

The Great Caribbean Divergence

Colonial Economic Structure and the Emergence of Tax Havens in the ‘British West Indies’

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Abstract^{‡±}

Most jurisdictions formerly ruled from London as the British West Indies (BWI) are unimportant for offshore tax planning and offshore money creation, despite sharing traits conventionally associated with tax havens. Why have only some former BWI colonies become attractive locations for the main offshore activities while most others haven’t? We argue that soil fertility ultimately explains this variance. Settlers created plantation economies on islands with good soils and maritime economies on islands with bad soils. Plantation economies were profitable enough for income taxes. Maritime economies relied on subsistence farming and fishing, therefore lacking the required tax base. Plantation economies moreover experienced the horizontal mobilization of racialized laborers, whereas maritime economies were shaped by patron-client relationships. Plantation economies therefore democratized earlier than maritime economies, where *white* oligarchies prevailed. When the Suez crisis increased demand for offshore activities, the maritime economies thus combined no income taxes with *white* supremacy, conveying political stability to Western professionals and asset holders. Hence, offshore activities grew faster in maritime than in plantation economies during the 1960s, a divergence that has persisted because of agglomeration effects. We use Comparative Historical Analysis, combining statistical matching with process tracing, to probe the plausibility of our causal sequential argument.

Keywords: historical legacies, soil fertility, income tax, democratization, offshore finance

Word count: 11998 words

[†] Our co-author, longtime colleague and friend Leo Ahrens passed away on 23 December 2025. In the obituary accessible at the following link, we remember him and honor his many contributions to our joint work and political science research in general. Our deepest sympathies go out to his family.

<https://www.polsoz.fu-berlin.de/polwiss/forschung/oekonomie/ipoe/news/Nachruf-Leo.html>

[‡] The data and replication material for this study are openly available in Leuphana University’s PubData repository at <https://doi.org/10.48548/pubdata-3214>.

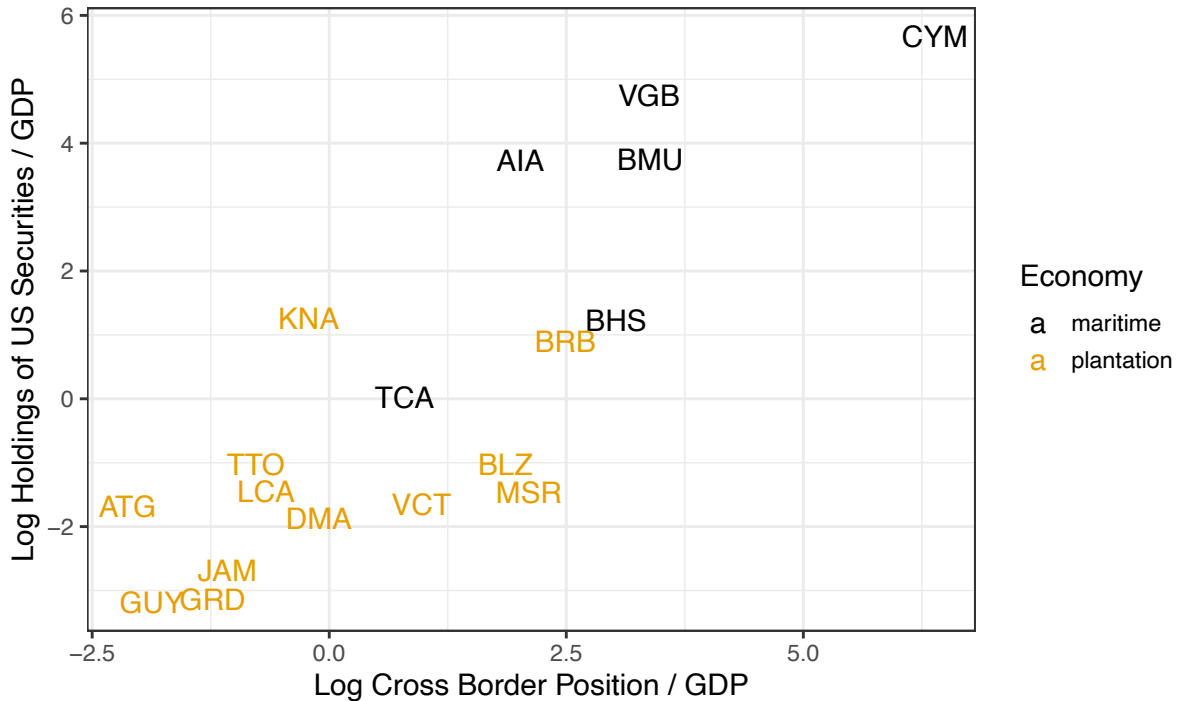
[±] This is the final version of the manuscript accepted for publication in the Review of International Political Economy.

INTRODUCTION

Researchers have considered the countries formerly ruled from London as the ‘British West Indies’ (BWI) an archipelago of tax havens (Ogle, 2017), or a group of treasure islands (Shaxson, 2012). Tax havens enable non-residents to benefit from negligible taxation and regulation under their jurisdiction by offering locally registered trusts and corporations that make ‘financial flows, ownership, and liabilities invisible’ (Binder, 2023, p. 22). Thereby, they facilitate two main activities: Offshore tax planning and offshore money creation. Offshore tax planning involves concealing the ownership of assets, shifting profits from high to low tax jurisdictions, and turning domestic into foreign investment through round-tripping (Binder, 2023, p. 31). Offshore money creation happens when a bank provides credit in a foreign currency to a non-resident debtor, thereby circumventing financial regulations in the country issuing the currency and in the country where the bank is headquartered (Binder, 2023, pp. 24–25).

In contrast to the generalizing statements above, however, research on the history and geography of offshore tax planning and offshore money creation suggests that only a few former BWI colonies have been attractive locations for these activities from the perspective of non-residents; many despite offering negligible taxation, lenient regulation, and secrecy (e.g. Binder, 2023; Garcia-Bernardo et al., 2017; Haberly & Wójcik, 2015b; Janský et al., 2022; Palan, 2015). Figure 1, indeed, displays substantial variance in the former BWI colonies’ holdings of US securities, a popular indicator for offshore tax planning (e.g. Fichtner, 2016; Hanlon et al., 2015), and local banks’ cross-border financial positions, a popular indicator for offshore money creation (e.g. Binder, 2024; Klooster & Murau, 2025).

Figure 1: Average Financial Positions (2011–2024) of Former BWI Colonies by Economic Structure



Note: Jurisdictions are identified by their ISO3 country codes. Values were logged to compress the skewed distributions. Holdings of US securities and cross-border financial claims and liabilities that are out of proportion with the size of the domestic economy are among the most popular tax haven indicators. See the codebook in Supplementary Material A for data description and sources.

Variance in the former BWI’s attractiveness for offshore tax planning and offshore money creation is puzzling, because they all share traits associated with tax haven emergence in previous research. The former BWI have autonomy over tax policy and financial regulation (Palan, 2002; Rivera-Quiñones, 2025; Sharman, 2006). Their populations and domestic capital stocks are small (Genschel & Schwarz, 2011), and they are easily accessible from major financial centers (Haberly & Wójcik, 2015b). Most importantly, the former BWI are politically stable. That is, they provide non-residents with secure property rights and reliable legal systems (Dharmapala & Hines, 2009). Previous research suggests that non-residents expect more secure property rights in democracies with their checks and balances (e.g. Genschel et al., 2016), and better wealth management in countries under English common law, as this legal system enables the creation of trusts and is more malleable than civil law (Harrington, 2016; Pistor, 2019). The former BWI, however, score well on conventional democracy indicators (Herre et al., 2024), and practice English common law throughout (Central Intelligence Agency, 2024). Hence, we ask: Why have only some former BWI colonies become attractive locations for offshore tax planning and offshore money creation while most others haven’t?

We propose a causal sequential argument, tracing this puzzling outcome back to variance in soil fertility. Through five causal steps, this antecedent condition produced a divergence between maritime and plantation economies in terms of their respective attractiveness for the main offshore activities. First, soil fertility, defined as the soil’s ability to support the intensive cultivation of cash crops, influenced what economic structure British settlers imposed on the BWI. That is, whether they established plantation economies, dominated by the large-scale production of sugar and cotton (Inikori, 2002; Williams, 2014), or maritime economies, dominated by smallholders engaging in fishing, trade and subsistence agriculture (Craton, 1986; Hannerz, 1974). Second, whether a colony became a plantation or a maritime economy affected its profitability for British settlers and thereby the likelihood of income tax adoption, which requires a sufficient tax base (Frankema & van Waijenburg, 2021; Gardner, 2013). Third, whether a colony became a plantation or a maritime economy also affected the pattern of political mobilization and thereby the likelihood of early democratization, defined as the extension of full political rights to racialized populations (Bolland, 2001; Macpherson, 2011).

