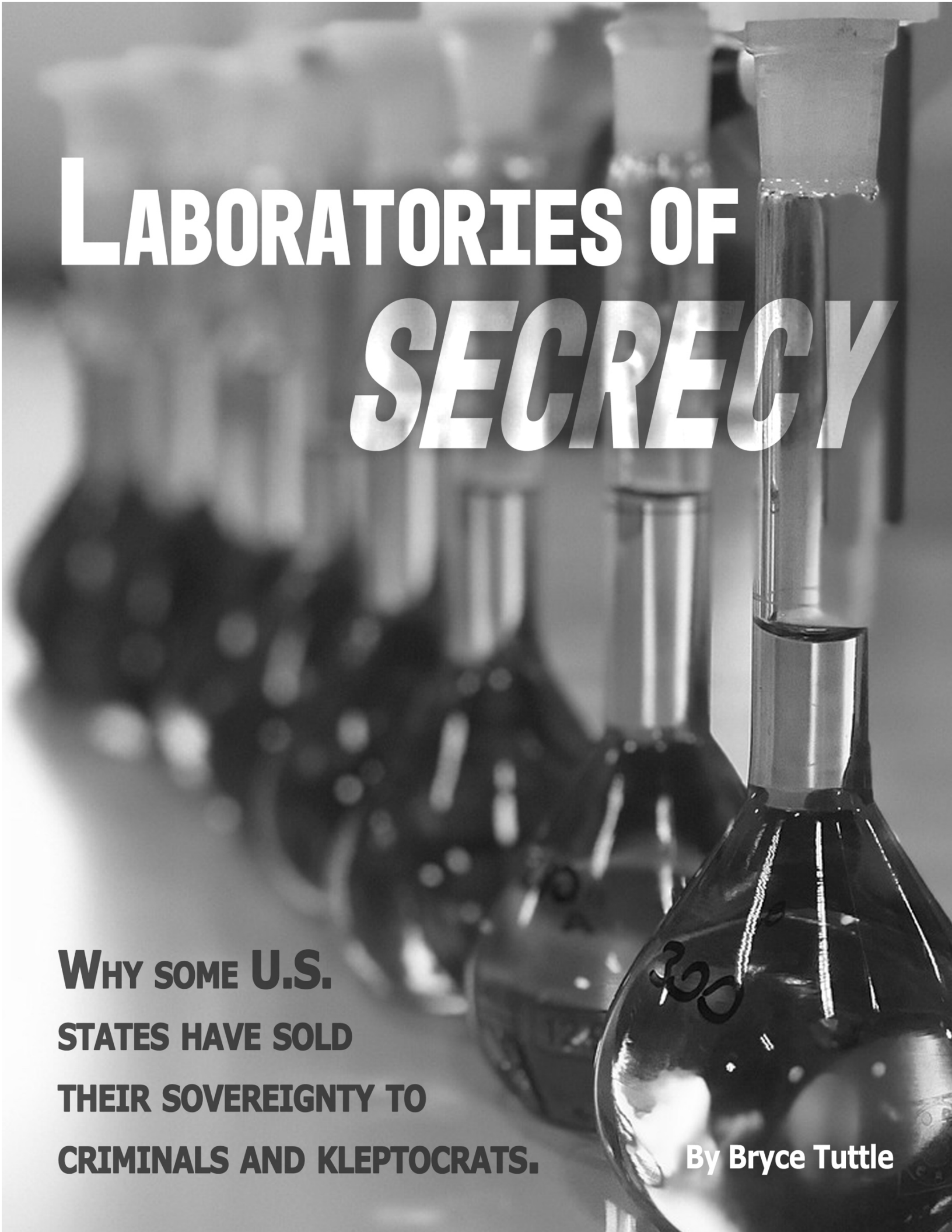

LABORATORIES OF *SECRECY*

WHY SOME U.S. STATES HAVE SOLD THEIR SOVEREIGNTY TO CRIMINALS AND KLEPTOCRATS.

By Bryce Tuttle

LABORATORIES OF SECRECY:

Why Some U.S. States Have Sold Their Sovereignty to Criminals and Kleptocrats.

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Undergraduate Honors Thesis
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May 22, 2020

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Abstract

Despite its reputation for the toughest anti-money laundering (AML) enforcement in the world, the United States remains the leading jurisdiction for the incorporation of anonymous shell companies used in grand corruption schemes. States like Delaware and Nevada have become notorious secrecy jurisdictions, frequently used by criminals and kleptocrats for money laundering. This thesis investigates why some U.S. states and not others have become the most secretive incorporation jurisdictions in the world. By employing the metrics from corporate secrecy scholars and NGOs and never-before-collected cross-sectional data on U.S. state incorporation fee revenue, this work reveals the correlates of U.S. state corporate secrecy. Moreover, through an interest group analysis of the corporate policymaking of two states (Delaware and Nevada) it posits a causal logic behind corporate secrecy in the most secretive U.S. states. It highlights how pro-secrecy interests in the United States have gained control over incorporation policymaking in Delaware and Nevada.

Acknowledgements

My first thanks must go to my advisor, Professor Larry Diamond, who somehow always found time to offer me thoughtful, insightful advice between trips around the globe defending the ideals of democracy against the forces of autocracy. Thank you for inspiring me every time we talked, for pushing me to think more deeply and not limit myself, and for continuing to work with me even though I forgot to put page numbers on almost every draft I sent you. To Professor Steve Stedman and Dr. Didi Kuo, thank you for teaching all of us the makings of good research and for supporting us through this often-trying process. Your feedback was always incisive, leaving me with new ideas and new challenges. To everyone in the 2020 CDDRL thesis cohort, your advice and support was most helpful of all.

To all the employees of state governments who took the time to help me gather my data, who took care to fulfil my requests for information promptly and helpfully and work every day to ensure our governments are transparent and accountable, thank you. We need you now more than ever before.

I offer profound thanks to Professor Shelley Fishkin who introduced me to Professor Diamond a year ago. You were the first professor at Stanford who inspired me to write better and reminded me of the power of words. I have applied the lessons you taught me autumn quarter of freshman year to every class since. I hope this thesis has lived up to your expectations. To Professor Terry Moe, your classes continue to have a major impact on my intellectual development. Thank you for your early advice on the direction of this thesis. While I have rarely left your office feeling more optimistic than when I entered, I have always left with a more critical eye – which you have convinced me will serve me better. Professor Adam Bonica, thank you for guiding me through the troubled waters of quantitative analysis and always reminding me why politics matters.

As with anything worth doing, this has been a labor of constant frustration as well as love. I fear I may have to apologize more for the expressions of love for my work than the expressions of frustration as I have probably bored my family and friends more with the former than the latter. I am infinitely grateful for their patience and the contribution it made to this final product. It was often that watching their eyes glaze over which made me realize I needed to slow down and explain things better or hurry up and get on with it. The cumulative hours spent lecturing at these people and listening to them are what has brought this work to a semblance of understandability.

To my sister, Darcy, who inspired me to take on this topic, thank you for always being my sounding board for my ideas and emotional support for my struggles. To my mother, thank you for being there whenever I needed you most and teaching me to look beyond the narrow scope of my discipline. Most of all, thank you for bearing my presence while I wrote the last two chapters of this thesis while we were sheltered in place together. To my father, thank you for teaching me to think critically, to ask questions for which the answers are hard to find, and to fight conventional wisdom. Thank you, Andrew Lokay for being a common combatant against this thing we call a senior thesis

and for being an amazing friend. To my friends Rachel Vaughan, Marissa MacAvoy, Noelle Chow, and Melina Walling – thank you for listening patiently while I uttered all the banal clichés about writing a thesis which I had promised not to indulge in when I started a year ago.

I am especially indebted to three teachers from the Latin School of Chicago and extend to them my profound thanks. To Ms. Houck, you somehow convinced a dyslexic kid who could barely put a sentence on paper that he could love writing even if it was difficult every time. To Mr. Fript, your classes influence my thinking more to this day than any I have taken since. To Ms. Hennessy, I am sorry I did not become a history major. But I hope you will see that the historical perspective you instilled in me deeply influences my thinking to this day.

I thank Professor Steven Press, who first taught me that legal borders could be more important than physical ones; George Zelcs, who provided needed advice on the law of corporations early on; and to the staff of BOSP Oxford, for taking me to the island of Guernsey and giving a beautiful face to the world of financial secrecy. My last thanks go to the Fisher Family who through their generous donation and commitment to the program made this all possible.

When writing something that took over a year to produce from inception to completion, it is impossible not to feel indebted to everyone who made that year easier and brighter. To all those people who I have not mentioned here including teachers, professors, friends, and family, thank you. I could not have done this without you.

ABBREVIATIONS

ABA	American Bar Association
ALEC	American Legislative Exchange Council
AML	Anti-money laundering
BVI	British Virgin Islands
CRS	Common Reporting Standard
CSP	Corporate Service Provider
CSC	Corporation Services Company
DEA	Drug Enforcement Administration
DSBA	Delaware State Bar Association
EU	European Union
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FEC	Federal Election Commission
FINCEN	Financial Crimes Enforcement Network
FIU	Financial intelligence units
FT	Financing of terrorism
GEP	Global Energy Producers LLC
GDP	Gross Domestic Product
GFI	Global Financial Integrity
GSG	*Global Shell Games*
IRS	Internal Revenue Service
LCP	Library Card Project
NRAA	Nevada Registered Agent Association
NASBO	National Association of State Budget Officers
OECD	Organization for Economic Cooperation and Development
OFAC	Office of Foreign Assets Control
OFC	Offshore Financial Center
SBN	State Bar of Nevada
UNODC	United Nations Office on Drugs and Crime
WID	World Inequality Database

CHAPTER 1: THE LAUNDRY BUSINESS

Image: Little Falls Center, Wilmington, DE captured by Google Street View.

A Gun-Runner's Shell Game

If you drive a few miles west of downtown Wilmington, Delaware to the tree-filled suburb of Woodland Park, you might find yourself passing the Little Falls Center – an office block with two crescent-shaped, wide-windowed white buildings.[1] Behind the modern, if a bit dull, exterior of 2711 Centerville Road is Suite 400,[2] the official address for Vial Company.[3] Vial Company shares an address with and was registered by "The Company Corporation" which is another name for the Corporation Services Company (CSC), one of the largest corporate service providers (CSPs) in the country. Vial Company has no website, no real place of business, no apparent commercial activity,

[1] 2711 Centerville Road, Wilmington, DE. Google Street View. Accessed: October 8, 2019.
[2] This information may no longer be up to date. Delaware's corporate registry requires a $10 fee for information about the standing of a company and a $20 fee for filing history.
[3] Division of Corporations, "Entity Search" https://icis.corp.delaware.gov/Ecorp/EntitySearch/NameSearch.aspx. Results for "VIAL COMPANY." Accessed: October 8, 2019.

and public records make it impossible to know who owns it. Vial Company is an anonymous shell company.

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He is known as the "Merchant of Death" or the "Lord of War" depending on whom you ask.[4] The former is a title given to him by former British Minister Peter Hain during a 2000 speech on the floor of the House of Commons. The latter is the title of a 2005 Nicolas Cage film said to be loosely based on his life. In 2008, when he is awaiting extradition from Thailand to the United States, pirated copies of the movie with his face plastered on the box them are sold on the streets of Bangkok.[5] Both titles are well earned.

Viktor Anatoljevitch Bout is currently serving a twenty-five-year sentence in U.S. federal prison.[6] If you ask the Russian foreign ministry who Viktor Bout is, they will tell you he is a simple businessman being used as a pawn by Americans hell-bent on destroying Russia.[7] Bout himself has said the same. He told Russia Today that the U.S. prosecuted him because he would not give them dirt on Putin.[8] Bout was educated at the Military Language Institute in Moscow, a notorious recruiting ground for the military branch of the Russian intelligence services, the GRU. It is even suspected that he was once a GRU officer.[9]

Bout is better known by a different title: arms dealer. In 2004, he was placed on a United Nations travel ban list for shipping weapons to convicted war criminal and former dictator of

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[4] Benjamin Bidder, Erich Follath, and Matthias Schepp, "Trapping the Lord of War: The Rise and Fall of Viktor Bout - SPIEGEL ONLINE - International," Spiegel Online (Der Spiegel , October 6, 2010).
[5] Nicholas Schmidle, "Disarming Viktor Bout," The New Yorker (The New Yorker, August 27, 2014).
[6] Associated Press, "Viktor Bout Sentenced to 25 Years in Prison," The Guardian (Guardian News and Media, April 5, 2012).
[7] Foreign Minister Sergi Lavrov publicly defended Bout during his extradition proceedings in Thailand, proclaiming his innocence (Bidder, Follath, & Schepp, 2010).
[8] "I Couldn't Give the Americans Dirt on Putin, so Now I'm in Jail, Viktor Bout Tells RT," RT International (TV-Novosti, October 9, 2019).
[9] Schmidle (2014).

Liberia, Charles Taylor.[10] His arms were likely a major factor in intensifying the Liberian civil war and Taylor's brutal assault on Sierra Leone. Taylor was not the only dictator Bout served through his weapons trafficking empire. Throughout his career, Bout supplied arms to both sides of the civil war in Angola, transported and supplied arms to Rwandan soldiers who were fighting in the Eastern Congo, and leased cargo planes to Muammar Qaddafi.[11]

Photo: Viktor Bout in the custody of Drug Enforcement Administration Agents.[12]

How Bout ended up in United States custody is a fascinating and at times deeply troubling story. In 2004, pursuant to a United Nations Security Council resolution, Bout was placed under the U.S. sanctions regime on Liberia. But it was not until almost a year later that the Office of Foreign Assets Control (OFAC), the United States government agency in charge of sanctions enforcement,

[10] UNODC, "UNODC Chief Praises Thailand for Arrest of 'Lord of War,'" (United Nations Office on Drugs and Crime, March 7, 2008).
[11] Schmidle (2014).
[12] Drug Enforcement Administration, "File:Viktor Bout Extradited to US.jpg," Wikimedia Commons (Wikimedia Foundation, November 16, 2010).

placed Bout's companies under sanction.[13] Among those thirty companies was one registered in Wilmington, Delaware called Vial Company.

When procurement experts in the U.S. Department of Defense searched the newly sanctioned entities in their databases, they found something highly disturbing. Bout's companies had been delivering frozen food and tents to U.S. troops in Baghdad while they were engaged in fighting the war in Iraq.[14] All told, the U.S. government paid Bout's organization up to $60 million.[15] U.S. taxpayers funded the merchant of death, all through the veil of secrecy provided by anonymous companies. According to Nicholas Schmidle, a New Yorker reporter who interviewed Bout in August 2014, that money helped Bout's empire "get back on its feet" after years of targeting by U.S. and international authorities.[16] Bout could not travel outside Russia without getting picked up by INTERPOL but he was free to profit off the Defense Department and government contractors.

Bout was finally arrested on March 6th, 2008 after a Drug Enforcement Agency (DEA) sting in Thailand recorded him offering to sell anti-aircraft missiles to DEA agents posing as members of the Colombian FARC guerilla group, planning to use them to kill U.S. troops. After a long extradition battle, he was tried and convicted in 2011 in federal court of conspiracy to kill U.S. nationals, conspiracy to kill federal officers, conspiracy to acquire anti-aircraft missiles, and conspiracy to provide material support to a foreign terrorist organization.[17]

Viktor Bout's arms trafficking empire was built on anonymous companies. These companies, run by his accountant Richard Chichakli, allowed Bout to launder his ill-gotten gains and spend them around the world.[18] Bout registered his companies all over the world, from Côte d'Ivoire

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[13] "Treasury Designates Viktor Bout's International Arms Trafficking Network," U.S Department of the Treasury (U.S Department of the Treasury, April 26, 2005).
[14] Schmidle (2014).
[15] Bidder, Follath, and Schepp (2010).
[16] Schmidle (2014).
[17] Schmidle (2014).
[18] Nicholas Schmidle, "Catching Richard Chichakli," The New Yorker (The New Yorker, January 15, 2013).

to the United Arab Emirates to Kazakhstan. He registered three companies in Gibraltar, a notorious United Kingdom tax haven.[19] Yet of all the countries Bout used for his secretive empire, the one he seemed to like the most was the United States, a country with arguably the strongest anti-money laundering enforcement in the world – a country that had been hunting him for years. Viktor Bout used at least 11 U.S. companies located in Texas, Florida, and Delaware to launder millions of dollars from his arms trafficking empire – including Vial Company.[20] What was Viktor Bout thinking?

Over the next six chapters, I will attempt to answer that question and its corollaries. Why did Viktor Bout choose Delaware, Texas, and Florida and not Maryland, Virginia, and Vermont? I will explain that the Bout case is not an isolated incident and is actually part of a larger trend in financial crime. I will attempt to explain why and how the United States has become the top jurisdiction for shell companies used in "grand corruption" cases[21] from the perspective of interstate competition and domestic political forces. Most importantly, I will tell the story of how decisions made in Secretary of States' offices and state legislatures all across the United States have created a system that damages democracy, economic development, and the rule of law in countries all over the world.

What Is Money Laundering?

$1.6 trillion – that is the amount of money the United Nations Office on Drugs and Crime (UNODC) estimated was laundered globally in 2009. That amounted to 2.7 percent of the entire

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[19] "Recent OFAC Actions," U.S. Department of the Treasury, April 26, 2005.
[20] Senate Permanent Subcommittee on Investigations, "U.S. Corporations Associated with Viktor Bout." November 2009.
[21] Ben Judah and Belinda Li, "Money-laundering for 21st Century Authoritarianism: Western Enablement of Kleptocracy," Kleptocracy Initiative, December 2017. p. 7.

world's Gross Domestic Product (GDP) that year.[22] Out of every dollar that moved through the global economy in 2009, three cents were the laundered proceeds of crime and corruption. Now imagine all of those drug kingpins, corrupt politicians, and terrorist cells – instead of spending that money on private jets, expensive jewelry, luxury real estate, and weapons – chose to start their own country. Let us call it 'Kleptopia.'[23] Assuming it kept pace with global economic growth for the past 10 years, Kleptopia would have a GDP of approximately $2.4 trillion. It would be the eighth largest economy in the world – surpassing Italy, Brazil, Canada, South Korea, and Russia.[24] Money laundering has deprived the world of a massive amount of economic activity each year. It helps corrupt politicians steal from state coffers, it helps drug cartels expand their empires, and it helps terrorist organizations fund their operations. Money laundering threatens the safety and stability of the world every day.

