "take the lead" (Int_5, OECD Official). As such, the "competition" between the EU and the OECD became "stimulating" (Int_1, EU Official, Commission), because "after years of seeing the OECD fool around", the OECD had "to get a little tougher in the way it reviews certain countries" or otherwise taking the risk of "making a fool of itself next to the European Union" (Int_4, NGO Member).

Finally, the blacklist was only one of several initiatives launched by the Commission to address the problems of tax evasion and tax avoidance. Although it failed to capture EU tax havens, those were not entirely left off the hook either as they were explicitly targeted by two additional initiatives: the European Semester and the state aid investigations. In 2014, the Commission started to formally investigate whether the tax rulings some member states (e.g., Luxembourg, the Netherlands or Ireland) granted to multinational companies (e.g. Apple, Amazon, Starbucks or Ikea) were compatible with EU state aid rules. Because of the companies involved and the amounts of unpaid taxes to be recovered (13 billion in the case of Apple and Ireland alone), the state aid investigations enjoyed considerable media attention worldwide (Heath, 2016). More importantly, the state aid investigations openly incriminated EU tax havens by revealing the complicity of their governments and tax authorities in large-scale tax avoidance schemes, which "were no longer seen as victims but as partners in crime" (Roland and Römgens, 2022, 8). The EU tax havens were also under scrutiny in the framework of the European Semester after Commissioner Moscovici publicly exposed them as "tax black holes () where aggressive tax planning is taking place" (Figaro, 2018). Based on a detailed report on "aggressive tax planning indicators" (European Commission, 2017), the Commission pointed the finger at several member states, including Luxemburg, Ireland, Belgium, the Netherlands, and Malta (European Commission, 2018). These findings were then included in the European Semester, which allowed the Commission to name-and-shame the EU tax havens and provided "a supplementary and softer form of nudging member states away from aggressive tax planning mechanisms" (Van Cleynenbreugel, 2019, 245). As such, the European Semester "has become a kind of a blacklist" (Int_4, NGO Member).

These qualitative insights are consistent with assessments of the consequences of the blacklist by academics and NGOs. Indeed, studies suggest that the blacklist has been a contributing factor toward a reform of over 100 harmful tax practices in 40 countries (Oxfam, 2019), an increase in the likelihood of listed countries to join the inclusive framework of the OECD (Oei, 2021), and to the implementation the BEPS minimum standard (Collin, 2020). Although the blacklist is "not legally binding" and only the result of "simple political declarations" (Int_2, National Official), it was therefore a "step forward" because the blacklisted countries "have committed to certain measures" and "are indeed implementing some of the commitments that they have made" (Int_3, NGO Member).

This section argued that the EU blacklist was developed as a political impetus, whose emergence can only be understood against the backdrop of the politicization of corporate taxation. First, it served to uphold public awareness for the issues of tax havens and tax abuse by large corporations and rich individuals. As part of a broader set of policy initiatives, it also helped to demonstrate the political commitment of the European Commission and its image as a front-runner in the fight against tax havens and avoidance. Finally, the dynamics of the EU blacklist were used to move international

discussions forward and push the OECD into more ambitious approaches. The remainder of this paper will explore whether the politicization of corporate taxation and specifically tax havens is also reflected in public opinion. Increasing issue salience as well as polarization of opinions are key characteristics of politicization processes (De Wilde, Leupold and Schmidtke, 2016). We are interested to find out whether a (flawed) policy instrument, such as the EU blacklist can influence public opinion within a country that could be threatened to be put on the EU blacklist and, in that manner, help create a bottom-up demand for change.

4 *Blacklisting and public opinion: A survey experiment in Switzerland*

So far, we have focused on the question of elite-driven political change, by emphasizing the process of politicization 'at the top' that accompanies the blacklisting process. Now, we consider an alternative causal pathway through which naming and shaming and the threat of economic sanctions could effect policy change: public opinion.

One of the implicit goals of the EU blacklist is to change the political incentives of policy makers in offshore financial centers, to convince them to change policies or strengthen international cooperation. One way to change the incentives of politicians is to influence the views of the voting public. If the citizens of a tax haven are convinced that appearing on a blacklist will hurt their country's reputation or economy, they may be more likely to support tax reform.