Fourth, the outcomes of these preliminary stages became salient during a decisive historical conjuncture: From 1956, the Suez crisis created additional demand for offshore activities by spurring the expansion of the Eurodollar market, the key instance of offshore money creation (Binder, 2023; Palan, 2015), and triggering money panics among colonial elites in Africa, who sought to conceal their financial wealth from postcolonial governments through offshore tax planning (Ogle, 2020). During this historical conjuncture, plantation economies were less likely to become hubs for the main offshore activities because, as a result of the preliminary stages, they were already engaged in struggles for self-determination and had income taxes. Maritime economies, by contrast, were still governed by *white* oligarchies and had no income taxes. This enabled British professionals to draft tax haven legislation and promote maritime economies as politically stable. That is, safe for banks, colonial elites and their assets (Freyer & Morriss, 2013; Maurer, 1997). Accordingly, the main offshore activities were more likely to expand in maritime economies than in plantation economies during the 1960s. Fifth, early expansion provided maritime economies with a first-mover advantage (Kindleberger, 1973). The main offshore activities concentrated under their jurisdiction, leaving only subordinate tasks for plantation economies belatedly trying to become tax havens (Behuria, 2023).

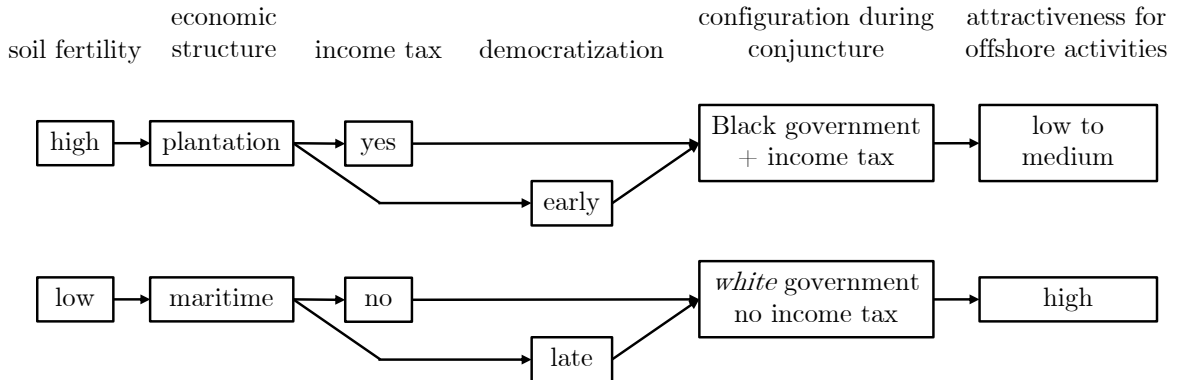
We probe the plausibility of our argument with a Comparative Historical Analysis (Falleti & Mahoney, 2015). This analysis follows an abductive logic, assuming that explanation ‘involves a complex

interplay between new inductive insights and the received scholarly consensus’ (Kreuzer, 2023, p. 27). Hence, we first combine insights from Caribbean historiography and previous research on income tax adoption, democratization, racialization, and the offshore world into a causal sequential argument, explaining variance in the attractiveness for offshore tax planning and offshore money creation in the BWI. Second, we use statistical matching to select two countries from the universe of former BWI colonies that are most similar regarding conventional explanations of tax haven emergence but differ regarding soil fertility, the antecedent condition of our causal sequential argument. Third, we probe our argument by tracing the event sequences from soil fertility to attractiveness for the main offshore activities in this most similar pair, namely the Cayman Islands and St. Kitts. We moreover provide descriptive statistics for the whole universe of former BWI colonies for each causal step in the main paper, and in-depth case studies of Anguilla and Nevis – the two maritime economies which obtained different degrees of autonomy from St. Kitts from the late 1960s – in Supplementary Material C. Fourth, we discuss what our findings imply for Political Economy debates on income tax adoption, foreign investment, and racialization and whether they may apply beyond the former BWI.

FROM SOIL FERTILITY TO OFFSHORE ACTIVITY

We propose a causal sequential argument, explaining attractiveness for offshore tax planning and offshore money creation in the BWI. We focus on the BWI because they share characteristics conventionally associated with tax haven emergence, including secure property rights (Dharmapala & Hines, 2009; Genschel et al., 2016), English common law (Harrington, 2016; Pistor, 2019), smallness (Genschel & Schwarz, 2011), proximity to major financial centers (Haberly & Wójcik, 2015b; Kindleberger, 1973) and membership in the Sterling area during the 1960s (Binder, 2023; Palan, 2015). The unexplained variance within this group poses an empirical puzzle, providing the opportunity to introduce new explanatory factors. We argue that the former BWI’s attractiveness for the main offshore activities can be traced back to soil fertility. Its level influenced whether a BWI colony became a plantation or a maritime economy, which in turn affected the likelihood of income tax adoption, and early democratization. Following the Suez crisis, colonies that were still governed by *white* oligarchies and had no income taxes were more likely to attract offshore activities than otherwise comparable plantation economies. This provided the maritime economies with a persistent first mover advantage. Figure 2 summarizes the causal chain. We discuss each link separately below.

FIGURE 2: The Causal Mechanism from Soil Fertility to Offshore Activity in the BWI



Note: We use the anti-racist categories of Black and *white* in this paper, referring to shared (non-)experiences of racism rather than phenotypical differences.

Europeans colonized overseas territories to exploit labor and natural resources for economic gain (e.g. Du Bois, 2022b; Williams, 2014). They imposed economic structures – which we define narrowly as the dominant organizational form of production – on the colonies that matched their factor endowments (e.g. Amin, 1972; Du Bois, 2022c). Drawing on Caribbean historiography, we first argue that economic structures in this region mainly resulted from soil fertility. Settlers established plantation economies on the fertile territories, exploiting enslaved Africans and their descendants in the large-scale cultivation of sugar and cotton (e.g. Higman, 2010; Inikori, 2002). In the less fertile territories, Europeans created maritime economies, in which smallholders combined fishing and trade with subsistence agriculture to get by (Craton, 1986, 2003; Hannerz, 1974).

Our suspicion that these economic structures may be linked to tax haven emergence originally came from an anecdote in a general Caribbean history. According to Higman (2010, p. 295), ‘by the 1990s, at least fifteen [Caribbean] jurisdictions, most of them smaller islands outside the mainstream of plantation economy, were known as offshore financial centres or tax havens.’ The author argues that without agricultural resources, these jurisdictions had to facilitate offshore activities. But tourism, shipbuilding, entrepôt trade, food production, and the export of seamen were viable alternatives for several maritime economies (Bulmer-Thomas, 2012; Craton, 2003; Craton & Saunders, 2000). Hence, we consulted previous research on income tax adoption, democratization, racialization, and the offshore world as well as Imperial and Caribbean historiography to identify a more convincing causal mechanism linking economic structure to tax haven emergence.

Against this background, we argue second that economic structure affected the likelihood of income tax adoption. Previous research demonstrates that colonial economic structure has shaped fiscal capacity (Mkandawire, 2010). In particular, colonial income tax adoptions have depended on the existence of a corresponding tax base (Gardner, 2013). They have usually happened in relatively wealthy colonies when the metropole was under fiscal stress (Frankema & van Waijenburg, 2021). For the BWI this implies that plantation economies should be more likely than maritime economies to have adopted the income tax. Previous research shows that forced and underpaid labor enabled plantation economies to produce commodities at low cost, creating large profits for plantation owners (e.g. Hebllich et al., 2022; Williams, 2014), and a tax base for the colonial administration. In contrast, political histories of the Bahamas and Cayman Islands suggest that the activities of maritime economies were usually not very profitable, whereas the self-sufficiency of many smallholders reduced demand for public services (Craton, 1986; Hannerz, 1974).