This all raises the important but often neglected question – what is this thing we call money laundering? The term seems to have first appeared in print in reference to actual money washing machines put in place by the United States Bureau of Printing and Engraving in the 1910s.[25] 'Dirty' money in the literal sense was a major problem in the late 19th and early 20th centuries and was suspected to be a major disease vector.[26] "Money laundering" reemerged in the popular lexicon

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[22] United Nations Office of Drugs and Crime (UNODC), *Estimating Illicit Financial Flows Resulting from Drug Trafficking and Other Transnational Organized Crimes* (Vienna: United Nations Office on Drugs and Crime, 2011).

[23] My term 'Kleptopia' owes itself to journalist Oliver Bullough's term "Moneyland' described in the 2019 book of the same title. But while Bullough's Moneyland encompasses all the different ways the ultra-wealthy circumvent the laws by which the rest of us must abide, 'Kleptopia' narrowly refers to all that the world loses from the cash stolen and laundered.

[24] These calculations were made using the International Monetary Fund's "World Economic Outlook Database" estimates for gross domestic product in U.S. dollars in 2019. Global GDP figure used to calculate the GDP of Kleptopia uses a sum of the IMF's 2019 country estimates, excluding countries for which they do not have data. "World Economic Outlook Database," (International Monetary Fund, April 2019).

[25] A search of ProQuest's Historical Newspaper Archive revealed a series of articles relating to this machine and the political controversies around it starting in 1912, the first of which was entitled "TO WASH $500,000 IN BILLS.: U.S. TREASURY'S MONEY LAUNDERING MACHINE IS READY."
New York Times (1857-1922), Jun 16, 1912.

[26] Harry B Mason, "Clean Money," *Bulletin of Pharmacy* 22, no. 10 (October 1908): p. 401. Many thanks to Darcy Tuttle for helping me make this connection.

when journalists Bob Woodward and Carl Bernstein quoted investigators' use of the word "laundered" in reference to Watergate conspirators' attempt to conceal the origins of donations to the GOP through Mexican shell companies during the election of 1972.[27] Since then, use of the word has continued to grow as the topic has gained popularity from recent massive leaks about shell companies like the Panama in 2016 and Paradise Papers in 2017.[28]

In its most basic form, money laundering occurs any time someone tries to conceal the origins of money obtained through some illegal act. In the modern financial system, this generally occurs in three stages: placement, layering, and integration.[29] In the placement stage, money is first introduced into the financial system. Generally, this happens when a criminal deposits illicit proceeds into a bank account they control. The criminal then attempts to conceal the origins of funds through multiple transactions. This "layering" stage is where most of the work is done. The money launderer might write an invoice for consulting services that were never provided or record a purchase that never occurred. This makes the transfer seem legitimate to prying eyes and this process is usually repeated many times. It is the rinse-cycle of money laundering.

During the famous "Russian Laundromat" money laundering operation linked to Vladimir Putin, layering was accomplished through a complicated scheme where a loan was made from one shell company to another and then quickly defaulted on. In reality the loan was a legal fiction. The

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[27] While it is possible other journalists used this word in the intervening period, Woodward and Bernstein define "laundered" as "made untraceable" in their article, suggesting it was not commonly known. Woodward, Bob and Carl Bernstein. "GOP 'Apparently' Violates Fund Law." *Boston Globe (1960-1988),* Aug 27, 1972. The premise that the term "money laundering" was popularized by Watergate is widely accepted by dictionaries and was confirmed by my own research. "launder, v.". OED Online. September 2019. Oxford University Press.

[28] According to Google's Ngram, "money laundering" first started appearing in books in 1975 and usage has steadily increased since the 1980s when it first became formally criminalized. "Google Ngram Viewer," Google Books (Google), accessed October 17, 2019.

[29] United States of America, Department of the Treasury, Terrorism and Financial Intelligence, *National Money-laundering Risk Assessment* .

true purpose was the move funds out of the Russian company that guaranteed the loan into the shell company that "made" the loan.[30]

The final step, integration, is where the dirty money finally becomes clean. The money is placed somewhere where it seems legitimate. This could be done by purchasing real estate or disposing the funds in a bank account at a reputable bank. Shell companies can be used in (and are often necessary for) every one of these stages. They can serve as the owners of bank accounts, the providers of fictional goods or services, and the final purchaser of a clean asset.

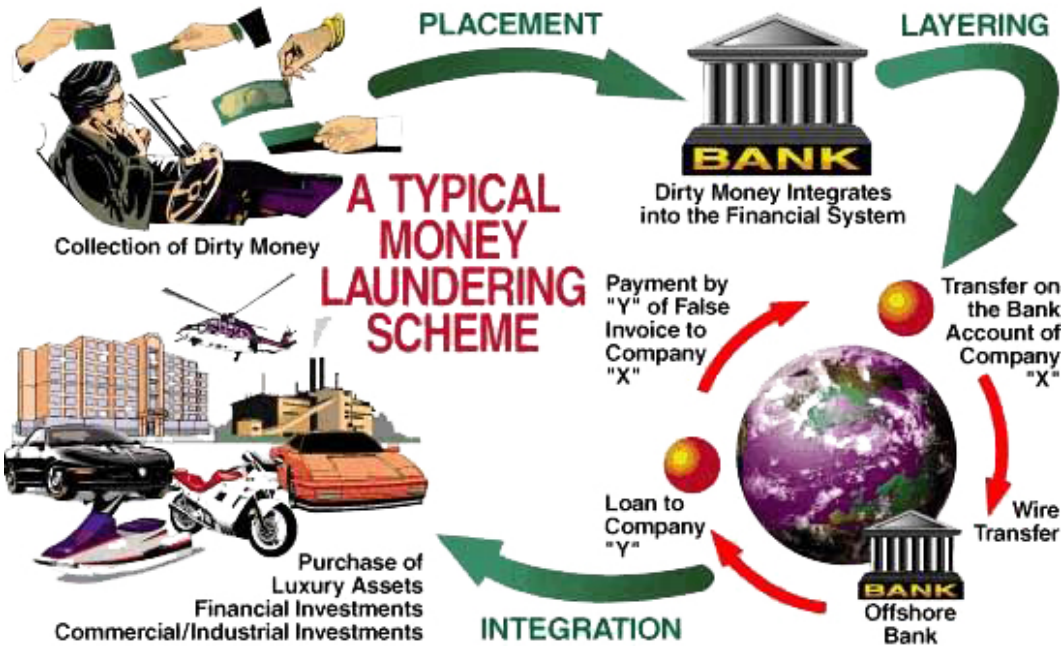

Figure 1.1: Money laundering diagram created by UNODC.[31]

To illustrate these steps, let's say you are a Russian oligarch and you want to get your money into the United States. Only there is an obstacle – you somehow ended up on an OFAC sanctions list. But your accountant tells you this is not a problem. She sets up two companies, one in Delaware

[30] OCCRP, "The Russian Laundromat" (Organized Crime and Corruption Reporting Project, August 22, 2014).
[31] United Nations Office on Drugs and Crime, "Money-Laundering Cycle" (United Nations Office on Drugs and Crime).

and one in Hong Kong.[32] For both companies, she pays for a "registered agent" service, so a person completely unconnected to you appears on all legal forms for the company and you are hidden on Delaware's public corporate registry.[33] Neither Delaware nor Hong Kong require that incorporation filings contain the person who actually controls the assets of the company known as the "beneficial owner."[34] This loophole enables the accountant to use the registered agent service to keep your name out of the public eye, all while you maintain full control over your money. The incorporation agent she chooses also offers a nominee ownership service, meaning you will not have to sign any documents. The nominee owner, a person generally employed by the corporate service provider who knows nothing about the actual operations of the company, will appear to be the true owner of the company. She uses the Delaware company to open a bank account at a small American bank, providing the identity documents of the nominee owner of the company. She connects the Hong Kong company to a Ukrainian bank account containing the funds you want to transfer.[35] Then she begins to move the money. She has the Delaware company issue invoices to the Hong Kong company for consulting services, each for less than $10,000. This prevents these transactions from triggering the Banking Secrecy Act's record-keeping requirements for financial institutions.[36] She makes the transfers over the course of a year at consistent intervals to make them appear like legitimate payments. Finally, all the money is in the U.S. – not in your name but in your control.

This is a simplistic model. If money laundering were a straightforward formula, it would be easy to stop it. Most money laundering efforts are much more complicated and involve many more

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[32] According to the Financial Secrecy Index produced by the Tax Justice Network, Hong Kong is the fourth most secretive jurisdiction in the world. "Narrative Report on Hong Kong," Financial Secrecy Index 2018 (Tax Justice Network), accessed October 20, 2019.
[33] The term "registered agent" is defined further in chapter two.
[34] Tax Justice Network (2018).
[35] According to the MONEYVAL, the international organization that monitors anti-money laundering policy for Europe, mutual evaluation of Ukraine's anti-money laundering system, Ukraine has weak anti-money laundering enforcement. MONEYVAL, "Anti-money laundering and counter-terrorist financing measures: Ukraine," Financial Action Task Force. December 2017. FATF-GAFI.
[36] 31 CFR §1010.311.

shell companies and types of transactions to create false leads and dead ends for even the smartest investigator. However, this is the general structure of money laundering. There is one important note to remember: illegal money can never be perfectly clean. If an investigator pushes hard enough and has access to all the information that she needs, any fund transfer can be traced. The goal of a money launderer is not to be perfect – it is to make investigating the source of funds so difficult that investigators believe it is in their best interests to look elsewhere. The most successful money launderer will prevent any red flags from appearing in the first place. Therefore, money launderers do not use just one loophole in the law to conceal funds, they use every loophole – with every move, increasing the time, energy, and money it costs to unravel their web.

Global Kleptocracy, Transnational Crime, and Terrorism

No one knows the exact wealth of Vladimir Putin. According to his official declaration before the 2018 Russian elections, he had approximately US$250,000 in various bank accounts and made about $700,000 in income from 2011 to 2016. By Russian standards, this would make him wealthy.[37] Yet based on Putin's wrist alone, these figures are implausible. Putin has been photographed wearing a Patek Philippe Perpetual Calendar watch that retails for £70,000 (US$90,000). According to a 2012 estimate by Russia analyst, Stanislav Belkovsky, Putin likely has $70 billion in assets.[38] Prominent anti-corruption campaigner and Putin-critic Bill Browder puts the figure at $200 billion.[39] Regardless of the exact figure, Putin clearly has a lot more money than he is willing to reveal and a good reason for hiding it.

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[37] Adam Taylor, "Ahead of Russian Elections, Putin Releases Official Details of Wealth and Income," The Washington Post (WP Company, February 25, 2018).
[38] Maeve McClenaghan, "Putin: The Richest Man on Earth?," The Bureau of Investigative Journalism (The Bureau of Investigative Journalism, August 14, 2017).
[39] Taylor (2018).

He is far from alone. Numerous dictators have massively enriched themselves at the expense of their peoples. In its 2004 Global Corruption Report on political corruption, Transparency International listed some of the most egregious cases of "grand corruption" – or corruption in which political elites use their influence and power to extract financial rewards.[40] According to their estimates, Indonesian president Mohammad Suharto embezzled between US$15 to $35 billion during his thirty-year reign. Ferdinand Marcos looted from $5 to $10 billion from the Philippines. Mobutu Sese Seko stole approximately $5 billion from Zaire (now known as the Democratic Republic of the Congo), a country which had a GDP per capita of less than $100 by the end of his rule.[41]

These regimes, in which the organization of the state is systemically geared towards enriching the political elite, have become known as "kleptocracies" and their leaders "kleptocrats." Coined by Polish sociologist Stanislav Andreski in the late 1960s,[42] the term "kleptocracy" has gained traction recently with increased study of the phenomena in large kleptocracies like Russia and China. In his book *Ill Winds,* prominent democracy scholar Larry Diamond devotes an entire chapter to the subject and highlights it has one of the major threats to democracy in the modern age.[43]

While certainly not new, globalization is turning kleptocracy into a phenomenon that touches every corner of the world, even states with democratic systems and strong reputations for the rule of law. Since the collapse of Bretton Woods system in the 1970s systems moderating the flow of money across borders are almost non-existent. This loosening of the financial rules has enabled the super-rich to stash their money all over the world. While this state of affairs has had

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[40] This definition is adapted from Arvind K. Jain, "Corruption: A Review," *Journal of Economic Surveys* 15, no. 1 (2001): p. 73.
[41] Transparency International, *Global Corruption Report 2004* (London: Pluto Press, 2004): p. 13.
[42] Oliver Bullough, *Moneyland: The Inside Story of the Crooks and Kleptocrats Who Rule the World* (New York , NY: St. Martin's Press, 2019): p. 119.
[43] Larry Diamond, *Ill Winds: Saving Democracy from Russian Rage, Chinese Ambition, and American Complacency* (New York, NY: Penguin Press, 2019): p. 181-198.

many positive effects from the free flow of capital investment, it has enabled kleptocrats like Putin to exploit the financial system and move their money secretly out of their home country. The end result is that over fifty percent of Russian wealth is held offshore. In Gulf countries, many of which certainly qualify as kleptocracies, that number is almost sixty percent.[44]

During the Bretton Woods era, the flow of currency from one country to another was tightly controlled. While the system did make it harder to engage in international investment, it also made it difficult for criminals, terrorists, and kleptocrats to move their money abroad since they were unable to use the international banking system as easily. The end of Bretton Woods currency controls changed all of this. As Oliver Bullough further explains in *Moneyland* (2019), it created the world of "off-shore" finance. Gradually and then quite quickly, anyone could move their money anywhere they liked – it was as easy as opening up a bank account or creating a shell company. This change also changed the incentives of kleptocrats. As Bullough writes, "Once upon a time, if an official stole money in his home country, there wasn't much he could do with it… His appetites were limited by the fact that the local market could not absorb endless sums of money."[45] But with access to the off-shore financial system, this has changed. Now a kleptocrat can move money to a place where it can be used to purchase goods not on offer in her home country. Now she can easily get that American yacht or a luxury car or perhaps that particularly expensive Swiss watch. The money she has stolen now has so much more value. As Bullough puts it "Offshore means never having to say 'when.'"[46] Greed is no longer bounded by geography.

But kleptocracy and corruption are only part of the offshore finance and money laundering picture. International terrorist groups and organized criminal enterprises utilize this same system to

[44] Oliver Bullough, "The Real Goldfinger: the London Banker Who Broke the World," The Guardian (Guardian News and Media, September 7, 2018a).
[45] Bullough (2019): p. 12.
[46] Bullough (2019): p. 12.

run their empires. As demonstrated by the case of Viktor Bout, anonymous shell companies can be incredibly useful to conceal the proceeds of crime. Similarly, terrorist organizations have utilized the complexities of the offshore financial system to covertly fund their operations.[47] The financing of terrorism (FT) is often separated from traditional money laundering because it is about concealing the destination of funds rather than their origin. Yet the foundations are the same. Both often utilize shell companies to conceal the path of funds and attempt to evade law enforcement.[48]

Beating the Shell Game

While there are numerous coordinated international efforts to fight money laundering, the authorities are losing. According to the UNODC, less than one percent of money laundered globally is seized by authorities. Data collected by the U.S. State Department in 2010 put that figure at about 0.2 percent.[49] But the United States has led a concerted effort to crack down on money laundering. The Treasury Secretary frequently meets with foreign leaders to discuss synchronizing anti-money laundering (AML) efforts.[50] The United States takes a prominent role in the Egmont Group, a body that coordinates cooperation between over 150 nation's financial intelligence units (FIUs).[51] The U.S. has multiple law enforcement agencies tasked with combating money laundering, including the Financial Crimes Enforcement Network, the Office of Foreign Assets Control, the Federal Bureau of Investigation, the Internal Revenue Service's investigations arm, the Secret Service, Homeland Security Investigations, Immigration and Customs Enforcement, among others. The Justice

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[47] Shima Baradaran et al., "Funding Terror," *University of Pennsylvania Law Review* 162, no. 3 (2014): p. 488-95
[48] Shima Baradaran et al. (2014): p. 492-495.
[49] UNODC (2011): p. 119.
[50] For example, in July of 2019, Secretary Steven Mnuchin met with the president of Latvia to discuss enforcement of their new money laundering law. *See* "Readout from a Treasury Spokesperson of Secretary Mnuchin's Meeting with Latvian Prime Minister Krišjānis Kariņš" (U.S. Department of the Treasury, July 10, 2019). Thanks to Darcy Tuttle for pointing me in the direction of these communications.
[51] Financial Crimes Enforcement Network (FINCEN), "The Egmont Group of Financial Intelligence Units," The Egmont Group of Financial Intelligence Units | FinCEN.gov (Financial Crimes Enforcement Network).

Department aggressively prosecutes money laundering. From October 2017 to September 2018, the federal government brought money laundering charges against almost 800 defendants.[52] In its 2016 evaluation of the U.S., The Financial Action Task Force (FATF) – the international body tasked with monitoring compliance with global AML/FT[53] standards – rated the U.S.'s financial intelligence and money laundering investigation and prosecution capacities "substantial," its second-highest rating.[54]

The U.S. also aggressively enforces its tax laws abroad. This effort is best exemplified by the U.S. crackdown on Swiss banking secrecy and the story of banker Bradley Birkenfeld. Birkenfeld, an American working for the bank UBS in Switzerland, marketed his ability to use Swiss banking laws to help rich Americans avoid taxes. But in 2007, he flipped on his employer to U.S. prosecutors. UBS had been violating a tax agreement with the United States and helping its clients avoid millions in taxes. The investigation eventually found that multiple Swiss banks, including UBS and Credit Suisse, had been aiding their clients in dodging taxes. [55] As a result of this scandal, Congress passed the Foreign Account Tax Compliance Act (FATCA).[56] FATCA, according to the Internal Revenue Service (IRS), "require[s] certain foreign financial institutions to report information directly to the IRS about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest."[57] The goal is to prevent U.S. persons from dodging taxes by using foreign financial institutions – or exactly what UBS and Credit Suisse were helping their clients do before 2008. Since the legislation was enacted in 2010, the United States has reached agreements

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[52] United States of America, Department of Justice, Offices of the United States Attorneys, *United States Attorneys' Annual Statistical Report: 2018*: p. 13.
[53] AML/FT stands for anti-money laundering and financing of terrorism.
[54] Financial Action Task Force (FATF) and Asia/Pacific Group on Money Laundering (APG), *United States Mutual Evaluation Report* (Paris: Financial Action Task Force, 2016): p. 13.
[55] Bullough (2019): p. 234-238.
[56] Bullough (2019): p. 239.
[57] "Summary of FATCA Reporting for U.S. Taxpayers," Internal Revenue Service, January 29, 2019.

with 113 countries and jurisdictions to ensure they comply with the law.[58] Soon after the U.S. passed FATCA, the rest of the rich world followed suit. The Organization for Economic Cooperation and Development (OECD) implemented the "Common Reporting Standard" (CRS) in 2013, a system for the automatic exchange of tax information between countries.[59]

But, while the United States may have inspired the CRS, it did not sign on. While the United States insists that countries automatically share financial information about Americans with funds abroad, the U.S. is under no obligation to automatically share the same information about foreigners' assets in the United States.[60] Financial transparency is a one-way street. As Oliver Bullough puts it, "The United States has bullied the rest of the world into scrapping financial secrecy, but ha[sn't] applied the same standards to itself."[61] The result of this gap in U.S. standards has been a kind of financial backflow in which anonymous money has seeped back into the United States from the countries it is policing abroad. Professionals in the field of international tax law are well aware of this force driving their business. Bruce Zagari, a Washington-based lawyer at international law firm Berliner, Corcoran & Rowe, told the Financial Times, "I think the US is already the world's largest offshore centre. It has done a real good job disabling competition from Swiss banks."[62] The problem driven by FATCA highlights a paradox in U.S. anti-money laundering enforcement: despite proactive prosecutors, able financial intelligence authorities, and a foreign policy apparatus dedicated to cracking down on transnational crime and global kleptocracy, the United States has been failing to secure its system at home.