To test this intuition, we conducted a survey experiment with 1200 Swiss respondents in February 2022. Our 1200 respondents were recruited to match population quotas by language spoken, gender, age and educational levels. We begin the experiment by asking all respondents to read a very short statement about the possibility of Switzerland being placed on the EU's tax haven blacklist:

> *Many politicians and activists have asked the European Union to place Switzerland on its official blacklist of tax havens.*

The respondents are then randomly assigned with equal probabilities to one of three treatment groups: Control, Naming-and-Shaming, or Economic Sanctions. The Control group members do not read further text. Members of the *Naming-and-Shaming* group read this sentence:

> *Appearing on this blacklist with countries like Panama and the US Virgin Islands would hurt Switzerlands international reputation.*

Members of the *Economic Sanctions* group read this sentence:

> *Appearing on this blacklist would expose multinationals in Switzerland to major economic sanctions.*

Finally, we ask all respondents if they agree — on a scale of 0 to 10 — with this statement:

> *The Swiss government should eliminate remaining tax benefits for international businesses to avoid appearing on the European Union blacklist.*

Figure 1 shows a histogram of our outcome variable. Overall, the distribution is relatively flat, with more respondents on the right-handside of the graph, indicating that a somewhat large proportion of the Swiss population agreed with the survey statement in support for tax reform. Table

Figure 1: Distribution of the outcome variable: Support for domestic tax reform in Switzerland.

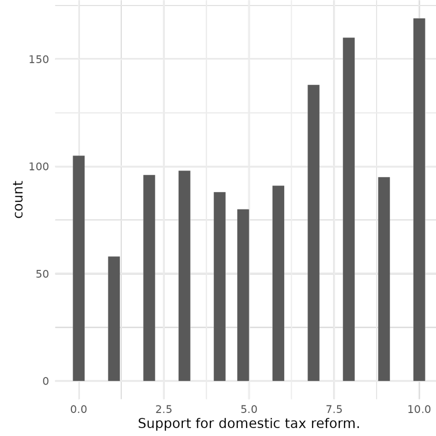
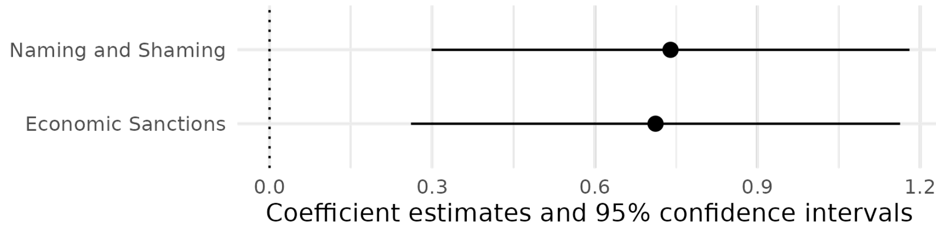


Table 1: Balance between treatment groups in the Blacklist experiment.

		Control (N=397)		Sanctions (N=381)		Shaming (N=400)	
		Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Ideology		5.1	2.5	4.9	2.5	4.9	2.5
Income		5.4	2.0	5.4	1.9	5.2	2.0
		N	Pct.	N	Pct.	N	Pct.
Education	Compulsory	22	5.5	14	3.7	27	6.8
	Apprenticeship	146	36.8	145	38.1	148	37.0
	Middle school	59	14.9	36	9.4	46	11.5
	Higher	74	18.6	74	19.4	64	16.0
	University	95	23.9	112	29.4	113	28.2
Gender	Man	191	48.1	188	49.3	196	49.0
	Other	1	0.3	2	0.5	2	0.5
	Woman	205	51.6	191	50.1	202	50.5
Language	French	114	28.7	94	24.7	130	32.5
	German	251	63.2	252	66.1	247	61.8
	Italian	32	8.1	35	9.2	23	5.8

Figure 2: Estimated Treatment Effects of “Naming and Shaming” and “Economic Sanctions” on support for tax reform, with 95% confidence.



shows the distribution of demographic characteristics across our three treatment groups. The groups are relatively balanced, which suggests that treatment was randomized as intended.

To analyze the results of the experiment, we estimated a linear regression model with two binary variable, each indicating membership of a respondent was in one of the treatment groups (the reference category is the control group). Figure 2 shows the estimated treatment effects of “naming and shaming” and “economic threat” on support for tax reforms. The bars represent 95% confidence intervals, constructed using heteroskedasticity-consistent standard errors. The full regression table is reported in appendix.

We find that both treatments have statistically significant effects. On average, being told that Switzerland could suffer reputational costs if included on the blacklist increases support for tax reform by 0.79 points on a 0 to 10 scale. Similarly, when we tell respondents that the Switzerland could be exposed to major sanctions increases support for tax reform by 0.71 points. These point estimates correspond to a change of about 1/5th of a standard deviation in the outcome, so we interpret this as evidence of a “modest” effect of naming-and-shaming and economic threat on public opinion.[3]

[3]The confidence intervals are also quite large, which means that there remains considerable uncertainty about the exact point estimates of interest.