Third, we argue that economic structure affected the likelihood of early democratization. That is, the moment when colonial governments extended full political rights to racialized populations, thereby ending formal *white* supremacy in politics. Previous research shows that Europeans racialized colonized populations to regulate and regularize their exploitation (e.g. Brown, 2024; Du Bois, 2022a). That is, Europeans invented racial categories distinguishing supposedly civilized *whites*/Europeans from supposedly backward non-*whites*/non-Europeans, thereby establishing a racial hierarchy granting those considered *white*/European sovereignty over those considered non-*white*/non-European (cf. Brown, 2024). Whereas the former enjoyed economic and political rights, the latter were dispossessed and disenfranchised (e.g. Mamdani, 2001; Robinson, 2000). Accordingly, the construct race is imagined but has severe material consequences (Tilley & Shilliam, 2018).

Building on Rueschemeyer, Stephens, and Stephens (1992), who link democratization to the presence of a geographically concentrated working class, we argue that a colony’s economic structure had consequences for the ability of racialized laborers to mobilize against *white* supremacy. Because of racialization, political conflict in European colonies involved settlers and colonial administrations defending *white* supremacy and suppressed non-*white* populations seeking to replace racial hierarchy with self-determination (e.g. Getachew, 2019; Shilliam, 2008). Plantation economies were shaped by ‘factories in the field’ (e.g. Beckles, 1997, p. 778), concentrating large numbers of laborers and imposing on them a common socioeconomic position. According to political histories of the Caribbean, this created scope for horizontal mobilization, enabling the emergence of powerful labor movements when the Great Depression exacerbated the already dire situation of plantation workers. Over time, these movements became political parties, fighting for equal political rights and self-determination, and ultimately succeeding in forming elected Black governments (Bolland, 2001; Higman, 2010; Macpherson, 2011).

Political histories of the Bahamas and Cayman Islands suggest, by contrast, that the racialized population of the maritime economies could obtain land after the end of slavery because of the absence of large plantations. The resulting economic structure, dominated by smallholders, prevented the racialized population’s horizontal mobilization at the workplace (Craton, 1986; Hannerz, 1974). Similar to the small farmers described by Rueschemeyer, Stephens, and Stephens (1992, p. 58), smallholding islanders were relatively isolated from each other. This created collective action problems but also provided relative autonomy. Instead of confronting the colonial elite, the racialized population could exit politics and still subsist. Hence, political histories of the Bahamas and Cayman Islands suggest that politics in maritime economies was structured along patron-client relationships: *White* merchants exchanged benefits such as seasonal employment, free passage on their ships, or rebates on imports for political support. Alternatively, they simply bought votes in their constituencies. This enabled the *white* merchants to keep power for longer than the neighboring plantocracies (Bodden, 2010; Craton, 2003; Craton & Saunders, 2000; Hannerz, 1974; Saunders, 2016).

Fourth, we argue that early democratization and income tax adoption made plantation economies less likely to become attractive locations for the main offshore activities. Previous histories of offshore finance suggest that the Suez crisis created additional demand for offshore activities by spurring the expansion of the Eurodollar market (Binder, 2023; Palan, 2015). The ensuing decolonization of British settler colonies in Africa moreover created money panics, making colonial elites eager to conceal their financial wealth through offshore tax planning (Ogle, 2020). During this historical conjuncture, plantation economies were already engaged in struggles for self-determination (e.g. Higman, 2010). They became Black-governed countries in an international order co-constituted by a global color line, separating *white* sovereign from non-*white* dependent states (Anievas et al., 2014; Brown, 2024). To realize their goal of self-determination, the plantation economies’ postcolonial leaders had to confront this racial hierarchy (Getachew, 2019). But their position in this hierarchy also underpinned interpretations by Western asset holders and professionals of their behavior as deficient, immature, or irrational. Like other Black governed-countries, Western asset holders and professionals were thus likely to associate plantation economies with instability and investment risks (Alami & Guermond, 2023). In addition, plantation economies had income taxes, most likely deterring Western asset holders and professionals seeking jurisdictions for offshore tax planning (Binder, 2023; Ogle, 2017).

In contrast, the *white* oligarchies still governing the maritime economies were eager to also make their countries pass as *white*. They did so through a ‘performed investment in and proximity to the norms, ideals, practices, and discourses that uphold Whiteness and White colonial-racial rule’ (Brown,

2024, p. 51). Instead of self-determination, *white* oligarchies opted for ‘voluntary colonialism’ (Bodden, 2010, p. 2). They upheld constitutional orders linking franchise to property, or reserving government portfolios such as finance for appointees of the British governor, thereby keeping the Black population out of power (Craton, 1986, 2003; Hannerz, 1974). They restricted immigration and citizenship to prevent Black people from neighboring countries to upset the racial hierarchy, and emphasized their Britishness over their embeddedness in a common Caribbean history (Bodden, 2010; Maurer, 1993). This facilitated the integration into the policymaking process of British professionals drafting tax haven legislation and a marketing strategy directed at Western asset holders emphasizing ‘racial harmony’ (Maurer, 1997). In sum, we argue that the racial hierarchy made the racial composition of government, which changed because of democratization, salient in the minds of Western professionals and asset holders, thereby affecting decisions on where to draft tax haven legislation and where to engage in offshore activities.

Fifth, we argue that the maritime economies’ initial growth provided them with a first mover advantage in the attraction of foreign capital. Kindleberger (1973) suggests that financial centers benefit from agglomeration effects. That is, initial activity, expertise, and infrastructure attract more activity over time, leading to a concentration of financial business in early adopting jurisdictions. Because of these agglomeration effects, plantation economies seeking to emulate the tax haven strategies of maritime economies have struggled to enter the market. Hence, they usually focus on subsidiary services for more established tax havens (Behuria, 2023). As a result, the initial divergence between plantation and maritime economies in the volume of offshore activities persists over time even as the conditions responsible for the initial divergence disappear.

RESEARCH DESIGN

To probe the plausibility of the causal sequential argument we derived from previous research on income tax adoption, democratization, racialization, and the offshore world, as well as Imperial and Caribbean historiography, we perform a Comparative Historical Analysis. We first apply statistical matching to select a pair of countries that are most similar with respect to conventional explanations of tax haven emergence but differ regarding the antecedent condition of our causal sequential argument. We then use process tracing for within-case analysis to establish the event sequences in our two cases (Falleti & Mahoney, 2015). In addition, we provide descriptive statistics for the entire universe of former BWI colonies for each causal step to underline the generalizability of our argument to this group.

Comparative Historical Analysis is the most appropriate method for this study because we develop a causal sequential argument about the process of tax haven emergence in the geographic, political and historic context of the BWI (cf. Falleti & Mahoney, 2015). This process begins with an antecedent condition (soil fertility), encompasses a sequence of causally connected events (see Figure 2) and culminates in the (non)-selection of a colony for the main offshore activities by Western professionals and asset holders. Our sequential argument is ordered: Each event makes the subsequent event more likely. They would not lead to the same outcome if their temporal relationship was different. For instance, a country empowering its Black population before the conjuncture of African decolonization is unlikely to be selected for the main offshore activities. Yet a country selected for these activities in that historical moment may remain a tax haven despite subsequently empowering its Black population, owing to agglomeration effects. Hence, tax haven emergence is a reactive process (e.g. settlers reacting to soil type,

racialized laborers reacting to economic structure), but the outcome persists via a self-amplifying dynamic (agglomeration effects).

Statistical Matching for Case Selection

We select our cases from the universe of former BWI colonies, thereby holding several alternative explanations of tax haven emergence constant: The colonies within this group had local autonomy (1) over tax law and banking regulation, could therefore deviate from the metropole’s policies, and commercialize their legal systems (Palan, 2002; Rivera-Quiñones, 2025). They all practiced English common law (2), which provides bankers and wealth managers with one of their main instruments – the trust – and is malleable enough to allow for its constant adaptation to personal circumstances, new asset classes, and regulatory requirements (Harrington, 2016; Pistor, 2019). Moreover, the BWI were all members of the Sterling area during the 1960s (3), which was crucial for the implementation of Eurodollar transactions (Binder, 2023; Palan, 2015). Finally, the BWI were subject to the same metropolitan tax haven policy (4), which differed substantially between colonial powers (Haberly & Wójcik, 2015a). Whereas the British government accommodated tax havens (Sævd, 2022), the French government cracked down on them (Woker, 2024).

To control for those potential drivers of tax haven emergence that still vary across our universe of cases and do not result from our antecedent condition, we match maritime economies to plantation economies based on country size, accessibility, and tourism in 1956. To distinguish maritime from plantation economies we measure soil fertility, a time-invariant dummy based on the Harmonized World Soil Database (HWSD). We consider a country to have high soil fertility when at least one soil mapping unit (SMU) within its territory is dominated by a soil type the Food and Agriculture Organization associates with high productivity (FAO, 2014, for an overview of soil type assessments see Table A2 in the Supplementary Material). We cross-checked the FAO based coding with contemporaneous statements on soil fertility by British officials in colonial reports. The soil types and statements on which we base our assessment are included in the Supplementary Material (Table A1). Both coding procedures lead to matching outcomes.