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[58] "Foreign Account Tax Compliance Act (FATCA)," U.S. Department of the Treasury, October 18, 2019.
[59] Eschrat Rahimi-Laridjani and Erika Hauser, "New Global FACTA: An Overview of the OECD's Common Reporting Standard in Relation to FATCA," *International Tax Journal*, no. Issue 1 (2016): p. 32.
[60] As Oliver Bullough explains, this is partially because the U.S. does not collect all the information that would be required under CRS so even if it does share information with foreign tax authorities, it cannot give all the information they need (2019): p. 249.
[61] Bullough (2019): p. 248.
[62] Vanessa Houlder and Kara Scannell, "US Tax Havens: The New Switzerland," Financial Times (Financial Times, May 8, 2016). For more examples, see Casey Michel, "United States of Anonymity," (Kleptocracy Initiative, November 3, 2017): p. 6.

The American Problem

A Treasury Department analysis in 2015 put the quantity of illicit money flowing into the United States each year at $300 billion.[63] Assuming a similar level of global illicit flows today as in 2009, and adjusting for inflation, approximately 17 percent of all globally laundered money ends up in the United States.[64] Given that the United States possesses a robust legal system and reputation for the rule of law, how is all of this dirty money ending up in the U.S.?

The answer lies in the ease of creating anonymous legal entities in the United States. According to a 2011 World Bank survey of "grand corruption" cases, the United States was the leading jurisdiction for the incorporation of shell companies used in these schemes.[65] Domestic authorities have reached the same conclusions. In a 2006 memo, the Financial Crimes Enforcement Network (FINCEN) – the U.S. law enforcement agency dedicated to combating money laundering and sanctions evasion – outlined the risks created by limited liability companies that conceal their "beneficial owners."[66] The beneficial owner of a company is the person who actually controls the assets of the company. They are not merely the company owner as designated on filing papers, who can be the agent of the true owner.[67] Lack of beneficial ownership information is what turns a shell company into an anonymous shell company. This weak disclosure regime in U.S. states leaves open

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[63] United States of America, Department of the Treasury, Terrorism and Financial Intelligence, *National Money-laundering Risk Assessment 2015*: p. 2.
[64] Estimate obtained by converting 300 billion in 2015 dollars to 2009 dollars using the Bureau of Labor Statistics' CPI inflation calculator and dividing that by the $1.6 trillion estimate of laundered money from the UNODC report.
[65] Ben Judah and Belinda Li, "Money-laundering for 21st Century Authoritarianism: Western Enablement of Kleptocracy," Kleptocracy Initiative, December 2017. p. 7.
[66] "The Role of Domestic Shell Companies in Financial Crime and Money-laundering: Limited Liability Companies," Financial Crimes Enforcement Network (FINCEN), November 2006.
[67] For a detailed explanation of the term "beneficial owner" see Emile van der Does de Willebois et al., *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do about It* (Washington, DC: World Bank, 2011): p. 17-32.

a vulnerability that allows untold amounts of money-laundering and terrorist financing to occur within U.S. borders.[68]

In the memo, FINCEN specifically recommended that states should mandate the disclosure of beneficial owners of corporations.[69] Yet fourteen years later, these reforms have not been enacted. In both the 2015 and 2018 National Money-laundering Risk Assessments, the Department of the Treasury emphasized the lack of beneficial ownership records for shell companies as high risk factors for money laundering.[70] To this day, no state requires beneficial ownership records upon corporate registration. It remains incredibly easy to set up a shell company with almost no identity verification. An evocative comparison from the organization Global Financial Integrity demonstrates that in every U.S. state "a person needs to provide far more personal information to a state to obtain a library card than to create a company."[71]

International authorities have recognized the problem as well. FATF has rated the U.S. "non-compliant" with its beneficial ownership standard. The organization also found that this failure impaired law enforcement's ability to collect important information about companies during investigations.[72] As Steven D'Antuono, the acting Deputy Assistant Director of the FBI's Criminal Investigative Division told the Senate Banking committee in May 2019:

> The strategic use of [shell and front companies] makes investigations exponentially more difficult and laborious. The burden of uncovering true beneficial owners can often handicap or delay investigations, frequently requiring duplicative, slow-moving legal process in several jurisdictions to gain the necessary information. This practice is both time consuming and costly.[73]

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[68] FINCEN: p. 2.
[69] FINCEN: p. 3.
[70] See United States of America, Department of the Treasury, *National Money-laundering Risk Assessment 2018* and *National Money-laundering Risk Assessment 2015*.
[71] Global Financial Integrity, "The Library Card Project: The Ease of Forming Anonymous Companies in the United States," (Global Financial Integrity, Global Financial Integrity, March 21, 2019).
[72] Maíra Martini, "Who Is Behind the Wheel? Fixing the Global Standards on Company Ownership," (October 17, 2019): p. 29.
[73] Steven M D'Antuono, "Statement Before the Senate Banking, Housing, and Urban Affairs Committee: Combating Illicit Financing by Anonymous Shell Companies," FBI.gov (Federal Bureau of Investigation, May 21, 2019).

Furthermore, law enforcement investigations are only part of the reason beneficial ownership records are crucial. When journalists are investigating a corruption or transnational crime story, the first place they look for company information is publicly available corporate registries. These pieces often serve as the beginning of crucial anti-corruption investigations as demonstrated by the U.S. Justice Department's prosecution of multiple individuals revealed in the Panama Papers story.[74]

This gap in the U.S.'s anti-money laundering system combined with our stature as the top financial hub in the world has led the Tax Justice Network to rank the U.S. second in their index of the worst financial secrecy jurisdictions. America has become a haven for anonymous foreign money, and the roots of the American anonymity problem lie in this country's most fundamental institution – federalism.

Treasure Island on the I-95

When the accountant for notorious arms dealer Viktor Bout, Richard Chichakli, chose the states in which to put his shell companies, he did not do it randomly. Nine out of twelve were incorporated in Texas, two were placed in Delaware, and the final one was a Florida company.[75] Chichakli was living in Texas at the time.[76] Presumably a Texas mailing address for Texas companies would be less likely to arouse suspicions. But Chichakli had no connection to Delaware and Florida and therefore it is likely he chose them for another reason – secrecy.

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[74] Dylan Tokar, "Accountant Pleads Guilty Ahead of Trial in Panama Papers Case," The Wall Street Journal (Dow Jones & Company, February 28, 2020), https://www.wsj.com/articles/accountant-pleads-guilty-ahead-of-trial-in-panama-papers-case-11582931461.
[75] Senate Permanent Subcommittee on Investigations (2009).
[76] Schmidle (2014).

Delaware is by far the most notorious state in the anti-money laundering community. A 2014 experiment testing compliance with international AML/FT standards by incorporation agents across the world found that Delaware had the lowest compliance rate of any jurisdiction evaluated. This analysis included all of the most prominent offshore financial centers like the Cayman Islands, British Virgin Islands, and Bahamas.[77] While not as secretive as Delaware, in recent years Florida has been aggressively competing for secret foreign money, particularly from Latin America.[78]

These two states are not alone. The 2016 Panama Papers investigation opened by German journalists Bastian Obermayer and Fredrick Obermaier found that Panamanian law firm Mossack Fonseca pushed their clients to form Nevada trusts and shell companies in Delaware, Wyoming, and Florida to evade taxes in their home countries and conceal their wealth.[79] In one particularly famous case, a Nevada shell company called "Cross Trading" was used to channel bribes to officials from the Fédération Internationale de Football Association (FIFA).[80] In his report for the Kleptocracy Initiative, "United States of Anonymity," Casey Michel holds out a similar group – Delaware, Nevada, Wyoming, and South Dakota – as the worst secrecy offenders.[81]

Other states seem to show up in the news and anti-money laundering literature much less often. This is with good reason. The same 2014 analysis of international jurisdictions found a wide range of compliance rates by state, with Delaware at the low end at six percent and Maine at the high end with almost ninety percent compliance among is corporate service providers.[82] That states are different should not be very surprising. Because the federal government has left corporate law largely up to the states, it is understandable that one should see some variation. Yet the level of

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[77] Michael G. Findley, Daniel L. Nielson, and J. C. Sharman, *Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism* (Cambridge: Cambridge University Press, 2014): p. 76-77.
[78] Bullough (2019): p. 250.
[79] Bastian Obermayer and Frederik Obermaier, *The Panama Papers Breaking the Story of How the Rich & Powerful Hide Their Money* (London: Oneworld, 2017): p. 12.
[80] Obermayer & Obermaier (2017): p. 296.
[81] Casey Michel, "United States of Anonymity," (Kleptocracy Initiative, November 3, 2017).
[82] See Appendix III.

variation and concentration of criminal shells in some states is astonishing. Recent shell company data leaks, including the Panama and Paradise Papers investigations, have turned up so many Delaware, Nevada, and Wyoming companies that the International Consortium of Investigative Journalists has given them each a separate tab in their "Offshore Leaks" database.[83] This picture of U.S. secrecy poses a simple question: why these states and not others? Over the next five chapters, I will attempt to answer this question and explain what forces drive states like Delaware to become America's treasure islands.

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Before I proceed with my analysis, a brief preview of what is ahead: In Chapter Two, I describe the difference between a tax haven and a secrecy jurisdiction, give a brief history of the offshore financial world, and provide an overview of how the U.S. became a secrecy jurisdiction. In Chapter Three, I outline my hypotheses for my data analysis and describe my variables and sources of data. In Chapter Four, I present my data analysis, focusing on statistically significant correlations. In Chapter Five, I use an interest group-based institutional analysis to examine how Delaware and Nevada have become the U.S.'s top secrecy states and how their political structure maintains their incorporation service advantage over other states. I conclude in Chapter Six and present some policy recommendations based on my analysis.

[83] International Consortium of Investigative Journalists (ICIJ), "Offshore Leaks Database," (International Consortium of Investigative Journalists), accessed March 30, 2020. *Note*: a company's presence in the Offshore Leaks Database in no way implies criminality by the agents of or owners of that company.

CHAPTER 2: AMERICAN OFFSHORE

What About Tax Havens?

Before I describe the world of "offshore," the relevant scholarship on offshore, and how the offshore paradigm is useful to research on U.S. financial secrecy, I must clarify one important matter of terminology. I am not writing about tax havens.

The focus of this work is on the financial secrecy that allows money laundering, grand corruption, sanctions busting, and terrorism – not legal tax avoidance. This is why I will employ the term "secrecy jurisdiction," or a jurisdiction that offers people a way to hide their money through a legal process, and not the far more common term "tax haven." While journalists and occasionally academics often confuse the two, they are distinct phenomena. Occasionally my analysis will include the crime of illegal tax evasion, which requires secrecy to conceal income from tax authorities. Of course, it is reasonable to question the distinction between legal tax avoidance and illegal tax evasion. In their recent book, *The Triumph of Injustice*, economists Emmanuel Saez and Gabriel Zucman do just that, arguing that much of what is often called 'tax planning' is illegal because it violates the "economic substance doctrine" in U.S. law.[84] Yet, as Saez and Zucman point out, the United States and other tax authorities often fail to enforce this doctrine. Because of this lack of enforcement, secrecy and laundering are completely unnecessary for this form of potentially criminal behavior. Given that this type of tax planning is done openly, marketed freely, and not prosecuted by law enforcement, it would not be useful to treat it in the same way as the crimes I have listed above.

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[84] Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay* (New York: W.W. Norton & Company, 2019). The "economic substance doctrine" is a common law legal doctrine with has been codified in U.S. that states that people should not gain tax benefits from transactions that do not contain any economic substance. Internal Revenue Service, *Additional Guidance Under the Codified Economic Substance Doctrine and Related Penalties*, James G. Hartford. Notice 2014-58. Washington, D.C., 2014. https://www.irs.gov/pub/irs-drop/n-14-58.pdf (Accessed: December 17, 2019).

This type of tax planning often employs tax havens that are not always secrecy jurisdictions.[85] In fact, famous tax havens often score high on measures of anti-money laundering compliance.[86] Since little to no secrecy is directly necessary for these types of tax sheltering and corporate tax structuring, they do not fit within the scope of this work, and I have largely avoided discussing the substantial literature on the effects of tax havens and their politics.[87]

While tax havens themselves are not the subject of this work, the line between legal and illegal can often seem fuzzy. Illegal tax evasion using financial secrecy is an important part of the United States secrecy industry. To explain the distinction between illegal forms of tax evasion and tax planning, I will turn to a firm in an industry that often enables both of these practices.

In an article on their website helpfully entitled "How to Avoid California Franchise Tax," Northwest Registered Agent (a mid-sized company that provides incorporation services), explains how to do just that. For those not acquainted with California tax law, all corporations that are owned or operated in the state of California or owned by a citizen of California are required to pay a minimum $800 tax each year.[88] The article by Northwest helpfully explains how you can avoid paying this tax, legally or illegally. In doing so, it does a better job of demonstrating the difference between illegal tax evasion and (marginally) legal tax planning than any abstract explanation could.[89] For clarity, I have underlined the relevant sections and labeled them (1) and (2):

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[85] For example, many companies use Ireland to reduce their tax burden, but it scores relatively well on financial transparency. "Financial Secrecy Index - 2018 Results," Financial Secrecy Index (Tax Justice Network), accessed December 30, 2019.

[86] I will describe this in greater detail later in this chapter.

[87] If you are interested in these topics, I would highly recommend the works of Vanessa Ogle, Mark Hampton, William Vlcek, and of course Saez and Zucman.

[88] Franchise Tax Board, "Corporations," FTB.ca.gov (State of California Franchise Tax Board, June 26, 2019).

[89] While I hope no one is using this work for tax planning advice, I would be remiss if I did not clarify that I am not a lawyer and none of the below should be interpreted as legal advice. The article itself includes the following disclaimer at the conclusion: "Please keep in mind, that none of this should be taken as legal advice. We are not lawyers, and don't pretend to be. You should consult a licensed attorney for any type of tax planning."

> A lot of people try to avoid [the California Franchise Tax] by incorporating in another state. Say Nevada or Wyoming. What they don't understand is that if you are a resident of CA, and you own a company in another state. [sic] You will have to pay the $800 tax on that company if California finds out (and believe me, they get a copy of your tax return, and if you show income from another company, they will find out). **(1)** Some people can fly under the radar by being paid as an employee and hiding the fact that they own the company. A lot of people also like incorporating in Wyoming for this reason, because Wyoming doesn't track who owns the company, just the directors. So CA can't get WY to tell them who owns these Wyoming companies, because Wyoming itself doesn't know, and frankly doesn't care [sic].
>
> This can be a tricky endeavor, and ultimately could be seen as tax evasion, which could land you in court with the state. Do people do this?? [sic] Yes. Do they always get caught? No.
>
> **(2)** A common practice to try to avoid the California $800 franchise tax is to have a buddy, friend, or family member own a C corporation in another state. Wyoming has no corporate income tax and small regulation [sic], making it favorable. A C corporation is the highest taxed entity type, but the profits don't have to come down on [sic] the owners' personal income. They can stay in the company. If you made an S corp., you would have to take the profit at the end of the year on your personal tax returns. So if your buddy owns a C corp. based in another state, and the company pays you as an employee, you are technically, just an employee and would be subject to CA personal income tax [sic].[90]

As the article points out, (1) is illegal tax evasion. It involves concealing information from the government in order to hide the fact that you are legally required to pay a tax. (2), while certainly violating the spirit of the law, is not technically illegal. Corporate restructuring makes concealment unnecessary. While in certain circumstances (2) may also be illegal, it is primarily exploiting a loophole in the law. The law only considers the legal owner, in the case of (2) this is the friend, and not the beneficial owner and therefore the tax can be avoided. The first exploits the anonymity a Wyoming corporation provides while the second merely utilizes the low tax environment in Wyoming. In the first example, Wyoming is acting as a secrecy jurisdiction. In the second, it is

[90] Northwest Registered Agent, "How to Avoid California Franchise Tax," Northwest Registered Agent, accessed December 19, 2019.

operating as a tax haven. While a jurisdiction can clearly be both, they are separate functions with different uses and are therefore treated distinctly in this work.

The World Of "Offshore"

> "We feel very strongly that people are entitled to some semblance of financial privacy…Why shouldn't you be entitled to a secret?"
> – Mark Brantley, Premier of Nevis in an interview with Oliver Bullough.

When American lawyer Bill Barnard took a vacation to Nevis in 1984, it is unlikely he realized how profitable his tropical excursion would be. Nevis, one of two federated states within the country Saint Kitts and Nevis, is a verdant tropical island about 200 miles east of Puerto Rico. As Oliver Bullough explains in a 2018 article for The Guardian, Barnard approached the Premier of Nevis with a relatively simple proposition: if Nevis passed the secrecy and incorporation laws Barnard wrote and gave his law firm the exclusive rights to serve as an agent for creating Nevis companies, he would bring Nevis revenue from the business of company creation. The Premier agreed and Barnard's law firm set up as the only corporate service provider on the island.[91]

[91] Oliver Bullough, "Nevis: How the World's Most Secretive Offshore Haven Refuses to Clean Up," The Guardian (Guardian News and Media, July 12, 2018a).