5 *Conclusion*

The EU list of non-cooperative jurisdictions for tax purposes, i.e. the EU blacklist, is the most recent example of an international organization's attempt to blacklist tax havens. Since the early 2000s blacklisting has become a widespread instrument that aims to induce compliance with international standards by naming-and-shaming tax havens and threatening them with economic sanctions or restrictions. Considering the demonstrated limited effectiveness and questionable legitimacy of blacklisting mechanisms, this paper proposed to explore the rationale behind the creation of the EU blacklist.

Based on a mixed-methods approach combing process-tracing, expert interviews, and a survey experiment in Switzerland, we focused on the political logic behind the EU blacklist and its (possible) impact on public opinion. Regarding the political logic, we argued that the EU blacklist should be understood as a politicized instrument that raised public awareness for tax havens and related issues, such as tax evasion and tax avoidance, broadened the problem definition beyond the narrow criteria of tax transparency and stimulated international discussions by pushing the OECD into more ambitious approaches. Although the EU blacklist was rightfully criticized for its hypocrisy in not including EU tax havens, those were explicitly targeted by other policy initiatives, such as the European Semester and state aid investigations. Embedded in a broader tax agenda, the blacklist therefore helped to demonstrate the Commission's political commitment in the fight against tax havens and tax abuses.

As for the impact of the blacklist on public opinion, our survey experiment showed that support for tax reform tend to increase when respondents were informed that Switzerland could suffer reputational costs or be exposed to sanctions if included on the blacklist. While those findings confirm that blacklisting can have an effect on public opinion, the effect is found to be modest.

This paper has made an effort to analyse the political rationale behind the EU blacklist, both 'at the top' through an analysis of interviews and documents, and a possible 'bottom-up' demand for change through a survey experiment. The mechanisms of "naming and shaming" and economic threats, often at the basis of implementing blacklists, are confirmed through our study. However, we view this paper as a first step towards uncovering the public response to blacklisting. To establish whether blacklisting can indeed be effective in creating bottom-up demand for policy change requires future research to conduct similar research in other (EU) tax havens as well as analyse what causes possible differences between countries. Our paper also shows that politicization is an important contextual factor in understanding the political rationale behind the EU blacklist. The ways in which public response pressures policymakers is a key explanatory factor in the dynamic and continuous process of politicization. A mixed methods approach, such as the one developed in this paper, thus seems a relevant course for future research in this field.

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A *Overview of interview partners:*

Table 2: Effect of "Naming and Shaming" and "Economic Sanctions" on support for tax reform.

	Model 1
Economic Sanctions	0.712
	(0.234)
Naming and Shaming	0.786
	(0.227)
Intercept	5.134
	(0.165)
Num.Obs.	1178
R2	0.012
R2 Adj.	0.010
AIC	6095.7
BIC	6116.0
Log.Lik.	−3043.870
F	7.093
Std.Errors	HC3

- Int_1: Interview with EU official, Brussels, 29 April 2019
- Int_2: Interview with national government official, Brussels, 29 April 2019
- Int_3: Interview with NGO or tax activist, Brussels, 30 April 2019
- Int_4: Interview with NGO or tax activist, Brussels, 7 May 2019
- Int_5: Interview with OECD official, Paris, 21 June 2019
- Int_6: Interview with NGO or tax activist, Brussels, 11 November 2019
- Int_7: Interview with EU official, Brussels, 18 October 2018

B *Overview of possible defensive measures in the blacklisting process*

Table 3:

Non-tax areas	EU institutions and member states should take the list into consideration in foreign policy, development co-operation and economic relations with third countries.https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/ According to EU funding rules, several EU funds cannot be distributed to blacklisted countries: - European Fund for Sustainable Development (EFSD) - European Fund for Strategic Investments (EFSI) - External Lending Mandate (ELM) - General framework for securitization
Tax areas	Member states can apply administrative measures: - Reinforced monitoring of transactions - Increased risk audits for taxpayers who benefit from listed regimes or use tax schemes involving listed regimes Member states can apply legislative measures: - Non-deductibility of costs incurred in a listed jurisdiction - Controlled foreign company (CFC) rules, to limit artificial deferral of tax to offshore, low-taxed entities - Withholding tax measures (WHT), to tackle improper exemptions or refunds - Limitation of the participation exemption on shareholder dividends