We control for country size (5), as previous research suggests that smaller countries are more likely to become tax havens (Genschel & Schwarz, 2011). Our proxy is the number of inhabitants. We control for accessibility (6) because previous research suggests that countries proximate to major financial centers are more likely to become tax havens (Dharmapala & Hines, 2009; Haberly & Wójcik, 2015b). Our proxies are the airline distance to the closest financial center, New York, the number of times travelers from New York and London had to change planes to reach a given destination and the possibility of direct international calls into a given destination. Finally, we control for tourism (7) because previous research suggests that popular tourist destinations already had communications and transport infrastructure in place that was necessary for tax haven emergence (e.g. Palan et al., 2010). Our proxy is services exports per capita. All data is recorded for 1956, the year of the Suez crisis, which created additional demand for offshore activities (Binder, 2023; Ogle, 2020; Palan, 2015). The codebook in Supplementary Material A provides details and data sources for all proxies.

To identify the most similar pair of maritime and plantation economies, we follow Nielsen’s (2023) approach to statistical matching. Matching identifies units that are close together in a k -dimensional space defined by the covariates k , providing pairs that are as similar to each other as the employed data allow (Nielsen, 2016, p. 578). Table 1 reports results from Mahalanobis matching, Nielsen’s (2016) preferred method when exact matches are not available. It also reports covariate values for the five best

matched country pairs. It shows that the Cayman Islands and St. Kitts & Nevis are the closest match within the BWI universe when considering our covariates. We report in Supplementary Material B that this result is robust to switching from Mahalanobis matching, which standardizes covariates on different scales and takes correlations between them into account, to Standardized matching, which also standardizes covariates but assumes independence between them (Table B1).

TABLE 1: Results from Mahalanobis Matching

Rank	Pairs	Mahalanobis distance	Distance to NY (km)	Values for 1956				
				Population	Changes from NY	Changes from LDN	International Calls	Services Exports per Capita (US\$)
1	CYM	2.78	2474	7840	1	1	No	247
	KNA		2796	52974	1	1	No	22
2	TCA	3.47	2097	5250	1	2	No	159
	MSR		2869	12389	1	2	No	5
3	CYM	3.97	2474	7840	1	1	No	247
	GRD		3384	85804	1	1	No	18
4	BHS	4.90	1764	97505	0	1	Yes	428
	ATG		2849	51382	0	1	Yes	11
5	VGB	5.10	2614	7535	2	3	No	4
	DMA		3032	53986	2	2	No	7

Note: Countries are identified by their iso3 country codes. Maritime economies are listed in the top row for every pair. US\$ values are current.

Process Tracing

Having thus reduced the inferential burden on the case studies, we use process tracing for within-case analysis to establish the sequence of events in the Cayman Islands and St. Kitts and describe how reactive processes connecting these events unfolded (Falleti & Mahoney, 2015, pp. 229–231). Following Mahoney (2015), we subject each causal step in our sequential argument (Figure 2) to a smoking gun test. ‘With a smoking gun test, the presence of a given piece of evidence strongly supports a hypothesis as true, though the absence of the evidence does not eliminate the hypothesis as false. Thus, passing a smoking gun test counts heavily in favor of the truth of a hypothesis’ (Mahoney, 2015, pp. 210–211). However, we construct ‘easy’ smoking gun tests. That is, we specify within-case observations that we would clearly expect if the causal step in question was part of the combination of contributing conditions, we expect to increase the probability of tax haven emergence in the BWI. Failing such an easy test would speak strongly against our argument (Mahoney, 2015, p. 212).

For the implementation of smoking gun tests, we mainly draw on the historiographies and the British Colonial Office’s reports on our cases. We add descriptive statistics for all former BWI colonies from an original dataset, combining archival and contemporary sources (Hakelberg et al., 2025). Because we observe our cases over a period of about 180 years, historical continuity is a concern. The Cayman Islands were composed of Grand Cayman, Little Cayman and Cayman Brac throughout our observation period. However, the British Colonial Office administered Anguilla with St. Kitts from 1825 and merged the two with Nevis in 1882. After the merge, the politics of the new colony of St. Kitts & Nevis was dominated by dynamics on the biggest island, St. Kitts. This caused initiatives for autonomy on Anguilla and Nevis. Anguilla obtained autonomy from St. Kitts in 1967. It remained a British overseas territory when St. Kitts & Nevis became independent in 1983. At the same time, Nevis obtained autonomy over

fiscal affairs under a federal constitution (Dyde, 2005; Inniss, 1983). Because of these dynamics, we focus our main case study on St. Kitts. However, we provide in-depth case studies of Anguilla and Nevis in Supplementary Material C, lending additional support to our argument.

FROM SOIL FERTILITY TO ECONOMIC STRUCTURE

In this section, we probe the first element of our causal sequential argument: The link between soil fertility and colonial economic structure. If this link was present, we should find evidence of settlers being aware of the soil fertility of their respective islands and engaging in corresponding economic activities that persist until decolonization.

The Cayman Islands and St. Kitts differ substantially in their soil fertility. The Cayman Islands are entirely made up of Regosols, which the FAO describes as ‘very weakly developed mineral soils in unconsolidated material’ and associates with important challenges to irrigation (2014, pp. 172–173). By contrast, St. Kitts is made up of 40 percent Ferralsols, 30 percent Andosols, and 30 percent Cambisols. The FAO associates all these soil types with high soil fertility (FAO, 2014, pp. 147, 153, 156, see Table A2 for soil type descriptions).

The differences in soil fertility became apparent to settlers and colonial administrations. Hannerz describes how ‘settlers would later discover that only relatively small pockets of soil could be cultivated’ in the Cayman Islands (1974, p. 22). Likewise, colonial officials still stressed in 1953 that ‘because of the outcrop of decaying coral-limestone it is doubtful whether there is an acre of land which could be ploughed’ (Colonial Office, 1953, p. 16). About St. Kitts, Dyde reports, by contrast, that ‘[the earliest recorded English settler] stepped ashore, [...] and “well viewing the Island, thought it would be a very convenient place for ye planting of tobaccos”’ (2005, p. 19). The colonial administration observed in 1905 that the value of land depended on its suitability for sugar cane, with St. Kitts having among the highest prices in the Leeward Islands (Colonial Office, 1905, p. 12).

Variance in the level of soil fertility affected the economic structure imposed on the islands under colonial rule. English settlers, arriving on the Cayman Islands after 1700, engaged in turtling, fishing, log cutting, subsistence farming, and wrecking (Craton, 2003, p. 56). They exploited enslaved Africans in these activities, particularly in log cutting. The slave population increased further when some settlers established cotton plantations, which they, however, soon abandoned because of soil depletion (Craton, 2003, pp. 63–69). Thereafter, slaves mostly worked in households and provision grounds or crewed the turtling schooners. Accordingly, the Cayman Islands were a ‘slave society, though very different from the sugar-plantation colonies [...], where 90 per cent of the population were slaves’ (Craton, 2003, p. 63; also see Hannerz, 1974, p. 24). By contrast, English settlers on St. Kitts engaged in plantation agriculture from the start. Planters subjected a rapidly increasing number of enslaved Africans to a brutal labor regime in the cane fields, enabling themselves to make fortunes from sugar exports to Europe and become absentee landlords (Dyde, 2005, pp. 94–95).

The formal end of slavery in the British empire in 1834 affected land tenure in the Cayman Islands but not in St. Kitts. Because of the absence of plantations and low population density, former slaves in the Cayman Islands could build their own dwellings on unoccupied land or enter sharecropping arrangements with *white* landowners unable to substitute their labor. Hence, the Cayman Islands became a society of smallholders, who usually worked their own land, fished, and topped up scarce revenue from their produce with seasonal work in shipbuilding and turtling (Bodden, 2010, p. 18; Craton, 2003, pp. 109–111; Hannerz, 1974, p. 26). Still, the economy was dominated by *white* merchants, who owned the

ships necessary for turtling, trade, and human mobility, thereby controlling access to wage labor, imports, credit, and opportunities abroad (Bodden, 2010, p. 4; Hannerz, 1974, p. 40).