Photo: Island of Nevis, view approaching Charlestown.[92]

Before we go on to describe the history of Nevis and the rest of the offshore world, I must introduce one of its central actors, the corporate service provider (CSP). While I have already mentioned CSPs in Chapter One, it is worth describing in some detail what they are and what they do. In their most basic form, CSPs offer customers all the services required to maintain a corporate vehicle like a limited liability company (LLC), corporation, or other corporate entity. They file the paperwork to incorporate a company and submit the other filings to maintain the company if the jurisdiction requires annual renewals or other periodic filings.

CSPs also often serve as the "registered agent" for the customer, accepting any legal paperwork or lawsuit filings against the company at the CSP's offices. In many jurisdictions, the name of the registered agent is the only name that appears on public or non-public databases. This is true of the state of Delaware.[93] Therefore, by hiring a registered agent, the company can keep the names of anyone who actually controls it off public filings. Some companies also offer nominee services, providing a person they employ who has no actual

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[92] David Broad, "File:Approaching Charlestown on Nevis - Nevis Peak in the Distance - Panoramio (1).Jpg," Wikimedia Commons (Wikimedia Foundation, December 18, 2011).
[93] See the example of Viktor Bout's Vial Corporation in Chapter One.

connection to the company being incorporated to serve as an owner, director, or shareholder on paper. Thereby, the nominees can be used as another layer to conceal who actually controls a company.[94] Registered agent services and nominees are why CSPs are central to questions of corporate secrecy.

While many companies are standalone CSPs (e.g. Northwest Registered Agent), some law firms like Barnard's also offer incorporation services, acting as CSPs. Usually, CSPs collect an initial fee to set up the company, and annual fees from the customer for other services such as registered agent or nominee services. Therefore, by entering into this contract with the Premier of Nevis, Barnard secured a monopoly over all of these revenues that would come out of the Nevis incorporation business. Barnard's firm would reap all the profits from running the incorporation business in the new secrecy jurisdiction he created. While Barnard's firm's monopoly has since lapsed, Nevis remains to this day the most notorious secrecy jurisdiction in the world.[95]

The story of Nevis and Bill Barnard is far from unique. It is, in fact, emblematic of how the offshore world came into being. The origins of offshore are often linked in the popular consciousness to the era in which Nevis joined the dubious club of countries known as offshore financial centers (OFCs), the 1970s and 80s. In the that era, an empowered neoliberal policy establishment lauded tax and regulatory competition between countries. Island havens like Nevis are often seen as a natural result of the fiscal diplomacy of that era. Why should a small country like Nevis with few other potential revenue sources not attempt to earn taxes any way that it could?

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[94] For a detailed definition of "nominee" in its corporate sense, *see* Transparency International, "Nominee (Nominee Director / Nominee Owner / Nominee Shareholder, etc)," Anti-Corruption Glossary (Transparency International), accessed May 4, 2020.

[95] Oliver Bullough, "Nevis: How the World's Most Secretive Offshore Haven Refuses to Clean Up," The Guardian (Guardian News and Media, July 12, 2018a).

But this reasoning grafts a moral architecture onto the creation of OFCs that emerged after most of them had already been hiding the money of the wealthy for decades. As University of California, Berkeley Professor Vanessa Ogle explains, Nevis was a relative latecomer to the offshore game. OFCs were mostly created *before* the neoliberal policy revolution of the 1980s.[96] Ogle places the roots of what she calls "Archipelago Capitalism" in the colonial era, when colonial administrators had the autonomy to craft laws that were often quite different from the mainland.[97] After decolonization, the state-based financial order created at the Bretton-Woods conference in 1944 allowed these small post-colonial territories to market their sovereignty as a financial product.[98]

The foundation of offshore was laid long before the end of the inter-state financial controls imposed by Bretton-Woods system in the 1970s. In fact, offshore helped erode these controls long before the system was killed by President Richard Nixon and the United States in the 1970s. The former colonies that formed the first OFCs were peripheral enough to be free from some of the strict investment controls of Bretton Woods but close enough to their colonizers to not be targets of aggressive fiscal diplomacy. As Ogle explains, the expansion occurred in three phases, each marked by different patterns of demand for offshore finance. The stages proceeded as follows: Fledgling tax havens first emerged in the inter-war years (1920 to 1939), then numerous different types of OFCs were formed after World War II (1945 to 1975), and then the offshore financial world expanded dramatically after Bretton-Woods. This final stage continues to this day.[99]

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[96] Vanessa Ogle, "Archipelago Capitalism: Tax Havens, Offshore Money, and the State, 1950s–1970s," *The American Historical Review* 122, no. 5 (January 2017): p. 1431-1458.
[97] Ogle (2017): p. 1432.
[98] Ogle (2017): p. 1433.
[99] Ogle (2017): p. 1436.

The first stage, beginning in the 1920s, was motivated by political and economic instability and the implementation of the income tax in countries all over the world. The capital flight these factors caused built the first tax havens – "Liechtenstein, Luxembourg, and the Channel Islands, and on a more moderate scale Bermuda and the Bahamas."[100] Yet this pressure did not come into full force until after the Second World War, when even higher taxes and the aforementioned interstate capital controls of Bretton-Woods made moving money outside the United States and large European states all the more attractive. Ogle explains how former U.S. and European government offices worked with post-colonial governments to create OFCs to avoid the financial controls of Bretton-Woods and the expansionist post-war state.

Large governments played a significant role in incentivizing the creation of OFCs. For example, Britain wanted its former colonies to quickly become self-sustaining after independence and "[i]t was against this backdrop that British officials condoned and sometimes encouraged the emergence of tax havens as a means for resource-poor territories to attract foreign capital and achieve economic uplift."[101] The highest levels of government were often in support of tax haven and financial secrecy proposals in former colonies.[102] Former colonizers saw the tax haven industry as a way to lift the implicit or explicit burden placed on them to help their former colonies industrialize.

Often there was a substantial private profit motive behind tax haven creation. Ogle explains how in 1955, working with British diplomats, a U.S. lawyer acquired the rights to control registration of all companies in the Bahamas as part of a free trade port he agreed to build. Bahamian politicians also profited substantially from the agreement both politically

[100] Ogle (2017): p. 1437.
[101] Ogle (2017): p. 1441.
[102] Ogle (2017): p. 1443-44.

and financially.[103] This was not the last time sovereignty was sold for development aid or investment capital. Investors and governments reached similar agreements in Turks and Caicos and the British Virgin Islands in the late 1960s.[104] In the early 1970s, the British government refused to stop a tax haven in New Hebrides (now Vanuatu) because of a belief that it would facilitate development and despite the fact that its Commonwealth partner, Australia, asked the U.K. to crack down on the colony.[105] All four of these states remain secrecy jurisdictions to this day.[106] Collectively, Ogle paints a picture of how external political influence on offshore jurisdictions created the web of financial products (including secrecy) that exist today. However, Ogle is relatively silent on the U.S. While Ogle cites Delaware as one of the tax havens that emerged before the 1970s, she does not expand on how it emerged or why.[107]

Ogle's impressive contribution to the history complements and expands on economist Mark Hampton's description of the origins of offshore finance. Hampton links the creation of the offshore financial world to the increasing demand for private banking in the late 20th century. He attributes this rise in demand to two major factors: the rise in the number of ultra-high net worth individuals in the latter half of the century and increasing political instability after the fall of the Soviet Union.[108] Hampton is certainly right about this first force, though he possibly wrote too early to understand the full scale of his assertion. The work of Thomas Piketty has demonstrated that the share of global wealth captured by the wealthiest one percent of individuals has risen dramatically

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[103] Ogle (2017): p. 1442-43.
[104] Ogle (2017): p. 1443.
[105] Ogle (2017): p. 1444.
[106] According to the Tax Justice Network's Financial Secrecy Index 2018, Vanuatu has the highest secrecy score of any jurisdiction (89). The Bahamas comes in with a score of 84. Turks and Caicos scores a 77 and the British Virgin Islands scores a 69. "Financial Secrecy Index - 2018 Results," Financial Secrecy Index (Tax Justice Network), accessed December 22, 2019.
[107] Ogle (2017): p. 1437.
[108] Mark P. Hampton, "Exploring the Offshore Interface," *Crime, Law & Social Change*24, no. 4 (1996): p. 301.

since 1980, after having fallen for decades.[109] The World Inequality Database (WID) indicates that the share of wealth held by the top one percent of wealth holders has risen from 1981 to 2012 by 59 percent in the U.S., 72 percent in China, and 146 percent in India.[110] As Saez and Zucman explain in *The Triumph of Injustice* and Zucman's prior book *The Hidden Wealth of Nations*,[111] these ultra-wealthy individuals utilize the services of offshore financial centers extensively.

Hampton's political instability argument also relates closely to the forces of global kleptocracy I outlined in the first chapter of this work. In his narrative, the fall of the USSR lead to created lots of what Oliver Bullough terms "scared capital" that wealthy individuals would want protected from rapacious kleptocrats. He particularly highlights this being a problem for Chinese nationals in the Pacific rim, quoting a Swiss banker in Hong Kong who stated that "for the Chinese community, it is important to get money offshore for safety's sake. They share a common denominator of a lot of money, a lot of family and a lot of fear."[112] Yet he also does not ignore the forces of kleptocracy, highlighting the massive offshore fortunes of Haitian dictator "Baby Doc" Duvalier, Ferdinand Marcos, along with a vaguer citation of African and Latin American dictators.[113] In a prescient passage, Hampton highlights how Russian wealth held in Western banks doubled from 1992 to 1993, much of which was filtered through OFCs. He explains "the problem for Western banks is how much of this flow of flight capital is criminal cash from the increasing 'Mafia-isation' of the former Soviet economy being laundered through OFCs?"[114]

Hampton's question remains relevant today. Recent evidence marries the forces of wealth accumulation even more closely to kleptocracy in Russia. From 1995 (the first year for which WID

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[109] For more on this trend, see Thomas Piketty, *Capital in the Twenty-First Century*, translated by Arthur Goldhammer. Cambridge Massachusetts: The Belknap Press of Harvard University Press, 2014.
[110] WID is run by Piketty, along with Saez, Zucman and Professors Facundo Alvarado and Lucas Chancel. "World Inequality Database." WID. Accessed December 21, 2019. https://wid.world/.
[111] Gabriel Zucman, *The Hidden Wealth of Nations* (Chicago, IL: University of Chicago Press, 2015).
[112] Hampton (1996): p. 301.
[113] Hampton (1996): p. 301-302.
[114] Hampton (1996): p. 302.

has data) to 2015 (the latest), Russia's wealthiest one percent increased their share of wealth from 21.5 percent of national wealth to 42.6 percent.[115] Given the composition of the Russian economy, it is not unlikely that a high portion of that wealth is the result of corrupt state capture by oligarchs. In 2018, 65 percent of Russian exports originated from the energy industry.[116] Largely driven by large oil and natural gas companies, the Russian energy industry is dominated by oligarchs who can often thank Vladimir Putin himself for their control over their companies.[117] U.S. sanctions on Russian oil companies like Rosneft make the use of offshore finance by these oligarchs a necessity. Endorsing this belief is the raft of elaborate money laundering schemes that have surfaced out of Russia in recent years, most notably the Azerbaijani and Russian laundromats.[118]

Ogle and Hampton both do important work to elucidate the incentives that produce and maintain OFCs. Hampton comments on the economic benefits island territories gained from becoming an OFC in terms of employment and GDP[119] along with the outside demand from the legally and criminally wealthy. Ogle tells a story of direct and aggressive influence by wealthy interests as the driving force for the creation of OFCs. She highlights the wealth politically connected businesspeople and local politicians gained from OFC status. Both provide a useful approach when examining the United States' secrecy jurisdictions.

Yet both Ogle and Hampton largely ignore the United States in their analysis. In many ways, this is unsurprising. A focus on the 'tax haven' part of offshore lends itself to ignoring the U.S., a place where tax enforcement is often considered the most aggressive in the world, at least

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[115] WID (2019).
[116] World Bank, "Russia Economic Report," World Bank, December 4, 2019, https://www.worldbank.org/en/country/russia/publication/rer.
[117] In her recent book "Blowout" (2019), Rachel Maddow extensively cornicles the connections between Russian oil executives and the Putin regime.
[118] For more on both stories, see the Organized Crime and Corruption Reporting Project at https://www.occrp.org/.
[119] Hampton (1996): p. 295-301.

domestically. But ignoring the United States means missing the lucrative and unique product it sells – secrecy wrapped up in a reputable package.

From Tropical Islands to U.S. States

In the most comprehensive global survey to date, six jurisdictions accounted for two-thirds of the corporate vehicles incorporated in the grand corruption schemes. The top six jurisdictions in the study were the United Kingdom (4.9 percent), the Bahamas (5.6 percent), Liechtenstein (5.8 percent), Panama (10.3 percent), the British Virgin Islands (18.8 percent), and topping out the list the United States with 21 percent of corporate vehicles used in grand corruption schemes.[120] While it is important to note that this may partially be a result of bias in the data,[121] the fact that so many corporations are used in grand corruption cases is very concerning. Researchers have also begun to pick up on this troubling pattern. In a 2007 analysis entitled "Are OFCs Leading the Fight Against Money Laundering?", researcher Alexa Rosdol found the answer was a tentative yes. Assessments of the efficacy of enforcement and legal anti-money laundering infrastructure conducted by the Financial Action Task Force (FATF) show that traditional OFCs are performing better or the same as the "onshore" jurisdictions of the United States, United Kingdom, and Australia.[122]

The problems with money laundering risk in the United States are much deeper than Rosdol's study could have predicted. In the book *Global Shell Games* (2014), professors Michael

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[120] 322 out of the 485 corporate vehicles for which a jurisdiction of incorporation was identified in the study. Emile van der Does de Willebois et al., *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do about It* (Washington, DC: World Bank, 2011): p. 121.

[121] Because the United States is the most aggressive at prosecuting corruption cases abroad, it is possible that it is more likely grand corruption cases with U.S. companies are prosecuted than the average grand corruption case. A U.S. corporation brings a corruption case clearly within U.S. jurisdiction. Therefore, it is more likely U.S. prosecutors will be able to bring a corruption case if the case involves a U.S. legal entity.

[122] The analysis only included OFCs that were connected to the United Kingdom in some way. Alexa Rosdol, "Are OFCs Leading the Fight Against Money Laundering?," *Journal of Money Laundering Control* 10, no. 3 (2007): pp. 337-351.

Findley, Daniel Nielson, and J.C. Sharman sent over seven thousand fake solicitation emails requesting help incorporating an anonymous shell company to CSPs in more than 180 countries.

In some of the emails to CSPs around the world, Findley, Nielson, and Sharman included warning signs which suggested that the request for a shell company was on behalf of a terrorist group or a kleptocrat. In others, they simply appeared as a person who wanted some privacy and therefore did not want any identifying information on public government filings.[123] This type of concealment of the identity of the real owner of a company is why experts call these legal entities anonymous shell companies. All of their solicitations asked that companies be set up in contravention to the standards set forth by the FATF. Their findings were deeply troubling. The authors ranked jurisdictions from most compliant with international standards to least compliant. They rendered a CSP a score of compliant if it required the solicitor to submit notarized identity documents before the CSP would form the requested company. The United States ranked 86th out of 103 jurisdictions assessed.[124] Even more surprisingly, the Cayman Islands and the British crown dependency of Jersey tied for the highest compliance rate, and tax havens overall outscored the U.S. and other wealthy countries by a significant margin.[125] The findings for the United States are even more troubling when broken down by incorporation service-providing industry. Findley, Nielson, and Sharman sent solicitations to both CSPs and law firms. While U.S. law firms scored relatively well on compliance (38th), U.S. CSPs came in dead last with a compliance rate of less than ten percent.[126] The data from *Global Shell Games* highlight a disturbing dichotomy in U.S. policy. While U.S. officials tour the world encouraging other countries to enact transparency and financial information exchange legislation, the U.S. has failed to live up to the same standard at home.

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[123] Michael G. Findley, Daniel L. Nielson, and J C Sharman, *Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism* (Cambridge: Cambridge University Press, 2014).
[124] Findley, Nielson, and Sharman (2014): p. 74.
[125] Findley, Nielson, and Sharman (2014): p. 75-76.
[126] Findley, Nielson, and Sharman (2014): p. 76.

Findley, Nielson, and Sharman present two possible explanations for this trend. The first and most widely discussed in the public policy debate goes as follows: Rich states, who are mostly FATF members, have pressured tax havens and secrecy jurisdictions to shape up, wielding their power to force change, while not subjecting themselves and each other to the same scrutiny.[127] The second is that while rich countries have deregulated over the past few decades, developing countries have not "either as a product of disinclination or inability" and forming a company has thus remained bureaucratic. Findley et al. found little evidence supporting the latter argument. The ease of obtaining an anonymous shell company did not relate to the World Bank "ease of doing business" or "barriers to starting up a company" indices.[128]

But the first hypothesis is quite compelling. As Findley et al. explain rich countries began coordinating to fight tax havens and money laundering starting in the late 1990s. In 1998, the OECD embarked on what it called the "Harmful Tax Competition initiative," which targeted tax havens. At the same time, FATF was naming and shaming countries for poor anti-money laundering controls. As the authors insightfully explain, though these two processes were theoretically measuring different phenomena, the two lists tended to converge on tax havens as the problem. As they explain, the FATF and OECD "blacklists proved effective, but also partial, in that those targeted were held to higher standards than were members of the rich states' clubs."[129] The most consequential difference between the standards FATF set for its members versus those on their blacklist was on beneficial ownership. For those on the blacklist, maintaining beneficial ownership information was deemed "essential" for being removed while it was only one of many recommendations and standards for FATF members to "consider."[130] With this double standard, it

[127] Findley, Nielson, and Sharman (2014): p. 78.
[128] Findley, Nielson, and Sharman (2014): p. 84.
[129] Findley, Nielson, and Sharman (2014): p. 80.
[130] Findley, Nielson, and Sharman (2014): p. 82.

is no wonder that many tax havens now collect beneficial ownership information while no U.S. state does.

How important was listing by FATF to OFCs? According to interviews Findley et al. conducted with officials from twelve of the most prominent OFCs, they considered listing on both the OECD and FATF lists "a serious obstacle in attracting new growth," and while both lists were of concern, the FATF one was considered more damaging.[131] While the authors do not expound on this point, the danger from the FATF list probably resulted largely from the U.S. because of the post-September 11th anti-terrorism push.[132] Furthermore, FATF required substantive changes to both policy and institutions in order for a jurisdiction to be delisted, not mere statutory amendments.[133] The U.S. and the other rich countries that control FATF scared OFCs into AML compliance while becoming bastions of anonymity themselves.

But, as anyone who has ever tried to investigate a crime involving a corporation can tell you, viewing the U.S. as a legal monolith is deeply misleading. Unlike most countries, each federated state in the U.S. has almost complete control over its own law of incorporation. With few limits, states can decide all of their own standards with no federal oversight. States can invent new corporate vehicles at will and decide all the rules for their registry – whether it is searchable, what information appears publicly, whether there is a fee associated with searching and decide what information, and how much information the state wants to collect and verify in order to register a corporation. Incorporating in Delaware is very different than incorporating in California. There is no such thing as a U.S. corporation.[134]

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[131] Findley, Nielson, and Sharman (2014): p. 81.
[132] Countering the financing of terrorism was added to FATF's mission in October 2001.
[133] Findley, Nielson, and Sharman (2014): p. 82.
[134] This fact often seems lost on the writers of international corruption reports who frequently cite "U.S. corporations" as being involved with corruption cases. Many notable leaks databases also do not parse out the difference between state corporate vehicles.

All of this state-level control over incorporation would not be a problem if the states all did more or less the same thing but as the *Global Shell Games* data show, this is far from the case. By surveying a massive number of CSPs, the authors were able to obtain U.S. state level compliance data on thirty-seven out of fifty states. The variation is shocking. With the highest compliance, the state of Michigan came in with a ninety percent while Delaware came in with the lowest compliance rate, a mere six percent.[135] While the authors deliver a compelling explanation on international variation, they do not explain U.S. state variation. Though they give the most complete answer so far to the question "where in the United States" – they do not go so far as to give an answer to the question that naturally succeeds "where" – "why there?"

Laboratories of Secrecy

> "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country"
>
> – Justice Louis D. Brandeis, dissenting in New State Ice Co. v. Liebmann.[136]

The idealized version of Justice Brandeis's idea of states as policy "laboratories" goes something like this: enterprising legislators in one state come up with an idea which is passed into law. That policy becomes a success and other states adopt it themselves. All states end up with better policy with no federal intervention required.

But there is another darker version of the laboratory model. In this version, one state loosens a regulation or lowers a tax. This change increases revenue or economic growth for that state and even causes people or businesses to relocate to that state. But this growth is zero-sum. Other states, suffering economic outflow from that one state's policy change, match that first state's

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[135] Michael G. Findley, Daniel L. Nielson, and J C Sharman, "Results & Maps," Global Shell Games (Website), 2014.
[136] 52 S.Ct. 371, 76 L.Ed. 747 (1932) at 57, retrieved from https://www.law.cornell.edu/supremecourt/text/285/262.

policy change in order to mitigate the damage. Because the initial state's growth was the result of extracting economic value from another, the final result for the country as a whole is a net loss. This is the vicious cycle known as the "race to the bottom."

If you doubt that this cycle is a real problem, talk to a resident of Kansas City. Kansas City, which straddles the border between Kansas and Missouri, for years was embroiled in a virtual policy war. Kansas would offer millions of dollars in tax incentives to companies under the condition they move their office mere miles across the border from Missouri to Kansas and vice versa. In the end the states spent a combined $335 million over approximately twelve thousand relocated jobs, with a net-movement of only approximately one thousand jobs to the Kansas side.[137]

The evolution of corporate law in the United States fits both of these stories. U.S. states have certainly been legal innovators. Invented in Wyoming, the limited liability corporation has become one of the most popular corporate types. Wyoming first passed the statute creating LLCs in 1977, and in 1997, Hawaii became the final state to allow for LLC formation.[138] While it is beyond the scope of my expertise to comment on whether the existence of LLCs is a societal good, business owners clearly see immense value in them. From 2003 to 2013, the number of LLCs in the U.S. has more than doubled to 2.3 million while the growth in business entities overall was only 22 percent.[139]

But state corporate innovation also has a darker side. Aside from being a highly useful vehicle to avoid personal liability for business owners in a flexible package, LLCs are one of the most secretive corporate instruments. LLCs require especially little paperwork to set up or maintain. LLC members can be any type of legal person, including foreign corporations and adding new

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[137] Thankfully, the war is now over. The states signed a truce this year. Shayndi Raice, "Tired of Fighting for Business, Missouri and Kansas Near Cease-Fire Over Incentives," The Wall Street Journal (Dow Jones & Company, June 25, 2019).
[138] Benton E. Gup and Navin Beekarry, "Limited Liability Companies (LLCs) and Financial Crimes," *Journal of Money Laundering Control* 12, no. 1 (January 2, 2009): p. 8.
[139] Internal Revenue Service, "SOI Tax Stats Integrated Business Data," SOI Tax Stats Integrated Business Data, Internal Revenue Service (Internal Revenue Service, September 24, 2019).

members is easy.[140] All of these features make LLCs incredibly popular with criminals.[141] U.S. innovations in financial secrecy may even be responsible for the offshore ones. Take the aforementioned OFC Nevis: when Barnard drafted the first series of laws turning Nevis into an OFC, he based the nation's new legal code on that of Delaware. A few years later to improve its comparative advantage over other OFCs, Nevis adopted that Wyoming innovation: the LLC.[142] Nevis LLCs, as Oliver Bullough explains in his article on the country, have all the secrecy benefits of Wyoming LLCs without the pesky need to comply with U.S. court orders. The U.S. innovates, and the offshore world follows.

Yet the "race to the bottom" hypothesis on corporate secrecy implies a convergence in outcome that has not occurred. Incorporation service compliance rates in the states vary widely. There is even a fair amount of variation in the amount of personal information states collect in order to form a corporation.[143] The idea of a "race to the bottom" is a basic game theoretic commitment problem: If one state defects to a high-secrecy corporate type, all states should follow or risk losing fee or tax revenue. Yet implicit in this political economic model are a number of assumptions that clearly do not hold. People are not free to incorporate anywhere they want; they generally must incorporate in the state in which they want to do business. For large multistate corporations, this is less true, which is why so many are free to incorporate in Delaware despite the state's small population.[144] While states clearly converged on laws relating to LLCs in the space of 20 years, most states have not, and are not, following Delaware down the secrecy rabbit hole. Why not?

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[140] Gup & Beekarry (2009): p. 9.
[141] Gup & Beekarry (2009): p. 8.
[142] Bullough (2018a).
[143] Global Financial Integrity, "The Library Card Project: The Ease of Forming Anonymous Companies in the United States," (Global Financial Integrity, Global Financial Integrity, March 21, 2019).
[144] As of April 2016, 64 percent of Fortune 500 companies were incorporated in Delaware. Stephen M Bainbridge, "Introduction," in Can Delaware Be Dethroned? Evaluating Delaware's Dominance of Corporate Law (Cambridge, UK: Cambridge University Press , 2018): p. 1.

In order to answer these questions, I employed two distinct social scientific methodologies. I gathered cross-sectional data on incorporation and secrecy in U.S. states and used it to test various potential correlates with state corporate secrecy, attempting to gain insight into the characteristics of a U.S. secrecy jurisdiction. Building on the correlations I found, I then applied a limited case study analysis on two of the states that drove my most statistically significant correlations, assessing the political process of their incorporation policymaking. Through this combined methodology, I posit a causal logic behind state policy-based corporate secrecy in the United States.

CHAPTER 3: MEASURING THE LABORATORIES

A Note on Studying Corporate Secrecy

The question of corporate secrecy is chronically understudied. This is especially true of U.S. corporate secrecy. The vast majority of secrecy scholars focus on the United Kingdom or the numerous offshore jurisdictions I have named. Even when the U.S. is included in the analyses, no effort is made to parse out the impacts of the different states. Generally, the scholars seem to assume that all states are the same. This is likely partially the result of the fact that most researchers on this topic are not Americans. Therefore, this work suffers from the blessing and the curse of an open research field where most of the foundational hypotheses have never been empirically tested.

The question of corporate secrecy is in somewhat of an academic no-mans-land. It intersects with economics, business, politics, law, and criminology. What little research has been done is generally the domain of practical scholars, those who work at think tanks, government agencies, news organizations, international organizations, and NGOs. These organizations are often engaged in raising awareness about a problem, rather than trying to explain why it has occurred. Those who have tried to explain the phenomenon of U.S. corporate secrecy have generally done so in this context and therefore have not employed quantitative and qualitative methods to back up their assertions.

With this work, I hope to solidify the shaky foundations of the U.S. corporate secrecy literature. I bring cross-sectional data to bear on the foundational hypotheses of the debate. This is only a beginning. Other analyses of these questions must follow my first attempt in order to turn the correlations I will demonstrate into robust causal hypotheses. I would do more of this construction myself if I was not limited in my resources and time.

Some of the data series I have employed here I have built myself. Most notably my data on fee revenue, the collection of which involved hundreds of emails with numerous state government departments. I also filed twelve official state Freedom of Information Act and Open Records Act requests to multiple departments across numerous states. At the time of writing this, I still have multiple outstanding requests for data. The paucity of data-driven research on state governments has also impaired my analysis. There are numerous political and economic dimensions I had hoped to test for, but the data simply do not exist. I hope future inquiries will involve creating this data.

Therefore, I present my quantitative contribution for what it is: a foundation for the question: "why have some U.S. states become notorious secrecy jurisdictions?" I present what is in effect a rigorous gut-check – an answer to the question "are the assumptions we have been making about U.S. corporate secrecy true?" In the remainder of this chapter, I will present some of the assumptions about the foundations of U.S. corporate secrecy and how I plan to test them empirically. While I may only be able to demonstrate correlation, I hope this work can begin to answer this fundamental puzzle at the center of all this dirty money.

Is It All About Revenue?

The foundational hypothesis implied by the journalistic and scholarly literature is that U.S. states are *selling secrecy* – they are creating secretive provisions in their laws in order to reap the revenue gained from incorporation services. The anecdotal analyses point to the incredibly high quantity of revenue Delaware gains from its incorporation business. But in order to actually test this hypothesis, which I will hereafter refer to as hypothesis one (**H1**), one needs cross-sectional data from as many states as possible. Specifically, testing why U.S. states may be selling their secrecy for revenue requires data on what the states are getting out of the deal. To fill in that side of the equation, I embarked on a mission to collect values for the total revenue each state collected from

incorporation fees, annual filing fees, and any other revenue sources relating to opening or maintaining a legal entity. To do this, I sent solicitations to all fifty states (often multiple requests to a single state) both formally in the form of Freedom of Information Requests and Open Records Requests and informally through emails to department officials.[145] I supplemented these solicitations with data from state budgeting documents where I could. This approach garnered data from 42 states on the revenues they collect from filing fees and other incorporation services.[146]

It is important to note that these fees often do not account for the majority of a state's incorporation income. Many states, such as Delaware, garner substantial income from what is called a "franchise tax." As described by the financial literacy site, Investopedia: "A franchise tax is a state tax levied on certain businesses for the right to exist as a legal entity and to do business within a particular jurisdiction."[147] Franchise taxes are notably different from corporate income taxes. While corporate income taxes (often simply referred to as corporate taxes) levy a set rate on the profits a corporation derives, franchise taxes are levied on a number of different metrics. In many cases, the franchise tax is a kind of corporate wealth tax, levied based on a small percentage of the value of the stock of a company. But this is not always the case. Many also have a minimum payment a corporation must make every year regardless if it has any capital stock or revenue. These revenues are naturally the largest for large companies with highly valued stocks. I have chosen to avoid including franchise tax income from my corporate fee metric for two important reasons. The first is that there is a great variability in what franchise taxes are based on for different states. As described above, some tax gross revenue, some tax stock, and some tax other factors altogether. Most states do not even have a franchise tax. This makes franchise tax data completely incomparable across the

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[145] A template for the solicitation I sent to states is in Appendix IV. While I often made small alterations to the solicitation and frequently had to clarify the data I was seeking, the communication included is a good representation of the general format and content.

[146] The states for which was I unable to gather fee data were Idaho, Illinois, Kentucky, Missouri, New Jersey, North Carolina, Tennessee, and West Virginia. For information on the sources for each state, please contact the author.

[147] Julia Kagan, "Franchise Tax," Investopedia (Investopedia, November 18, 2019).

states. The second factor has to do with the specific type of incorporation activity I am attempting to analyze. By their nature, shell companies do not have much real business activity or outstanding stock that would be the subject of a franchise tax. Often the entire point of an anonymous shell company is to conceal the underlying assets it contains. The anonymous shell company business is a volume game and not about attracting the real business value subject to a franchise tax.[148]

What about corporate income taxes? Corporate income taxes are levied on real business activity in the form of income; shell companies often have no income by design. But it is possible the states that have low transparency standards or low compliance rates are simply trying to attract material, profit-making corporations or those same profitable corporations are more likely to locate in secrecy-friendly states. For that reason, I have also included a variable for the dollars of corporate income tax revenue per dollar of expenditure to test this hypothesis.[149] It is entirely possible secrecy or lack of compliance by corporate service providers (CSPs) leads to real economic activity as the proponents of secrecy often suggest. I label the hypothesis "non-compliance and secrecy correlates with a higher share revenue from corporate taxes" hypothesis two (**H2**).

I am the first to concede the degree of uncertainty within the fee revenue data. I was only able to gather one year's worth of data from each state, and even that data is approximate. States differ widely in their budgeting practices and I cannot guarantee that each state employee delivered me the same type of information. Some data I collected were estimates from official reports or from employees. I treated these as accurate given that state budget estimates tend to be close to correct one year out. These problems are counterbalanced by the fact that my sample size for fee revenue is 84 percent of the total population of fifty states and my corporate income tax data encompasses the

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[148] As I will describe in Chapter 5, franchise taxes are a major reason many states initially entered the competition for corporate charters. A future study that includes franchise tax revenue would certainly yield interesting results, but it is beyond the scope of this work.

[149] Data on corporate income tax revenues from National Association of State Budget Officers (NASBO), *The Fiscal Survey of the States: Fall 2019* (Washington, DC: National Association of State Budget Officers, 2019b).

entire population at issue. These factors both decrease the likelihood of finding a significant correlation and increase uncertainty. While I can hope these opposing forces are small or cancel each other out, that is far from certain. Therefore, the conclusions based on these data are approximate and tentative. I hope the reader will forgive me this imprecision, keeping in mind that no more complete source of incorporation revenue statistics exists for the United States.[150]

Adjusting State Fee Revenue

Given the large variation in state size, I am testing both the absolute amount of incorporation revenue and incorporation revenue as a share of total state expenditure.[151] While the share of total state revenue from incorporation services would be a more useful metric, it is impossible to obtain directly comparable state revenue statistics. For instance, the National Association of State Budget Officers (NASBO) only reports general fund revenue for each state in their annual fiscal report.[152] Furthermore, using a statistic that reports a "share" of state revenue from incorporation fees would be misleading. Many business services divisions retain all of their fee revenue and use it to fund their department. This is particularly true in the divisions that collect little fee revenue. This retained revenue was not necessarily reported in the general state government budget statistics because budget offices often only account for the government's major funds (general fund, lottery fund, education fund, etc.) and not departments that mostly self-fund. Because of this and a lack of comparable data I have chosen to use the proportion of fee revenue to the total expenditure of each state government as reported by NASBO rather than attempt to represent fee

[150] For more information about how the information was collected, the variation in type of fee data, and other concerns, please contact the author and I can provide supplementary information.
[151] Data on estimated and actual state government expenditures for Fiscal Years 2017, 2018, and 2019 gathered from the National Association of State Budget Officers (NASBO), *2019 State Expenditure Report* (Washington, DC: National Association of State Budget Officers, 2019a).
[152] NASBO (2019b)

revenue as a proportion of total revenue. This scales the revenue by state size without falsely representing it as a percentage of total revenue. Therefore, the proportional fee revenue metric indicates dollars of fee revenue per dollar of expenditure.

Does Partisanship Matter?

When it comes to U.S. politics, the first question that comes to mind is "what about partisanship?" There are superficial reasons to believe that Republican control of a state may lead to more secrecy. Republicans are traditionally the party of low regulation and defenders of the rights of business owners. They have also been the most fervent champions of neoliberalism. As Vanessa Ogle explains, the rise of financial secrecy jurisdictions was at least in part due to the neoliberal policy agenda pushed by rich countries and the financial professionals who built the tax havens.[153]

There are also more substantial links between the Republican party and opposing financial transparency. The American Legislative Exchange Council (ALEC), a group that drafts and lobbies for policies in state legislatures, has publicly opposed beneficial ownership transparency on the grounds that it would reveal the people behind anonymous campaign donations.[154] While ALEC is technically a non-partisan group, the vast majority of legislators who introduce ALEC model bills are Republicans.[155]

Yet there are many reasons to be skeptical about whether partisan affiliation has much to do with financial secrecy. The Corporate Transparency Act of 2019 which would combat anonymous incorporation in the U.S. earned the qualified support of the Trump administration before it passed

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[153] See Chapter Two, "The world

[154] Shelby Emmett, "Beneficial Ownership Disclosure: A Huge Donor Disclosure Threat," American Legislative Exchange Council (American Legislative Exchange Council, August 24, 2017).

[155] According Dr. Molly Jackman, ninety percent of the ALEC model bills introduced in state legislatures in the 2011-2012 session were sponsored by Republicans.

the House in 2019.[156] The two most prominent groups opposing the Corporate Transparency Act are the American Civil Liberties Union and the American Bar Association (ABA), two groups that traditionally skew Democrat.[157] Moreover, the political stances of state parties do not always match national parties. Many southern states continued to have significant Democratic party control well into the 2000s despite generally Conservative politics and policies.[158] It has been well documented that the neoliberal policy consensus on financial deregulation in the late twentieth and early twenty-first centuries spanned both political parties, starting with the bipartisan tax bill which slashed top marginal rates in the 1980s.