By contrast, ‘St. Kitts remained the plantation economy par excellence. With its deep fertile soil, its good rainfall and its low wages, sugar production in St. Kitts was a highly profitable business’ (Inmiss, 2005, p. 39). To protect these profits even after the abolition of slavery, planters charged laborers rent for huts and provision grounds, threatening those with eviction who refused to work on the plantation. Since St. Kitts was completely covered by estates, this left most laborers without exit options and stabilized the plantation system for another century (Dyde, 2005, p. 158; Inmiss, 2005, pp. 72–74).

Overall, the evidence shows that British settlers were aware of their islands’ soil fertility and set up corresponding economic structures. These structures persisted until decolonization. Figure D1 in the Supplementary Material shows that this pattern holds for the entire BWI. Plantation economies had higher domestic exports per square kilometer than maritime economies in the four decades before the Second World War, except in years with bad harvests.

FROM ECONOMIC STRUCTURE TO INCOME TAX ADOPTION

In this section, we probe the second element of our causal sequential argument: The link between economic structure and income tax adoption. If this link was present, we should find evidence for the impact of economic structure on revenue potential, and for income tax adoptions in moments of fiscal stress in places with revenue potential.

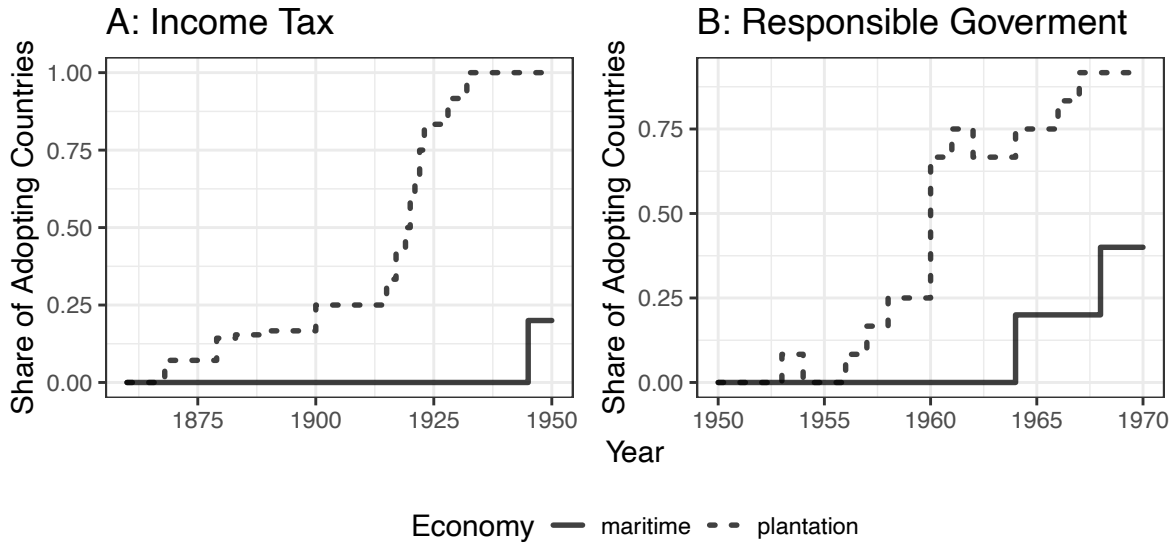
The Cayman Islands were a dependency of Jamaica from 1865, but the colonial administration largely ignored the islands during the 19th century. A society of smallholders did not promise much revenue and caused few problems. Moreover, self-sufficiency prevented local settlers from seeking assistance that might cause greater involvement and higher taxation by the colonial administration (Craton, 2003, pp. 145–147). Hence, whenever British officials contemplated expanding colonial government to the islands, disputes over funding killed the proposals. Jamaican legislators would not cover expenses in the Cayman Islands and Caymanian settlers prioritized their low tax burden (Craton, 2003, pp. 148, 162–170). This barely changed with the first resident British Commissioner (see Supplementary Material G for a glossary of Caymanian governmental positions). Modestly expanding public services were financed with import duties, more diligent customs and poll tax collection, and the sale of stamps (Craton, 2003, pp. 174–176; Hannerz, 1974, p. 62). Although colonial officials occasionally criticized Caymanian merchants for not contributing to government revenue via income taxation (Bodden, 2010, p. 68; Hannerz, 1974, p. 63), they still managed to break even or run surpluses in 33 out of the 50 years between 1900 and 1950 (see Figure D2 in the Supplementary Material). Hence, colonial officials did not insist, making the merchants still believe in the early 1960s that they could better prevent income taxation if the Cayman Islands remained a British colony instead of being integrated with an independent Jamaica (Bodden, 2010, pp. 58–59; Craton, 2003, p. 310).

More was at stake for the British colonial administration in St. Kitts, whose total budget was on average 15 times larger than the Caymanian between 1900 and 1922 (see Figure D2). The economy of St. Kitts had become highly concentrated. Absentee landlords owned increasingly large plantations run by hired managers. The latter represented plantation owners in the legislature, prioritizing short-term profit over long-term development (Dyde, 2005, pp. 168–170; Inmiss, 2005, p. 25). Accordingly, taxation was regressive. In the late 19th century, 60 percent of government revenue came from import duties on necessities (Inmiss, 2005, p. 16). This changed with WWI. British imports of Caribbean sugar and cotton

increased to replace European beet root sugar and cover military demand. The value of Kittitian exports tripled between 1914 and 1920 (see Figure D2). Colonial officials used rising customs revenue to grant themselves higher compensation, subsidize a second sugar factory, and establish a midwifery (Colonial Office, 1922, pp. 10–11, 1923, pp. 10–11). The collapsing price of sugar in 1921, however, caused a deficit of 22 percent of revenue (see Figure D2). Given the war profits of the plantocracy, the colonial administration decided in 1922 to cover the difference with a new income tax (Colonial Office, 1924, p. 10, 1925, p. 14; Inness, 2005, p. 79).

This section demonstrates that the combination of relatively low revenue potential and absence of fiscal stress prevented income tax adoption in the Cayman Islands. By contrast, the war profits earned by the Kittitian plantocracy provided the required tax base, tapped by colonial officials in a moment of fiscal stress. Panel A of Figure 3 confirms this pattern for the entire BWI by showing that all plantation economies but only one maritime economy had income taxes by 1950.

Figure 3: Adoptions of Income Taxation and Responsible Government by Type of Economy



Note: Data on adoptions of income taxation and responsible government was collected from British colonial reports (see codebook in Supplementary Material A). The two dips in the share of plantation economies with responsible government result from the British government’s decision to temporarily revoke this status in Guyana and Grenada.

FROM ECONOMIC STRUCTURE TO DEMOCRATIZATION

In this section, we probe the third element of our causal sequential argument: The link between economic structure and the timing of democratization. If this link was present, we should find evidence for the impact of economic structure on patterns of political mobilization, and for the early adoption of responsible government when the working class was mobilized. The British Colonial Office defined responsible government as a political system in which the cabinet has authority over all portfolios except defense, foreign affairs, and internal security and is responsible to an assembly elected by universal suffrage (Colonial Office, 1966, pp. 68–69). This implied the formal end of *white* supremacy, usually leading to the election of Black governments.

The Cayman Islands’ political system remained constant between the creation of the colony’s first legislature in 1832 and the adoption of its first written constitution in 1959 (Colonial Office, 1937, p. 6;

Craton, 2003, pp. 98, 306). The Assembly consisted of an upper chamber of Justices of the Peace appointed by the Jamaican Governor, and a lower chamber of Vestrymen elected by male taxpayers between the ages of 18 and 60 (Colonial Office, 1948, p. 28). Candidates for the Vestry were chosen by the Justices of the Peace and from 1900 approved by the British Commissioner (Bodden, 2010, p. 20). The latter dominated all branches of government, performing the roles of Treasurer, Chief Justice, and President of the Assembly (Craton, 2003, p. 173). Hence, politics came down to bargains between British officials and *white* merchants populating the Assembly (Bodden, 2010; Craton, 2003; Hannerz, 1974).

The legislature of St. Kitts had in 1871 replaced a political system similar to that of the Cayman Islands with Crown Colony rule (Inniss, 1983, pp. 34–36, 60). This implied the end of elections and the creation of a Legislative Council made up of an equal number of official and unofficial members, all appointed by the British Administrator (Colonial Office, 1933, p. 20; Dyde, 2005, p. 190; Inniss, 1983, p. 4). Hence, St. Kitts was run by colonial officials at times consulted by representatives of the plantocracy. Administration and plantocracy had agreed on Crown Colony rule to keep the Black population out of politics. As a Kittitian planter put it: “We are a Crown Colony and are governed from Downing Street. We want no share of responsible government as there are only 400 whites on the island as against 40,000 blacks, so by any system of responsible government, we would be hopelessly outvoted” (Inniss, 2005, p. 25).