To test the effects of partisanship on financial transparency and compliance, I use the aggregate state partisanship score from 1992-2013 calculated by Ballotpedia. Ballotpedia explains the scoring system as follows:

> We calculated these scores by coding each year that the Republican Party had the opportunity to control a state institution (governorship or legislature) as a one (1) and each year that the Democratic Party controlled a state institution as a negative one (-1). Each time the governorship was controlled by a third party or independent candidate, it was coded as a zero (0). Similarly, any time the legislature had split control between the two parties, the legislature was coded zero (0). The codes were assigned for both the governor's office and the legislature for each year. The summed total value of all the years is the state's overall score.[159]

The partisanship metric ranges from the most Democratic score, -36 for West Virginia, to the most Republican score, 44 for Utah. The time series for this data meshes well with the Global Shell Games data which was collected in 2014. The argument, "Republican party control leads to non-compliance and financial opacity" will be referred to as hypothesis three (**H3**). While most states,

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[156] Office of Management and Budget. "STATEMENT OF ADMINISTRATION POLICY: H.R. 2513 – Corporate Transparency Act of 2019, as Amended by Manager's Amendment." whitehouse.gov. Executive Office of the President, October 22, 2019.
[157] See statements from the American Bar Association and American Civil Liberties Union, among others here: https://web.archive.org/web/20200521164920/https://www.americanbar.org/content/dam/aba/administrative/government_affairs_office/oppositionpost.pdf.
[158] Geoff Pallay, "Who Runs the States," Ballotpedia (The Lucy Burns Institute, March 2014).
[159] Geoff Pallay, "Part 3: Partisanship and State Quality of Life Index (SQLI) Overlay between 1992-2012," in *Who Runs the States?* (Middleton, WI: Ballotpedia, 2014): p. 24.

most notably Delaware,[160] emerged as secrecy jurisdictions before this period, this over two-decade span is when the dangers of secrecy became widely known. Therefore, partisanship during this period is particularly relevant to secrecy and anti-money laundering policy.

Does Small Mean Secretive?

One of the hypotheses implied by the literature is that less populous states are most likely to be secrecy jurisdictions. Anecdotally, this seems to make some sense. Most offshore financial centers (OFCs) are small island nations with low populations. For instance, St. Kitts and Nevis has a population of less than sixty thousand.[161] The same hypothesis has been extended to U.S. states. In 1988, the New York Times quoted a legal scholar who commented that large states were incapable of competing for incorporation revenue "because of their legislatures." The article went on to say, "The large states persist in viewing corporation laws as complex moral and political problems rather than - as in happy Delaware - a way of making everybody rich."[162] While the article does little to suggest why this may be the case, there are a number of plausible explanations. Perhaps small states are more susceptible to capture by special interests. Perhaps small states need the extra revenue from incorporation. Perhaps small states have less capacity to maintain transparent company data or enforce regulatory compliance. To test whether this is actually the case, hypothesis four (**H4**) is "less populous states are more secretive and have lower compliance." I have used the United States Census 2018 National and State Population Estimates.[163] I will also be testing the base ten log of

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[160] Ogle (2017).
[161] "Saint Kitts and Nevis," The World Factbook (Central Intelligence Agency, January 2019), https://www.cia.gov/library/publications/the-world-factbook/attachments/summaries/SC-summary.pdf).
[162] L. J. Davis, "DELAWARE INC.," The New York Times Magazine (The New York Times, June 5, 1988). Casey Michael applied this New York Times analysis to the study of U.S. secrecy in "United States of Anonymity," (Kleptocracy Initiative, November 3, 2017).
[163] Census Bureau, "NST-EST2018-01: Table 1. Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2018", Census.gov (United States Census Bureau, December 19, 2018).

population in order to avoid the swamping effects of some very large states like California and Texas. I have employed this both for the base population statistics and any per-capita metrics I have used for other calculations.

What About the Economy?

When faced with poor economic conditions or relatively low levels of economic development, states might resort to innovative strategies to collect tax revenue or spur economic growth. Secrecy may be part of this equation. Perhaps states with poor economic performance facilitate secrecy in order to attract companies or seek revenue from secrecy in order to cover shortfalls in other sources of revenue. In *Moneyland*, Oliver Bullough describes how Florida legislators hope to reap significant financial rewards from financial secrecy.[164] Nevada enacted its secretive regime in the wake of a major state shortfall in education funding.[165] Local economic difficulties may cause states to implement corporate secrecy to compensate for local disadvantages. Or maybe the relationship has more to do with the state's absolute level of economic development. Maybe rich states can afford to forgo the business activity generated by secrecy while poor states cannot. This idea would be in line with what occurred with post-colonial states in the 1950s according to Vanessa Ogle.[166]

Of course, the opposite of this relationship may be true. Perhaps states that thrive are the ones that are already the most business friendly through secrecy. In that case, we should observe that rich and economically healthy states display the most secrecy. In either case, any significant relationship yields interesting questions about the causes of secrecy and the motives behind it.

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[164] Bullough (2019): p. 250.
[165] Michel (2017): p. 19.
[166] See Chapter Two.

Therefore, I propose hypotheses five and six: "poor state economic performance leads to secrecy" (**H5**) and "less wealthy states have greater corporate secrecy" (**H6**). As a proxy for the economic health of the states, I have utilized two variables: average unemployment rate from 1980 to 2018 and average unemployment rate from 2000 to 2018.[167] As a proxy for state wealth, I have utilized average gross domestic product (GDP) per capita from 2000-2018,[168] and 2018 state median income.[169] I have taken the averages over multiple years for the unemployment and GDP figures to account for any temporary economic shocks within states and in order to capture the relevant period of the development of financial secrecy. I have been somewhat limited in the economic data I was able to collect by what the census has publicly available on the state level.

While fully testing any of these hypotheses would require time-series data on each state, comparing a change in compliance or secrecy with changing economic conditions, the former is highly difficult to obtain, and the latter does not exist. Therefore, I have chosen these four economic indicators to attempt to capture different aspects of the economy.

Does Secrecy Work?

In order to fully understand the secrecy equation for states, one must also understand if corporations seem to actually locate based on secrecy. If there is a secrecy premium, is it just from the few corporations who desire more secrecy or does secrecy also attract more incorporations in general, as the Delaware example would suggest. This question forms hypothesis seven (**H7**): "more corporations locate in high secrecy states." While an affirmative answer to this question is often assumed in the literature, it is worth testing empirically to see if it holds for U.S. corporations.

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[167] Iowa Community Indicators Program, "Annual Unemployment Rates by State," Iowa Community Indicators Program (Iowa State University, April 2019).
[168] Bureau of Economic Analysis, "Regional Data: GDP and Personal Income," BEA.gov (Bureau of Economic Analysis, 2019).
[169] Census Bureau, "Median Household Income by State," Census.gov (United States Census Bureau , 2019).

Operationalizing this hypothesis is relatively simple. I employ the company count data from the Opencorporates database.[170] While some of these corporations are no longer active and data transmission to the Opencorporates database may vary by state (Illinois does not give data to Opencorporates), this is an approximation for volume of incorporation in each state. As with the fee data, I will be testing a companies per-capita metric given that most businesses have no choice but to incorporate in the state where they operate and therefore some volume of corporations should be expected for each state.

Measuring Secrecy

The most difficult question to answer when approaching jurisdictions incorporating anonymous shell companies is also the most foundational: how do you measure secrecy? Luckily academics, think tanks, and NGOs provide a number of different metrics to measure secrecy. I will utilize three different statistics as my secrecy variables: compliance rates from *Global Shell Games*, the Library Card Project (LCP) scores from Global Financial Integrity, the "Openness" score from the Opencorporates database. I will be testing how well each of my independent variables – revenue, party control, population, and economic conditions – predict each of my secrecy variables.[171] For H7, I will be reversing my methods – employing my secrecy variables as the input variables to predict the company count variable as the outcome variable. In doing so, I will gauge the correlation of state secrecy metrics with each of my political dimensions. I do not expect each of the metrics to be equally predictive. A casual survey of the data shows that the *Global Shell Games* (GSG) data matches closest with the conventional beliefs about which states are most prone to anonymous shells, followed by the Openness scores and finally the Library Card Project (LCP) scores.

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[170] "All Company Registers," opencorporates.com (Opencorporates), accessed January 26, 2020

[171] While the *Global Shell Games* state compliance rate data is not actually a measure of secrecy but corporate behavior, I will refer to it as such for the sake of brevity.

Each of these data sets were created using unique and intricate methods of analysis that merit individual explanation, particularly the GSG data. For a more detailed explanation of each, I refer the reader to the source material, but I will give a summary of the relevant details here, along with the uncertainty embodied in each and potential confounding factors in their methodology.

Global Shell Games Data

The GSG data, already partially explained in chapter two, has the most complex methodology. The goal of the GSG study was to understand "the degree to which firms around the world are in compliance with international corporate transparency standards and, by extension, the degree to which the states that approve international standards effectively monitor and encourage compliance with the standards."[172] The authors surveyed CSPs in 181 countries.[173] Each of the solicitations they sent to the 3,771 CSPs in their survey requested to register an anonymous shell company, but the messages varied. Some included information reminding the CSP of the international standards, possible IRS penalties, or other standards meant to counter money laundering. They also varied the supposed identity of the requestor – from a U.S. citizen to a government procurement employee in a corrupt country to a citizen of a terrorism-associated country "claiming to work in Saudi Arabia for Islamic charities."[174] While the goal of the study was primarily to gauge the effects of these different treatment conditions, for countries with enough surveyed companies, they gathered the rate at which companies complied with FATF anti-money laundering standards. All of the treatments were randomized.

Since there is no global list of CSPs, the authors of *Global Shell Games* found the targets of their study through internet research. Of that list of over 3,700 firms, 1,700 were located in the

[172] Findley, Nielson, and Sharman (2014): p. 7.
[173] Findley, Nielson, and Sharman (2014): p. 11.
[174] Findley, Nielson, and Sharman (2014): p. 7.

United States.[175] This allowed Findley, Nielson, and Sharman to provide U.S. state-level data for any state with which they had "more than five email exchanges," which came to a total of 38 states.[176] The compliance rate in the state data represents the proportion of *responding* CSPs that demanded notarized identity documents or refused service.[177] Though they provided a table of U.S. state compliance data in their book, I retrieved the exact rates from the data available on the website for the book: globalshellgames.com/us-map.

A few important caveats for the GSG data: since responses from only five companies were required for Findley, Nielson, and Sharman to report a state compliance rate, some of the data points are shallower than others. This introduces additional uncertainty, especially for the small states that likely have few CSPs. Furthermore, the compliance rate data for the U.S. states does not include non-responses from CSPs.[178] As the authors explain, non-response could be considered a form of "soft compliance."[179] For example, Utah had one of the highest compliance rates but most of its CSPs did not respond to the researcher's inquiries. The few that did respond, largely complied with identification document norms.[180] This characteristic does not rule out the possibility that non-responsive firms would create anonymous shells but were simply wary of a strange email. Though randomized, it is also possible some states received a disproportionate share of a certain treatment. This could artificially increase or decrease a state's compliance rate. Finally, the data also report the behavior of *private* actors and is therefore not a direct measurement of government policy. It is possible that CSP behavior is completely exogenous to government action. Even if this latter

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[175] Findley, Nielson, and Sharman (2014): p. 49.
[176] Findley, Nielson, and Sharman (2014): p. 77.
[177] Findley, Nielson, and Sharman (2014): p. 74.
[178] States with compliance ratings but only five CSP replies were Alabama, Missouri, Louisiana, Kentucky, and Hawaii. The states with the most replies were Nevada with 75, California with 68, Delaware with 52, and Florida with 34. The average number of replies for the 38 states with data was 16.5. Michael G. Findley, Daniel L. Nielson, and J C Sharman, "U.S. League Table," Global Shell Games (Website), 2014. Accessed from the Internet Archive.
[179] Findley, Nielson, and Sharman (2014): p. 55.
[180] Findley, Nielson, and Sharman (2014): p. 75.

qualification is the case, the idea that companies are less compliant in certain states and state governments profit from it (H1) would still be a notable conclusion.

The Library Card Project

The LCP scores for each state were calculated by the think tank Global Financial Integrity (GFI) in 2019. It has since gained significant public attention – it has even been cited in former presidential candidate Elizabeth Warren's policy platform.[181] GFI assigned each state a raw score based on what information a person must provide to a state in order to incorporate. The specific weights and metrics on which they analyzed states can be found in their methodology tab on their website: https://gfintegrity.org/report/the-library-card-project/. They then compared these scores against what identity information each state required to obtain a library card. Through their analysis, GFI came to the shocking conclusion that in every U.S. state, more verified identity information is required to get a library card than to register a company.[182] They also created the most comprehensive index of what corporate data is collected by states. This type of information is of crucial importance for understanding financial crime. The less data the state collects on a company, the less information can be obtained by law enforcement.

For my analysis, I have forgone the library card benchmark and utilized the "Full Requirement" scores for each state. The library card benchmark skews against states that have stringent library card identification requirements. For instance, Arkansas's score improves by 0.06 points when benchmarked against a library card while California's degrades by almost a point and a half.[183] The "Full Requirement" scores are therefore most comparable across states.

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[181] "My Plan to Fight Global Financial Corruption," Elizabeth Warren (WARREN FOR PRESIDENT, December 17, 2019), https://elizabethwarren.com/plans/international-corruption).
[182] Global Financial Integrity (2019): "Overview."
[183] Global Financial Integrity (2019): "Interactive Chart."

When examining the LCP data, it is worth noting that there is little difference between the states. As I have previously explained, no state requires that beneficial ownership information be maintained by the government. Massachusetts obtains the best score with a -6.31 and New York has the worst with a -9.73.[184] This index also includes only the information collected by states and not that available to the public through corporate registries. These open registries are a crucial tool for both law enforcement and journalists investigating financial crime. Though law enforcement may be able to obtain even private information held only by the states, it will cause serious delays in the investigation.

Openness Score

To account for this public versus private factor, I will also analyze the states' corporate registry "openness scores," as calculated by Opencorporates. A corporate registry's score is based on six factors: unrestricted online search (20 points), open licensing (30 points), free machine-readable data (20 points), a public list of company directors (10 points), freely available annual reports (10 points), and publicly available significant shareholder data (10 points).[185] Scores range from zero to one hundred. This weighting reflects Opencorporates' priorities of a freely searchable database that can be mined for company information for open-source investigations. These factors are also useful for investigators (both private and public) who increasingly use open-source tools for investigations.[186]

The factors Opencorporates considers are of course not the totality of what makes a database useful. How frequently it is updated, whether it indicates if a corporation is active or

[184] Global Financial Integrity (2019): "Interactive Chart."
[185] "Methodology," Open Company Data Index (Opencorporates), accessed from Internet Archive, January 28, 2020.
[186] Reflective of this trend in law enforcement and intelligence, the Central Intelligence Agency contains an entire center dedicated to open-source collections which was established in 2005. Central Intelligence Agency, "INTellingence: Open Source Intelligence," CIA.gov (Central Intelligence Agency, August 6, 2018).

inactive, and what search fields are available to the user (to name a few) are important factors not included in the Opencorporates metric. But, while imperfect, this is the only high-quality analysis of the openness of U.S. corporation search databases.

Hypotheses

In sum, my seven hypotheses are as follows:

H1: High incorporation service revenues correlate with high secrecy and low compliance.

H2: High corporate tax revenues correlate with high secrecy and low compliance.

H3: Republican party control leads to non-compliance and financial opacity.

H4: Less populous states are more secretive and have lower compliance.

H5: Poor state economic performance leads to secrecy.

H6: Less wealthy states have greater corporate secrecy.

H7: More corporations locate in high secrecy states.

For each of my hypotheses, I run linear regressions testing for significant correlations. To avoid bias, I committed to my hypotheses before running any regressions or charting any of my data.[187] Before I proceed to my analysis, one major point of clarification on all my hypotheses: while I occasionally will use words like "leads to" or "prefer" in my hypotheses, I do not mean to suggest that I have found a direct causal relationship. As this is the first time questions about the reasons for financial secrecy in the U.S. have been explored using detailed fiscal and political data, it is important to understand my conclusions are all tentative. I do not mean to state through my statistical results that any of my hypotheses, should they prove true, definitively prove causality. I am well aware of

[187] To obtain a copy of my data or more information on my data sources please contact me at brycectuttle@gmail.com.

my own limitations when it comes to this subject. I am not a lawyer, nor a scholar of state politics, nor a fiscal policy expert, and I have had only limited experience in financial crime law enforcement.[188] That being said, during Chapter Five I will use a qualitative methodology to extrapolate causality on two of the most compelling correlations. Data are always imperfect and contain value judgements. I have endeavored to be as transparent as possible with the judgements I have made, and I hope they are useful enough to merit discussion and disagreement.

[188] I spent eight weeks interning for the New York State Attorney General's Office Bureau of Criminal Enforcement and Financial crime while writing this thesis. Nothing in this work in any way represents the position of the New York State Attorney General's Office nor reflects confidential information obtained through that experience.

CHAPTER 4: CORRELATION

Preface

Below, I will outline the results of my regression analyses. I will primarily highlight significant results, expanding upon their magnitude and explaining possible errors. I will also summarize the hypotheses for which there were no statistically significant results. I consider a result statistically significant if the regression returned a p-value for a B statistic (unstandardized regression coefficient) of less than 0.1. In layman's terms, a p-value of 0.1 means that the correlation obtained has one in ten chance of being the result of random variation rather than an actual statistical correlation. By extension, a p-value of 0.05 means a one in twenty chance that the correlation is caused by random chance.

The 0.1 benchmark I have chosen is somewhat arbitrary and should be treated as such. Statistical significance in no way reflects certainty. For instance, the less than 0.05 p-value benchmark commonly accepted in scientific analyses[189] has approximately the same probability of being the result of random variation as the probability any individual applicant has of gaining admission to the university at which I am writing this thesis. Given that my classes are full of real students, outcomes with a one in twenty chance of occurring do, in fact, happen. To deal with this serious problem, I vary the certainty with which I assert various correlations based on the p-values I have obtained. I will place much more weight on a correlation significant at the 0.005 level than at the 0.01 level. A complete table of all my correlations and significance tests can be found in Appendix I.

[189] A group of scholars have admirably suggested that we reject the 0.05 benchmark for a 0.005 as a response to what has become known as the "replication crisis." Brian Resnick, "What a Nerdy Debate about p-Values Shows about Science - and How to Fix It," Vox (Vox Media, July 31, 2017).

Hypothesis 1

Testing hypothesis one (**H1**), "high incorporation service revenues correlate with high secrecy and low compliance," yielded two statistically significant relationships – both of which used the *Global Shell* Games compliance metric as their dependent variable. The total amount of corporate fee revenue each state collected correlated with its compliance rate as measured by *Global Shell Games* with a p-value of 0.05995 and a B of -7.352e-10. According to this model, a $100 million increase in the revenue a state collected from incorporation fees leads to an approximately seven percentage point reduction in overall state corporate service provider (CSP) norm compliance.