The Caymanian political system neither reverted to Crown Colony rule nor progressed towards democracy for two reasons, both resulting from the absence of plantations. First, the British colonial administration started from the racist assumption that the Caymanian population was capable of handling politics because a comparatively large share was *white* (Craton, 2003, p. 154; Hannerz, 1974, pp. 28–30). Second, the Black population had occupied land after the end of slavery, enabling subsistence and exit from a rigged political system (Bodden, 2010, pp. 8–9). The main historians of Caymanian politics agree that the Black population’s ability to avoid extreme exploitation after 1834 by becoming farmers, fishers, and sailors prevented the horizontal mobilization of a working class (Bodden, 2010, p. 26; Craton, 2003, pp. 3, 146; Hannerz, 1974, pp. 103–104).

On St. Kitts, most Black laborers remained tenants at will on estate land (Inniss, 2005, pp. 73–74). Since St. Kitts was virtually covered by estates, the only exit option was emigration (Dyde, 2005, p. 161). Between 1900 and 1930, many Kittitians left for the Dominican Republic to work on US-owned sugar plantations offering higher wages (Richardson, 1983, pp. 122–130). Some also managed to enter the United States (Richardson, 1983, pp. 131–135). During the Great Depression, however, most emigrants were deported back to St. Kitts, which exacerbated socioeconomic conditions, producing a wave of labor organization and protests (Dyde, 2005, pp. 242–245; Richardson, 1983, pp. 140–143).

Unlike St. Kitts with its monoculture and extreme land inequality, the Cayman Islands could absorb returnees into subsistence farming and fishing, reducing hardship and preventing political contestation (Craton, 2003, pp. 288–289). Caymanian politics remained structured by patron-client relationships in which *white* merchants exchanged material benefits for political support (Bodden, 2010, pp. 15, 26; Hannerz, 1974, pp. 39–42). Hence, they held on to power even when democratic progress in Jamaica put constitutional reform on the agenda in the 1950s. Eager to prevent income taxation and immigration by Black Jamaicans, the merchant elite insisted that the democratized Jamaican legislature could not have jurisdiction over the Cayman Islands. Instead, practices of Caymanian self-government should be formalized in a new constitution (Bodden, 2010, pp. 58–60; Craton, 2003, pp. 306–310).

Colonial officials accommodated the merchants’ push for ‘voluntary colonialism,’ drafting the islands’ first constitution in 1959 (Bodden, 2010, p. 2). The colony was removed from the Jamaican legislature’s

jurisdiction and put under direct authority of the Jamaican Governor, represented locally by an Administrator. The Legislative Assembly was reduced to one chamber with 18 members, 12 of whom were elected, three nominated, and three officials. The Administrator was Chairman and Speaker of the Assembly as well as President of the Executive Council, consisting of two officials and two elected members. The Executive Council merely had a consultative role, whereas the Governor retained reserved powers, and the British Crown could disallow any legislation it opposed (Craton, 2003, p. 310). Despite the introduction of universal suffrage, these arrangements ensured that colonial administration and merchant oligarchy remained in control (cf. Craton, 2003, p. 322; Freyer & Morriss, 2013, p. 1375).

By contrast, horizontal mobilization of the Black working class created a strong labor movement in St. Kitts, eventually replacing the plantocracy in political institutions (Colonial Office, 1966, pp. 68–69; Dyde, 2005, p. 260). Attempts at working class mobilization had been made by members of an emerging Black middle class since the early 1920s. Because trade unions were outlawed, the first workers' organization was registered as a friendly society in 1921. The Universal Benevolent Association informed about workers' rights and coordinated wage demands. It also published the *Union Messenger*, the first Kittitian newspaper criticizing socioeconomic conditions and reporting on Black political struggles abroad (Dyde, 2005, pp. 241–242; Inniss, 2005, pp. 70–71). During the Great Depression, the movement was strengthened by advocates of Black nationalism returning from the US (Inniss, 2005, p. 114).

Ideas advocated by returnees and the *Union Messenger* chimed well with the grievances of most Black Kittitians, who still worked for exploitative wages in the sugar industry, had no land, and no political rights. Looming frustration erupted into a general strike when planters refused to grant higher wages ahead of the sugar cane harvest of 1935 (Inniss, 2005, pp. 114–115). During subsequent confrontations, the Kittitian Defence Reserves, mobilized among the *white* population by the British Governor, killed three workers. The authorities only regained control over intensifying riots when a British warship landed marines on St. Kitts (Inniss, 2005, pp. 124–131). In response to riots in St. Kitts and other British Caribbean colonies during the Great Depression, the Colonial Office reintroduced elections – albeit on a limited franchise – and appointed a commission to investigate socioeconomic conditions (Dyde, 2005, p. 248; Inniss, 2005, pp. 137–138).

The Moyne Commission reported on the deprivation of the BWI's working classes, recommending the legalization of trade unions and the extension of political rights as main remedies (Inniss, 1983, p. 64, 2005, pp. 144–145). Consequently, the colonial administration legalized trade unions. Founded in 1940, the St. Kitts-Nevis Trades and Labour Union engaged in a series of labor disputes, mobilizing the working class for strikes that lasted up to 13 weeks. Although property qualifications limited the franchise since 1937, the Union also got its leaders elected to the Legislative Council. Here, Robert L. Bradshaw, a former sugar factory worker, became the main advocate for political rights and the end of colonial rule. He mobilized demonstrations against British appointees, claiming that the people instead of the Crown should select political leaders.

Persistent deprivation, recurring labor disputes, and political contestation eventually caused the Colonial Office to follow the Moyne Commission's constitutional recommendations (Dyde, 2005, pp. 250–254; Inniss, 1983, pp. 64–66). Universal suffrage was introduced in 1952. The introduction of responsible government followed in 1960. The British Administrator now appointed as Chief Minister the elected member most likely to command a majority in the Legislative Council. The Chief Minister also acted as Finance Minister, replacing the British Financial Secretary, presided over the Executive Council, and nominated the ministers. Paul J. Southwell, leader of the St. Kitts-Nevis Labour Party, became the first

Chief Minister in 1960. That is, a representative of the Black working class became the colony's first elected head of government (Colonial Office, 1966, pp. 68–69; Inniss, 1983, pp. 64–66).

Hence, this section demonstrates that economic structure prevented the political mobilization of a working class in the Cayman Islands but facilitated it in St. Kitts. The *white* merchants of the Cayman Islands were thus able to retain power for longer than the Kittitian plantocracy. Panel B of Figure 3 shows that this pattern holds across the BWI. By 1960, two thirds of the plantation economies had introduced responsible government but none of the maritime economies.

FROM LATE DEMOCRATIZATION AND THE ABSENCE OF INCOME TAXES TO THE EXPANSION OF OFFSHORE ACTIVITIES

In this section, we probe the fourth element of our causal sequential argument: The link between late democratization, the absence of income taxes and the expansion of offshore activities. If this link was present, we should find evidence that the absence of responsible government and income tax increased the attractiveness of the Cayman Islands from the perspective of Western professionals and asset holders relative to St. Kitts, which had adopted both. Hence, offshore activities should expand faster in the Cayman Islands than in St. Kitts following the Suez crisis (for a discussion of offshore activities in Nevis see Supplementary Material C).

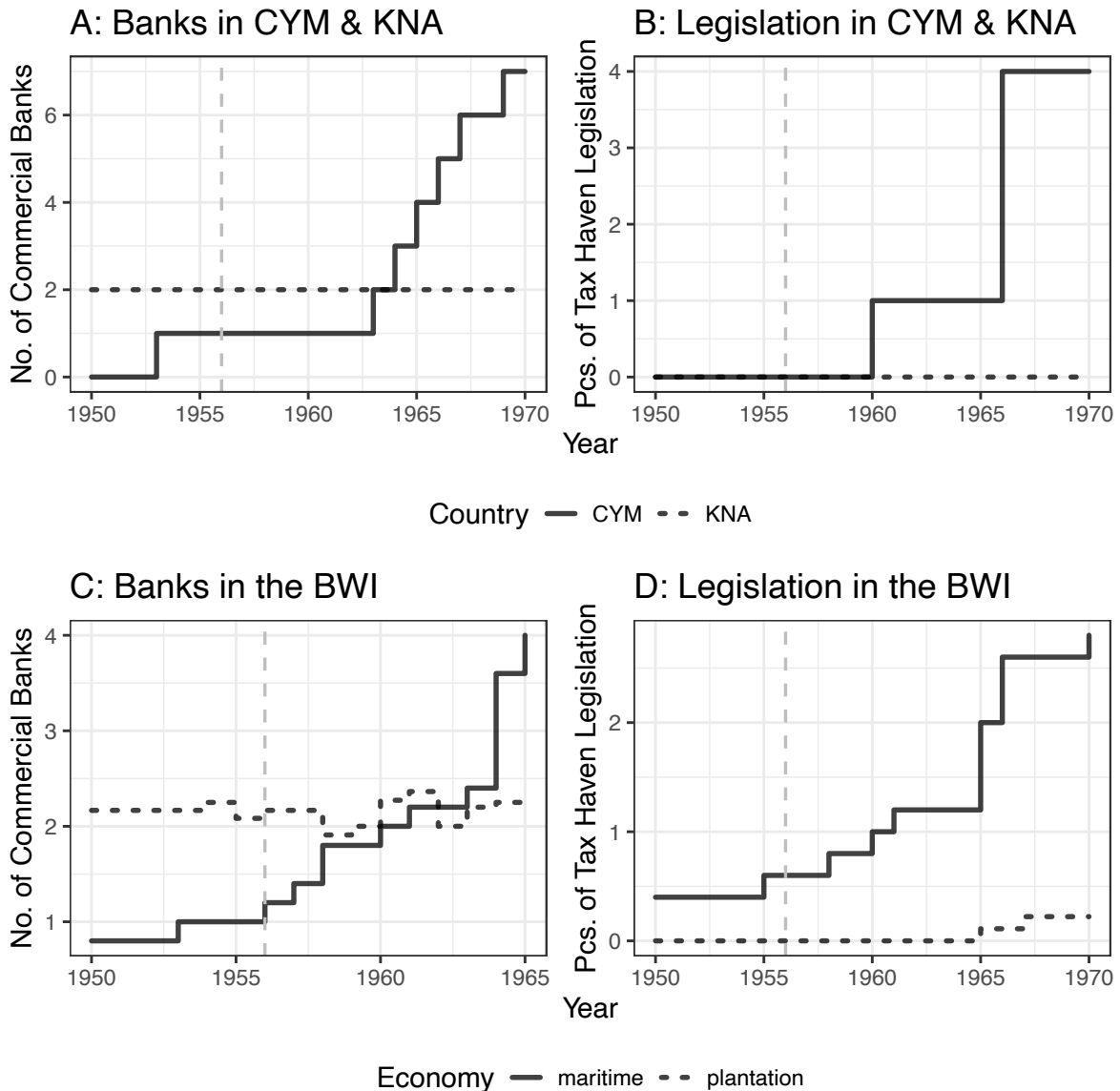
Throughout the 1950s, the Caymanian and Kittitian financial sectors were similarly small. The first commercial bank to open a branch in the Cayman Islands was Barclay's in 1953, followed by the Royal Bank of Canada in 1963. Both banks had operated branches in St. Kitts since at least 1915 (Colonial Office, 1933, p. 29; Inniss, 2005, p. 23), but remained the only commercial banks there until 1971 (Paxton, 1990, p. 1045; SKNA National Bank, 2022). In contrast, the number of bank branches in the Cayman Islands had increased to eight by then. Similarly, neither the Cayman Islands, nor St. Kitts (& Nevis) had any tax haven legislation in place before 1960. That year, however, the Cayman Islands introduced anonymous companies, followed in 1966 by anonymous trusts, lenient banking regulation, and provisions enabling the circumvention of exchange controls (Freyer & Morriss, 2013, pp. 1326–1328; Laffitte, 2024b, p. A.11). St. Kitts still did not have any tax haven legislation in place in 1970 (see Figure 4, Panels A & B).

The observed divergence is linked to two events resulting from the Suez crisis and the subsequent decolonization of Africa. First, the Suez crisis caused speculation against Sterling, which the British government sought to limit by disallowing its use for the financing of foreign trade. London's merchant and overseas banks responded by creating branches in colonies, which were part of the Sterling area but unaffected by these credit regulations and did not tax their profits. In addition, they denominated loans in US dollars, thereby giving a push to offshore money creation in the Eurodollar market (Binder, 2023, p. 51; Palan, 2015, p. 55). Second, the Suez crisis and the subsequent independence struggles in Africa created money panics among colonial elites, who feared expropriation and 'held deep-seated racist convictions about the absence of business acumen among native populations' (Ogle, 2020, p. 214). Hence, financial professionals and colonial elites were looking for places within the Sterling area offering low to no taxes and stable racial hierarchies (Binder, 2023, pp. 51–52; Ogle, 2020; Palan, 2015, pp. 57–61).

The Cayman Islands could offer both, with colonial officials and *white* merchants eager to preserve these comparative advantages. From the perspective of colonial officials, demand for offshore activities provided an opportunity to make colonial policy in the BWI a success story (Freyer & Morriss, 2013, p. 1309; Sævold, 2022, pp. 89, 111). The British Administrator hired British lawyers to draft the 1960

Companies Law. The law was modelled on its English equivalent but included guarantees of tax exemption and anonymity (Craton, 2003, p. 355; Freyer & Morriss, 2013, p. 1315). British lawyers followed up with the 1966 Banks and Trust Regulation Law. The law differentiated between more tightly regulated domestic entities, and loosely regulated offshore entities, which could only engage in business abroad (Craton, 2003, p. 353; Freyer & Morriss, 2013, p. 1328). Despite concern in the British Treasury about the potential for tax evasion, the British Administrator pushed the Caymanian Legislative Council to swiftly pass the law (Sævd, 2022, p. 89).

FIGURE 4: Offshore Sector Development in the Cayman Islands, St. Kitts & Nevis and the BWI



Note: Data on commercial banks was collected from British Colonial Reports. Data on legal technologies comes from Laffitte (2024a).

Many of the British professionals, who transformed the Cayman Islands into a tax haven, had colonial biographies. They worked in the Cayman Islands because there was no Black majority in government that could have opposed their incorporation into the policymaking process (Craton, 2003, p. 357; Freyer & Morriss, 2013, pp. 1326–1327). Indeed, the head of the Colonial Office’s West Indies Department

believed that the Cayman Islands could more easily integrate British professionals than other colonies in the region given that ‘Caymanians were nearer to Europeans in racial origin’ (Sævold, 2022, p. 157). In retrospect, several of the involved expats acknowledged the importance of racism, suggesting that the election of Lynden Pindling as the first Black Chief Minister of the Bahamas was seen as an emergency within the offshore industry, enabling the Cayman Islands to lure away much of the business (Craton, 2003, pp. 356–357; Freyer & Morriss, 2013, p. 1329). In the words of Milton Grundy, who had drafted the Caymanian Trust Law, ‘[There was a lot of political uncertainty, because power was moving from white people to black people, so wealthy people wanted to get their money out. People were looking to the Caymans as an escape, because the governor was white and there was no political agitation’ (cited in: Harrington, 2024, p. 59, see Supplementary Material F for additional statements from professionals emphasizing race).

British professionals also emphasized what they called ‘stable racial [...] relations’ when promoting the Cayman Islands abroad (Freyer & Morriss, 2013, p. 1330). Contemporaneous tax haven guides systematically discuss the size, composition, and political mobilization of racialized groups (e.g. Diamond & Diamond, 1976; Kinsman, 1978). A report by the Economist Intelligence Unit stressed, for instance, that the Cayman Islands were ‘a model of political stability and the unusual population mix of 20 per cent European, 15 per cent African and the remainder of mixed parentage, has and will provide a sound basis for social and racial harmony in the years to come’ (Doggart & Voûte, 1971, p. 46). Citing the need to preserve political stability, the Caymanian merchants were eager to suppress political expression that could be associated with the Black Power movement (Hannerz, 1974, pp. 148–152), limited Black immigration from other parts of the Caribbean (Craton, 2003, pp. 369–371; Freyer & Morriss, 2013, pp. 1346–1347), and stressed the Cayman Islands’ Britishness over their common history with Jamaica (Freyer & Morriss, 2013, p. 1337). In the context of decolonization, the *white* elite thus understood political stability as the absence of political contestation by racialized groups (also see Rivera-Quiñones, 2025, pp. 12–15).