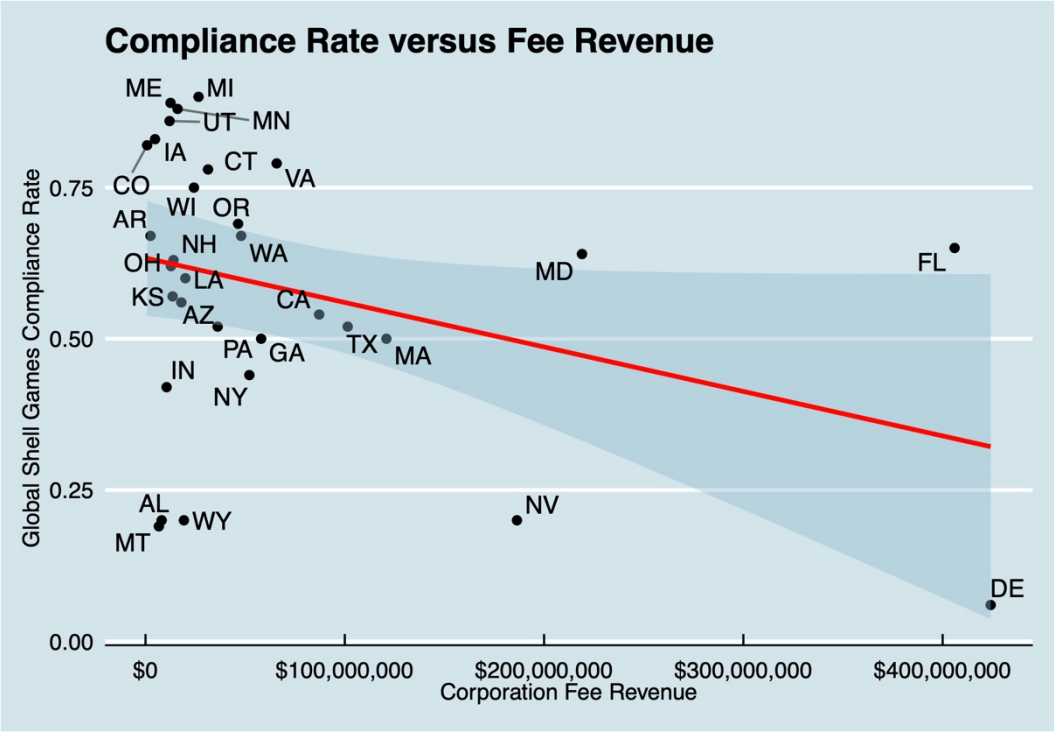

Figure 4.1: Graph of compliance rate versus state corporate fee revenue.

While this result is intriguing, its high p-value makes it only moderately compelling. But when state fee revenue is proportional to total state expenditure, the correlation becomes significantly more robust. Each state's proportional corporate fee revenue correlated with *Global Shell Games* compliance rates with a p-value of 0.002791 and yielding a B of approximately -16.5. In

practical terms, this indicates that for every cent of increased corporate fee revenue relative to each dollar a state spends, the state's compliance rate drops by 16.5 percentage points. Given a p-value of 0.002791, the probability that this correlation occurred because of random variation is approximately one in 360.

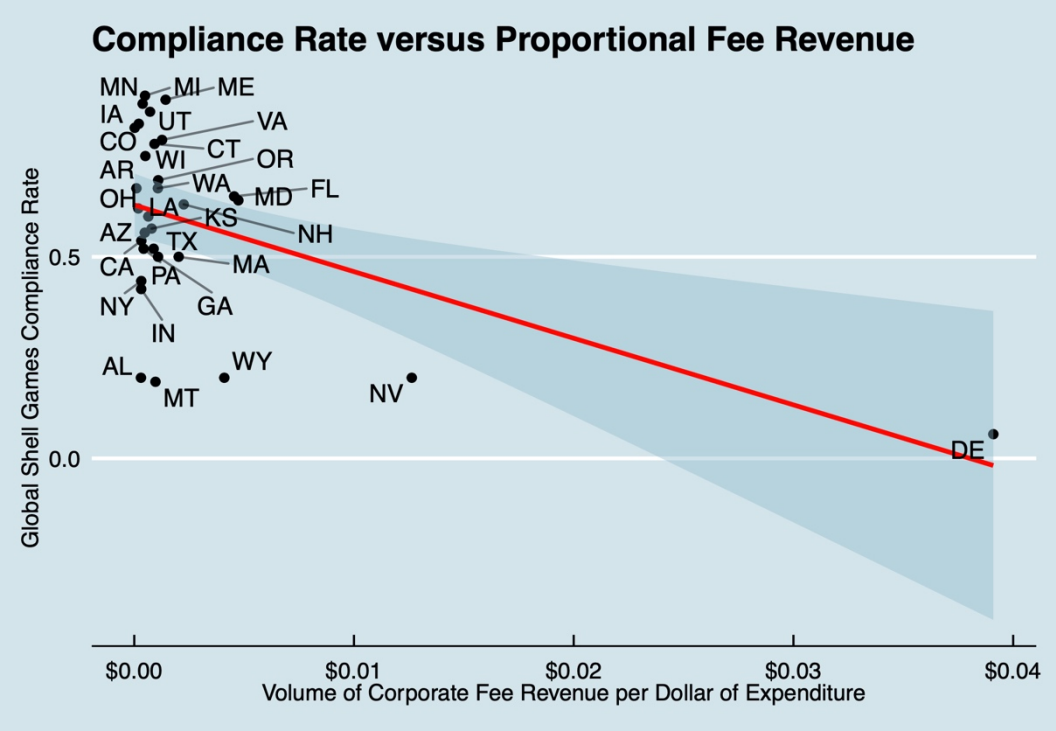

Figure 4.2: Graph of compliance rate versus proportional state corporate fee revenue.

Neither flat fee revenue nor proportional fee revenue yielded statistically significant results with the other two secrecy metrics – Global Financial Integrity's Library Card Project index and Opencorporates corporate registry Openness score. But given these robust correlations on the *Global Shell Games* compliance metric on both flat and especially proportional fee revenue, *the results validate H1*.

Hypothesis 2

Testing for hypothesis two (**H2**), "high corporate tax revenues correlate with high secrecy and low compliance," yields only one statistically significant result, also for the *Global Shell Games* metric. A higher ratio of corporate income tax revenue to state expenditure correlates with a higher *Global Shell Games* compliance rate with a B of 4.45792 and a p-value of 0.06006. For every one-cent increase in the amount of corporate income tax collected relative to state expenditure, the state's compliance increases by approximately 4.46 percentage points.

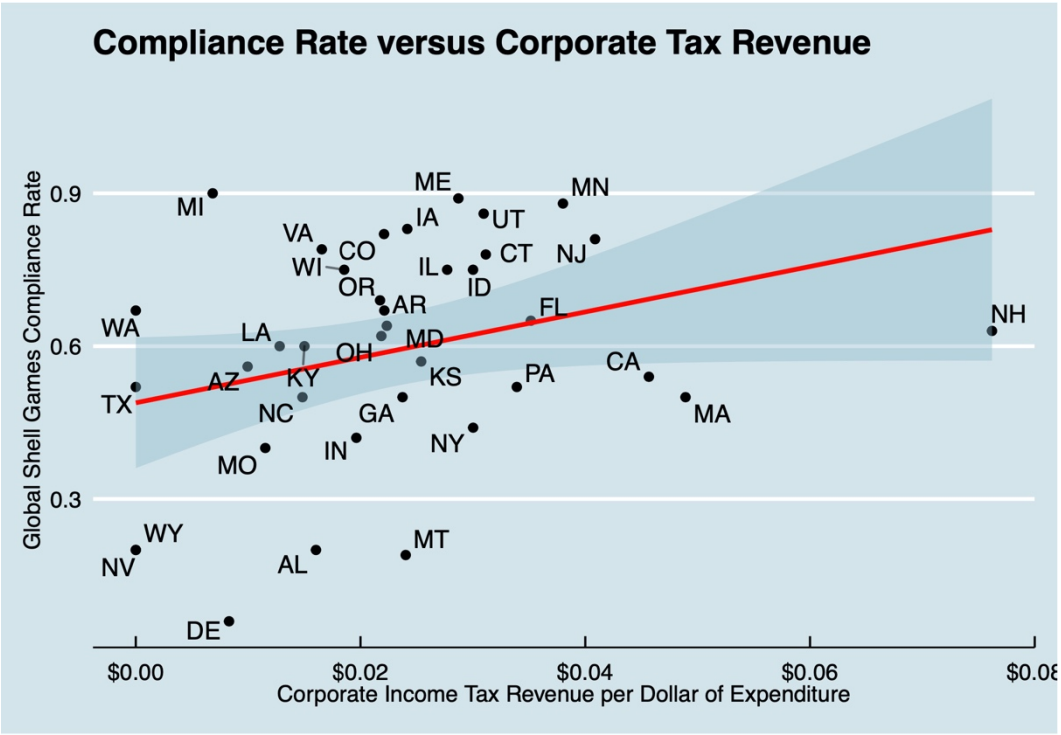

Figure 4.3: Graph of compliance rate versus proportional state corporate income tax revenue.

While not statistically significant even at the .10 level (p-value = 0.1281), a state corporate registry's openness score negatively correlated with corporate income tax revenues. States which relied more heavily on corporate income taxes for their revenues tended to have more opaque financial registries, with a one cent increase in the ratio of corporate tax revenue to expenditure correlating with a 2.3-point drop in its Openness score. This correlation has an approximately one in

eight chance of emerging if the null hypothesis is correct which is not robust enough to be considered statistically significant but is still an interesting correlation. Generally, the only significant correlation tested contradicts H2. Higher proportional corporate tax revenue led to higher compliance rates. While the non-significant correlation between Openness and revenue lends credence to H2, it is far from enough to suggest it is correct. But the correlation between *Global Shell Games* compliance rate and revenue is robust enough to *reject the null hypothesis in favor of the inverse of H2* – a high share of corporate tax revenues leads to higher compliance.

Hypotheses 3, 4, and 5.

For hypothesis three (**H3**), "Republican party control leads to non-compliance and financial opacity" and hypothesis four (**H4**), "less populous states are more secretive and have lower compliance," and hypothesis five (**H5**), "poor state economic performance leads to secrecy," no correlation was robust enough to pass any significance test. Each correlation was more likely than not to have occurred as a result of random chance in the case that the null hypothesis is true. Therefore, *I cannot validate H3, H4, and H5*.

Hypothesis 6

Tests for hypothesis six (**H6**), "less wealthy states have greater corporate secrecy," yielded one significant result out of the six permutations tested. Openness score positively correlated with state GDP per capita with a B of 4.826e-04 and a p-value of approximately 0.07 – meaning for every $10,000 increase in state GDP per capita, the state's Openness score improved by 4.8 points. Generally, richer states tend to have more open financial registries. Median income yielded to slightly positive correlations for *Global Shell Games* compliance and Openness, but these were not significant even at the .10 level. A $10,000 increase in GDP per capita is the difference between a

middle-income and a rich state but it only accounts for a less than five-point increase in Openness. This is not the difference between a transparent and a non-transparent registry. Generally, *there is not enough evidence to validate H6*.

Hypothesis 7

Hypothesis seven (**H7**), "more corporations locate in high secrecy states," yields the second most statistically significant correlation of all my tests. Companies per resident is highly correlated with *Global Shell Games* compliance, with a B of -1.2539 and a p-value of 0.004087. For every ten-percentage point increase in compliance, the number of companies per thousand residents drops by 0.125. While no other variable yielded a significant result, *Global Shell Games* compliance is clearly highly predictive of the number of legal entities that will locate in a state. *This finding validates H7.*

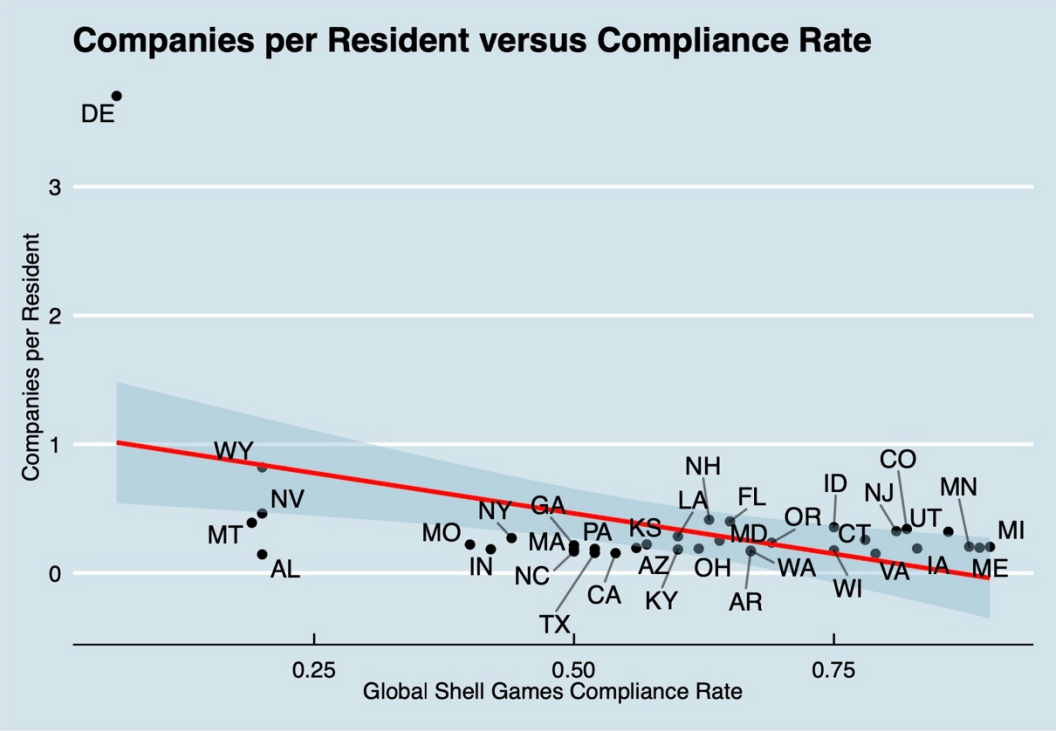

Figure 4.4: Graph of companies per resident versus compliance rate.

Summary of Findings

Overall, my 33 tests yielded five significant results, two of which I would consider robust. I was unable to validate three of my six hypotheses (H3, H4, and H5), for which no test passed the 0.01 significance test. I demonstrated the inverse of H2 and found too small an effect to validate H6. Though the three non-robust correlations ($0.05<p<0.1$) are interesting, they are much more likely to be anomalous. Therefore, I will delve primarily into H1 and H7 in the following chapters. The results of each hypothesis test are summarized in Table 4.1 below.

	Result	*Sig. correlations*	β *	*Sig. Level*
H1	Accepted	GSG ~ Flat revenue	-0.34	$p < .10$
		GSG ~ Prop. revenue	-0.52	$p < .01$
H2	Rejected	GSG ~ Prop. Corporate Tax Revenue	0.31	$p < .10$
H3	No result	None	~	~
H4	No result	None	~	~
H5	No result	None	~	~
H6	Limited results	Openness ~ GDP per-capita	.26	$p < .10$
H7	Accepted	GSG ~ Companies per resident	- .47	$p < .01$

Table 4.1: Summary of hypothesis test results.

The results of H1 suggest that the conventional wisdom that secretive states gain more revenue from incorporation fees than non-secretive states holds true, especially when one takes into account how significant that revenue is to each state. It is highly notable that the strong correlation was found for the *Global Shell Games* metric, which measures CSP AML norm compliance are unlike the other two metrics which measure action by state governments. This correlation suggests a nexus between state action and CSP behavior, the possible mechanisms of which I will explore in my next chapter. Similarly, the results of the tests for hypothesis six suggest that states with less compliant CSPs do attract more companies. This finding present similar questions to the findings for H1; are

* Standardized Regression Coefficient.

non-compliant CSPs attracting the companies or does something about state policy drive non-compliance in the private sector?

The H1 trends I have observed are driven by a few outliers, namely Nevada, Delaware, and Wyoming, with low compliance rates and high incorporation fee revenue. The remaining states are clustered around a similar share of fee revenue and variable compliance. These three states are the same as those identified in the public dialog about U.S. secrecy. In the following chapter; I will explore these questions by examining the secondary literature on state incorporation and shell companies. I will primarily investigate the institutional structures and political dynamics in two outlier states (Delaware and Nevada) and attempt to shed light on the mechanisms driving secrecy.

CHAPTER 5: CREATING CAPTURE

What We Know and What We Don't

The correlations for hypotheses one and six tell us two, very limited stories. The negative correlation between the compliance rate of a state's corporate service providers (CSPs) and the proportion of a state's revenue that derives from incorporation fees tells us that states where incorporation fees are a significant source of revenue also tend to have CSPs that will offer to register shell companies without soliciting any verifiable identity information. As explained in chapter one, these are the exact type of anonymous shell companies that create the highest risk for crime, corruption, and terrorism. This correlation can be read two ways – as either government-driven secrecy or customer-driven secrecy. In the first scenario something about state government policy leads CSPs in that state to be more secretive, with the state actively facilitating secrecy or passively allowing it. In the second scenario, customer-driven secrecy, the customers who wish to purchase companies from CSPs in states with higher fee revenues demand secrecy more than customers in other states, thereby leading CSPs in those states to offer secrecy. In the first scenario, secrecy is offered first by the state and customers come after it is offered. In the second, customers demand secrecy from CSPs in a state and CSPs work to provide it. In economic terms, government-driven secrecy is a supply-side model while customer-driven secrecy is a demand-side model.

We also know via hypothesis six that states containing less compliant CSPs also have more companies registered in them. This trend also has two major possible causal manifestations, a supply-side or demand-side manifestation. In the supply side, companies locate in a specific state because high-secrecy CSPs offer to register companies in that state.[190] On the demand side,

[190] An important note, while a CSP located in one state may offer to register companies in another, generally CSPs offer to register companies in their own state. Large CSPs like the Corporation Services Company offer registration in all 50 states but my operating assumption is that even those companies prefer to register companies in their headquarters state.

customers ask CSPs to charter secretive companies and CSPs oblige through whatever legal means they can. While the difference between these two mechanisms may seem minute, the distinction is important when examining secrecy as a product. In the first, states initiate secrecy as a policy they consider desirable and in the second CSPs seek secrecy-enhancing policies in order to provide customers with a desired service.

For both hypotheses one and six, the demand and supply side mechanisms are not mutually exclusive. It is entirely possible that the state corporate secrecy industry in secretive states is a feedback loop, combining both supply-side and demand-side forces. It is equally possible that some companies are attracted to a state primarily by secrecy while others see secrecy as a bonus service. It is impossible to locate the source of these two correlations and whether they are driven by supply or demand-side factors without delving deeper into the history and politics of corporate charter law in the United States.