In contrast, the Black working class of St. Kitts had ousted the plantocracy from government. The Labour Party wanted to transcend centuries of exploitation and achieve self-determination. The party’s economic policy focused on improving the lot of its core constituency through better working conditions in the sugar industry and alternative employment opportunities. Therefore, agriculture should be diversified and tourism and manufacturing encouraged through increased investment in infrastructure and tax breaks (Dyde, 2005, pp. 260–263). Hiring British professionals to foster the development of a financial sector dominated by themselves did not fit the Labour Party’s quest for autonomy. This quest had to confront the racial hierarchy. Hence, Kittitian politics could not match the financial and colonial elites’ definition of political stability. Instead, *white* elites punished Kittitian Labour leaders with resentment for having upset *white* supremacy (Dyde, 2005, pp. 286–288). Accordingly, there is no trace in the historiography suggesting that colonial officials or British professionals considered turning St. Kitts into a tax haven during the 1960s.

This section demonstrates that the absence of income taxation was important for British professionals and colonial elites considering business and asset relocation. The absence of responsible government in the Cayman Islands moreover facilitated the delegation of policymaking to British professionals and enabled a marketing strategy emphasizing political stability. St. Kitts had income taxation and Black leadership. Hence, neither colonial officials nor British professionals considered turning St. Kitts into a tax haven during the 1960s. Figure 4 (Panels C & D) shows that this pattern holds across the BWI.

Whereas the numbers of commercial banks and pieces of tax haven legislation rapidly increased in maritime economies after 1956, they remained constant in plantation economies.

FROM DIVERGENCE TO PERSISTENCE

In this section we probe the fifth element of our causal sequential argument: The persistence of the initial divergence between maritime and plantation economies through agglomeration effects. If this dynamic was present, we should find evidence for the concentration of offshore activities in the Cayman Islands and the inability of St. Kitts to offer more than subsidiary services, manifested in a persistent gap between the volumes of the two countries' contemporary offshore activities.

Under the Caymanian constitution of 1972, in force until 2009, the British Governor still appointed the decisive members of the Executive Council: The Chief Secretary responsible for internal and external affairs, the Attorney General, and the Financial Secretary (Craton, 2003, p. 321). These officials drafted legislation together with committees of Western professionals, producing a stream of reforms matching the financial industry's priorities (Freyer & Morriss, 2013, pp. 1338–1339). In contrast, initiatives by elected members were closely regulated. As the British Governor emphasized in 1997, 'colonial status provided a "check and balance" when "in the course of preparing and drafting a law or" even just "discussing" it, the "elected members" knew the Governor and the colonial secretary not only reviewed the outcome, but could also ask to have the law disallowed in London' (Freyer & Morriss, 2013, p. 1354). Opposition was stifled by relatively low land inequality, ensuring that many Caymanians benefitted from financial sector expansion through rising property prices (Craton, 2003, p. 320). Hence, representatives of the racialized population remained under supervision, whereas unelected expat professionals controlled legislative content. This type of political stability made Cayman-registered hedge funds the main source of portfolio investment into the United States and Cayman-registered banks the world's third-largest source of international credit by 2015 (Fichtner, 2016).

In St. Kitts, the Labour government continued to struggle with the legacies of the plantation system. The sugar industry was in decline but remained the largest employer, as fiscal incentives for tourism and manufacturing did not attract enough foreign investment. Land ownership was still concentrated with the plantocracy. As most Kittitians could neither acquire land nor change occupations, the Labour government used public money to subsidize and eventually nationalize the sugar industry. Instead of distributing the land, however, Labour stuck with the loss-making estates (Dyde, 2005, pp. 284–285).

St. Kitts eventually entered a niche of the tax haven market when the British consultancy Henley & Partners approached the government in 2005 with a plan 'to expand its economic citizenship stream [adopted in 1984] into a marketable citizenship by investment program' (Surak, 2023, p. 42, for additional evidence of negligible offshore activity in St. Kitts relative to Nevis see Supplementary Material C). Under this scheme, foreigners obtain Kittitian citizenship in exchange for paying \$250,000 into the government's Sugar Industry Diversification Fund or purchasing \$400,000 worth of real estate (Surak, 2023, p. 42). Following guidance from Henley, background checks on applicants were outsourced to an international due diligence firm, which submits applications to the European Union, United States, and United Kingdom for approval before forwarding them to the Kittitian government. 'Effectively, [the Kittitian government] outsourced both the financial and the assessment side of program management' to Western professionals (Surak, 2023, p. 42). The scheme grants non-Western elites visa-free access into the above spaces, provides the Kittitian government with revenue, but keeps the Kittitian

government out of the crucial administrative stages (Surak, 2023, pp. 42–46). Hence, St. Kitts’ contemporary role in offshore activities is limited to downstream services.

This section demonstrates that the absence of responsible government in the Cayman Islands continued to facilitate the drafting of tax haven legislation by British professionals. Since legislation matched financial sector preferences, offshore activities concentrated there. When St. Kitts belatedly entered the tax haven market, it was confined to selling passports under the close supervision of Western professionals. Figure 1 shows that this pattern holds across the BWI: The value of most maritime economies’ holdings of US securities and cross-border financial positions is several times higher than that of most plantation economies.

CONCLUSION

In this paper we have demonstrated the plausibility of a causal sequential argument tracing contemporary variance in the former BWI’s attractiveness for offshore tax planning and offshore money creation back to soil fertility and corresponding colonial economic structures. We differentiate maritime economies with poor soils and traditionally high levels of smallholding from plantation economies with fertile soils, exploiting enslaved Africans and their descendants in the large-scale cultivation of sugar and cotton. Maritime economies have been more likely than plantation economies to become and remain attractive locations for the main offshore activities for four reasons.

First, maritime economies were less likely than plantation economies to adopt income taxes. In maritime economies, low-yielding economic structures did not provide a corresponding tax base and widespread self-sufficiency reduced demand for public services. In plantation economies, exploitative conditions on the estates produced large profits for the plantocracy and a sufficient base for income taxes, tapped by the colonial administration in moments of fiscal stress. This finding lends support to theories linking economic structure and metropolitan revenue needs to colonial fiscal capacity (e.g. Frankema & van Waijenburg, 2021; Mkandawire, 2010).

Second, maritime economies were less likely than plantation economies to democratize early. In maritime economies, widespread smallholding prevented the mobilization of a Black working class. Political mobilization happened vertically with *white* merchants exchanging material benefits for political support. Plantation economies exploited Black laborers concentrated on the estates. This facilitated the horizontal mobilization of a Black working class, leading to powerful labor movements, which over time developed into political parties fighting for political rights and self-determination. This finding lends support to theories linking a geographically concentrated working class to democratization (e.g. Rueschemeyer et al., 1992)

Third, maritime economies were more likely than plantation economies to attract professionals and assets during decolonization. Because they did not have income taxes, maritime economies were attractive for bankers, seeking to process Eurodollar transactions outside the United Kingdom but inside the Sterling area, and for colonial elites, seeking to protect their financial assets from postcolonial governments. Because they were still governed by *white* oligarchies, maritime economies could more easily delegate financial and tax policymaking to British professionals and market themselves as politically stable. That is, safe for banks, colonial elites and their assets.

This finding casts doubt on theories linking democracy to attractiveness for foreign investment (e.g. Genschel et al., 2016). In the BWI, Western bankers and asset holders associated democratic institutions empowering Black populations with political instability, whereas they associated undemocratic

institutions empowering *white* oligarchies with political stability. This dynamic seems to chime better with theories suggesting that racialization mediates the effect of democracy on economic outcomes (e.g. Alami & Guermond, 2023; Cornelissen, 2020).

Fourth, maritime economies were likely to remain attractive locations for the main offshore activities after decolonization because of agglomeration effects. They concentrated the expertise of British professionals under their jurisdiction, attracting initial offshore activity that drew in more offshore activity over time. Plantation economies belatedly trying to enter the tax haven market were therefore confined to providing subsidiary services to the more established centers. This finding confirms previous research describing similar dynamics in Mauritius (Behuria, 2023).

Although our causal sequential argument applies in the context of the BWI, we suspect that soil fertility can explain some of the cross-country variance in attractiveness for the main offshore activities beyond this group. Figure E1 in the Supplementary Material shows that the maritime economies among all tropical island jurisdictions for which data is available tend to have larger holdings of US securities and cross-border financial positions than the plantation economies. We will explore in future research whether causal mechanisms resembling the one identified for the BWI produced this outcome.

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COMPETING INTEREST DECLARATION

There are no competing interests to declare.

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