But if the question of this thesis is about criminal activities, why examine a legal history that primarily deals with those who follow the law? Criminals and the professionals who aid them (lawyers, accountants, etc.) follow a logic when chartering shell companies in the same way that law-abiding businesspeople do. The secrecy characteristics of these states are not driven primarily by active criminals. States and CSPs would not make enough money to make secrecy profitable through criminals alone because there simply are not enough of them. Therefore, the driving reason behind why some states are more secretive than others must lie somewhere outside of the dark world of money laundering.

After describing the history of incorporation in the United States, I will embark on a limited qualitative analysis of the central question of this work: why are some states havens of corporate

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See "What Is a Registered Agent?," CSC (Corporation Service Company), accessed March 21, 2020, https://www.cscglobal.com/service/cls/registered-agent-services/.

secrecy? Both of the correlations for hypotheses one and six are driven by the extreme cases, namely Delaware and Nevada. Therefore, I will employ a limited case study approach to shed light on how secrecy is driven by these supply and demand mechanisms. I will first conduct a detailed analysis of the politics of corporate secrecy in Delaware before moving on to an analysis of Nevada and conclude with a brief discussion of other states and future avenues for research in this field. I cannot prove these causal logics behind secrecy in all states in the limited space I have available here. Beyond the fact that they drive the correlation I found for H1, I have chosen these two states because the interplay between them is crucial to understanding secrecy in the United States generally. As always, I must qualify that my findings are not complete, and I am not an expert in the politics, history, and law of these two states. But I hope these case studies can serve as a foundation for future qualitative research on the evolution of state corporate secrecy.

What's in a Charter?

To understand the variation in secrecy between states, we must first understand the answer to a simpler question, why incorporate in any specific state? Generally, companies are governed by the corporate laws of the state in which they are chartered (incorporated), even if most of the business of the corporation and its primary offices are located in a different state. Such state corporate laws can govern everything about how a company operates its internal affairs from executive compensation to the powers of boards of directors.[191]

Historically, governments allowed few business ventures to incorporate. In the early history of the corporation, the government perceived a compelling interest in allowing select groups of people with capital to pool their assets to pursue joint ventures for the public benefit. One generally

[191] See footnote 6 in Curtis Alva, "Delaware and the Market for Corporate Charters: History and Agency," Delaware Journal of Corporate Law 15, no. 3 (1990): p. 887.

had to petition the government directly for a corporate charter which granted the partners in a venture a monopoly over a particular project or area of trade.[192] This process of requesting a charter was not easy and charter requests could easily be turned down by government. Given how difficult it was to obtain a charter and incorporate, why would fifteenth century merchants go to the trouble? The state gave corporations a powerful privilege: limited liability.[193] Limited liability separates the assets of a business from the assets of the person behind the corporation in order to insulate a person's personal wealth from a lawsuit brought against their business. For the large seafaring voyages or colonialist ventures of the first joint stock companies like the Muscovy Company and Dutch East India Company, limited liability was crucial for stockholders. While the riches of a new world might be the reward for a venture, there was much to lose from the risk of wrecked ships and uncooperative indigenous people.[194]

The high value of this privilege was also why governments required the venture to be in the public benefit.[195] If the government was going to give something, it wanted to get something in return. In that era, nations offered corporate charters for international imperial competition. The beneficial purpose was the race for more colonial profits and territory. Companies were chartered to become champions for their government and people. Theoretically, they fought for the glory of the realm while fighting for profits for their shareholders. To this day, liability limitation is one of the main reasons individuals choose to incorporate their businesses.

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[192] John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (New York, NY: Modern Library, 2003): p. 17-24.
[193] Adam Winkler, *We the Corporations: How American Businesses Won Their Civil Rights* (New York, NY: Liveright Publishing Corporation, 2018).
[194] Micklethwait & Wooldridge (2003): p. 18-21. The British East India Company saw all of these dangers in its life cycle – especially when it was nationalized by the British parliament for failing to control its colonial possessions, losing massive amounts of British taxpayer money, and engaging in mass atrocities that eventually reached the conscience of the British public. Limited Liability in the company's charter granted by the British government ended up serving the stockholders very well. For more, see William Dalrymple, *The Anarchy: The Relentless Rise of the East India Company* (London, UK: Bloomsbury Publishing, 2019).
[195] Micklethwait & Wooldridge (2003): p. 18-21.

Over the decades, corporate chartering grew similar to what we know today. Massachusetts became the first state in 1830 to allow companies to incorporate even if they were not engaged in public works like building roads or bridges.[196] This right soon extended to other states. Over the course of the nineteenth century, corporations in American fought legal battles to remove the public benefit requirement and gained the right to pursue profit alone.[197] During that decade, states had a patchwork of widely varying corporate laws which made interstate commerce difficult.[198] But while interstate jurisdictional issues over incorporation plagued American corporations from almost the beginning of the nation,[199] competition over the legal location of large companies did not truly begin until the late nineteenth century with the rise of American big business. In the scramble of monopolists against progressives, a different type of market emerged, a market of legal sovereignties, which a small eastern state would soon grow to dominate.

The Corporate Innovator

Delaware was not the first king of incorporation in the United States. That title goes to its neighbor across the Delaware River, New Jersey. By the end of the 1880s, New Jersey became the undisputed leader in incorporation by offering the most permissive laws for companies that wanted to conduct business across state lines.[200] At the end of that decade, the state consolidated its victory by making a play for the massive business trusts that were dominating American political and economic life in the Gilded Age. Up until New Jersey passed its laws in 1888 and 1889, no state in the nation allowed one company to purchase and hold stock in another.[201] This provision became

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196 Micklethwait & Wooldridge (2003): p. 46.
197 Winkler (2018).
198 Winkler (2018).
199 The first major battle over the charter location and jurisdiction over a U.S. corporation was the case *Bank of the United States v. Deveaux* in 1809. For more, see Winkler (2018): p. 35-70.
200 Charles M. Yablon, "The Historical Race Competition for Corporate Charters and the Rise and Decline of New Jersey: 1880-1910," Journal of Corporation Law 32, no. 2 (Winter 2007): p. 331-335.
201 Yablon (2007): p. 336, 340.

incredibly useful to the monopolists of the era. Standard Oil, perhaps the most powerful trust of the era, officially transferred the stock of all its companies to Standard Oil of New Jersey that year. By 1901, two-thirds of American firms with more than $10 million in capital were incorporated in New Jersey.[202]

The results of New Jersey's incorporation victory were stark. Franchise taxes and incorporation fees brought prosperity to New Jersey state government. By 1896, New Jersey had no statewide taxes and by 1905 it could remit a portion of school taxes back to localities because it did not need the additional revenue.[203] That year, the state ran a budget surplus of $3 million and used it to fund new public works.[204] New Jersey's laws were not actually particularly unique, especially when other states began to follow suit, but by the 1900s, the state had earned the reputation of protecting the rights of the trusts better than any other.[205]

The Rise of Delaware

Starting in 1899, multiple states began to challenge New Jersey, including its neighbor to the southwest, Delaware.[206] Before 1899, Delaware had one of the most restrictive incorporation laws in the country.[207] But, in the late 19th and early 20th centuries, it (like many other states) saw an opportunity in the competition for corporate charters. While some states sought to specialize and offer different corporate products or serve a different clientele, Delaware offered a carbon copy of New Jersey's laws – but at a lower price. Delaware charged less in incorporation fees and taxes than

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[202] Micklethwait and Wooldridge (2003): p. 68.
[203] Yablon (2007): p. 324.
[204] Micklethwait & Wooldridge (2003): p. 68.
[205] Yablon (2007): p. 354-55.
[206] States that made major revisions to their corporate code from 1899-1902 were Delaware, Maine, New York, West Virginia, Massachusetts, and Connecticut. Yablon (2007): p. 358.
[207] Yablon (2007): p. 359.

its neighbor.[208] Along with the other states competing for incorporations, Delaware began to erode New Jersey's dominance little by little.[209]

Who was behind Delaware's competition with New Jersey? Delaware's laws were pushed by a group of lawyers from New York and Delaware who wanted to create the first Delaware corporate service provider (CSP) to serve the trusts of the era.[210] Clearly, this group among others was hoping to profit immensely off Delaware following New Jersey into the charter market. In fact, the CSP that incorporated Viktor Bout's Vial Company, the Corporation Services Company, includes the following paragraph in its list of reasons to use the firm to incorporate in Delaware:

> One of our founders, Josiah Marvel, was a prominent Delaware lawyer at the turn of the 20th century. Marvel played a significant role in drafting the Delaware General Corporation Law in 1899, helping to catapult the state to its current status as America's corporate capital.[211]

Delaware's government fought to gain dominance in the incorporation space by directly involving CSPs like the nascent Corporation Services Company to market Delaware corporations to the new national companies of the late nineteenth century.[212]

But it was not Delaware's lower prices or aggressive marketing that struck the final death blow to New Jersey's corporate dominance – New Jersey dethroned itself. While the end of the nineteenth century was the domain of the robber barons and monopolists,[213] the early twentieth was claimed by the reformers. The Progressive Era brought change to New Jersey corporate law when

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[208] Delaware's franchise tax rate was half that of New Jersey and its incorporation fees were three-quarters the price. Yablon (2007): p. 360

[209] Yablon (2007): p. 355, 358-59.

[210] Yablon (2007): p. 359.

[211] Corporation Service Company (CSC), "8 Benefits to a Delaware LLC," incorporate.com (Corporation Service Company), accessed April 2, 2020.

[212] Yablon (2007): p. 360.

[213] I would be remiss if I did not note that one of the most powerful robber barons of the time was Leland Stanford, the founder of the academic institution through which I am writing this thesis. His financial might propelled him to political office as a senator of the state of California. According to legal historian Adam Winkler, Stanford exercised extensive influence over the U.S. Supreme Court as well through Justice Stephen Field, prevailing on the court to rule in favor of the rights of the corporation throughout Field's term. (2018): p. 140.

the state government came under pressure from those fighting excessive corporate power.[214] The "Seven Sisters" corporate reforms of 1913 did not just significantly tighten rules binding corporations in the Garden State, they permanently damaged its reputation as a place where Wall Street corporate lawyers could run free and shape policy to their advantage.[215] Looking around for a new haven for trusts, those Wall Street lawyers came to see Delaware as a safer bet. In their estimation, its smaller population meant that fee and franchise tax income would always be a large share of its state revenue, making it harder for the state to break its new-found dependence on incorporation income.[216] While perhaps less important later, Delaware's small population size was a major factor at this early stage of incorporation competition.

According to legal historian Roberta Romano, because Delaware has no other easy revenue source within its borders, it could commit to always being responsive to the needs of incorporation interests.[217] Yet I would argue political currents in the state also played a substantial role in cementing Delaware's position. Unlike New Jersey, Delaware was never hit with the same kind of populism-tinged progressive wave that swept the nation during the era. During the Progressive Era, the Delaware governorship was captured by corporate interests, most notably the du Pont family. Most of Delaware's governors during this period were businessmen themselves and pushed only modest reforms.[218] Delaware was able to consolidate its position without the pesky interference of those muckraking reformers who feared corporate power.

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[214] Maxine N. Lurie and Richard F. Veit, *New Jersey : A History of the Garden State*, (New Brunswick, N.J.: Rutgers University Press, 2012): p. 207-216.
[215] According to Yablon, New Jersey's reputation for being corporation-friendly helped it maintain its dominance in the 1910s while other states passed similar statutes. (2007) p. 376. That positive reputation disappeared when the progressive Woodrow Wilson administration, elected governor in 1910, pushed the Seven Sisters, which passed in 1913. The decline in revenue the state saw from losing out on corporate charters led Governor Walter Edge to successfully push to roll back the reforms in the late 1910s , but by then it seems the damage was already done. Lurie & Veit (2012): p. 211-216.
[216] Yablon (2007): p. 375.
[217] Roberta Romano, "The States as a Laboratory: Legal Innovation and State Competition for Corporate Charters," Yale Journal on Regulation 23, no. 2 (Summer 2006): p. 212-213.
[218] David R. Berman, *Governors and the Progressive Movement*, (Bolder, C.O.: University Press of Colorado, 2019): p. 185-187.

In the century after its rise, Delaware has cemented its lead in corporate law. It is home to the preeminent corporate law court in the United States, the Delaware Court of Chancellery.[219] For many businesses and the lawyers who advise them, this court system is a huge draw. Because of the depth of corporate case law, questions of corporate law in Delaware can be answered quickly. In other states, many corporate law questions remain unanswered, dragging out corporate litigation. As Stephen Bainbridge writes in the introduction to his recent volume on Delaware's dominance of corporate law:

> Delaware corporate law has an answer for most questions. Because business thrives best in an environment of predictability and certainty, being able to answer legal questions so as to provide assurances with a high degree of confidence makes Delaware's body of law highly valuable. In contrast, in many other states, very significant legal questions remain unanswered, which makes conducting business under their laws less certain and predictable.[220]

There is quantitative evidence to back up Bainbridge's assertion. A study by Brian Broughman, Jesse Fried, and Darian Ibrahim found that Delaware law is, in their words, the "Lingua Franca" of corporate law. According to them, this fact alone "appears to be more important than other factors that have been shown to influence corporate domicile [incorporation location], such as corporate law flexibility and the quality of a state's judiciary."[221] If all corporate lawyers know Delaware corporate law, why would they not advise their clients to incorporate there instead of other states about which they have less expertise?

But Delaware's dominance has come at a political cost. As Romano puts it, Delaware has become "a hostage to its own success" in competing for incorporations.[222] To this day, a large share

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[219] Adam Winkler, *We the Corporations: How American Businesses Won Their Civil Rights* (New York, NY: Liveright Publishing Corporation, 2018): p. 382.
[220] Stephen M. Bainbridge "Introduction," in *Can Delaware Be Dethroned?: Evaluating Delaware's Dominance of Corporate Law*, (Cambridge, U.K.: Cambridge University Press, 2018): p. 5 citing Larry E. Ribstein, "Lawyers as Lawmakers: A Theory of Lawyer Licensing," Missouri Law Review, Vol. 69, Issue 2 (Spring 2004), p. 299-364. *See also* p. 484
[221] This finding is based on data on where venture capital-backed start-ups decide to incorporate. Brian Broughman, Jesse M. Fried, and Darian Ibrahim, "Delaware Law as Lingua Franca: Theory and Evidence," *The Journal of Law and Economics* 57, no. 4 (November 2014): p. 865-89.
[222] Romano (2006): p. 213.

of Delaware's income comes from incorporation. Approximately twenty-eight percent of Delaware's projected revenue for fiscal year 2020 comes from "Incorporation Revenue:" approximately ten percent from incorporation fees, from which Delaware profits regardless of company size, and seventeen percent from franchise taxes (from which Delaware reaps the highest rewards), at least on a relative basis, from the large fortune 500 companies that make Delaware their legal home.[223]

In short, Delaware has continued to win because of path dependency and influence. Delaware has built up a body of corporate law that would be impossible for another state to surpass given its long-term status as the jurisdiction of choice for large corporations and its unique court system. This history is thereby embedded in the very fabric of the American corporate system. Delaware law is taught at law schools and Delaware has become a cultural shorthand for incorporation. These more amorphous factors would make it hard for any state to compete for corporate charters.

Delaware has spent over a century building an incorporation industry and therefore has a more efficient and smooth process than any other state. This is true whether you are setting up a legitimate holding company or an illicit shell company. As long as you want an American shell company and have no reason to put it anywhere specific, Delaware is your state. The answer to "why Delaware" is simple – they are the best.

But what, it is reasonable to ask, does any of this jurisprudence and legal culture have to do with secrecy? We should not necessarily expect that Delaware CSPs would be on average more secretive than those of their competitor states we would simply expect that there would be more CSPs of all types in Delaware, "bad" ones and "good" ones, transparent ones and secretive ones.

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[223] There is also a small remainder which I have not been able to account for in the budget projections but that only accounts for less than four percent of total incorporation revenues. "Governor's Budget Financial Summary and Charts," Office of Management and Budget (State of Delaware), accessed March 1, 2020. For a future study of incorporation revenue, it would be worth examining how much of Delaware's incorporation revenue comes from Fortune 500 companies rather than from the millions of other companies incorporated there. It is entirely possible the bulk of the state's incorporation revenue comes from these large companies.

For this, we must understand the less studied puzzle of how secrecy has played into Delaware corporate law and politics. This topic merits an entire work of its own, but I will attempt to theorize the political reasons why Delaware, with all its corporate law advantages, has also become the home to the most secretive corporate service providers in the business.

The headquarters of the Delaware Department of State, via Google Street View.

Capturing Delaware

Since the beginning of its quest for dominance, Delaware highlighted its lack of corporate transparency to those seeking to incorporate in the state. Delaware did not mandate the same disclosures to shareholders other states did.[224] Delaware generally is known to have corporate laws that are friendly to managers and unfriendly to shareholders.[225] Yet this type of secrecy mostly affects larger companies not the secretive limited liability companies (LLCs) used as shell companies that make up the plurality of money laundering vehicles.[226] Secrecy is not Delaware's bread and butter but it has been an important element since it first jumped into the incorporation game in the early twentieth century.

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[224] Yablon (2007): p. 373.
[225] Micklethwait & Wooldridge (2003): p. 141.
[226] Gup & Beekarry (2009).

Even though it has built serious barriers to entry, Delaware still has to work to maintain its dominance. Romano has shown that often Delaware has not been the first mover when it comes to corporate law. Often it follows other states, enacting corporate laws defensively to maintain its substantial advantage.[227] Secrecy fits into this puzzle. States like Nevada have marketed themselves as the place to go for corporate secrecy ever since the early 2000s.[228] In comparison, the middling rankings for Openness and Library Card Project Index score for Delaware do not paint a picture of the most secretive state in the nation. Only the *Global Shell Games* compliance score of six percent, representing the fact that less than one in ten Delaware CSPs follow anti-money laundering norms, captures Delaware's secretive nature. Therefore, in order to understand how Delaware has maintained secrecy, we must understand the nexus between corporate law-making and corporate service providers in Delaware.

The predominant theory in the literature on political influence and Delaware corporate law comes from Jonathan Macey and Geoffrey Miller, who proposed "an Interest-Group Theory of Delaware Corporate Law" in 1987. In their paper, they propose that interest groups, primarily the powerful Delaware State Bar Association (DSBA), are able to shape Delaware corporate law through the legislature because the DSBA is a highly organized and invested special interest group.[229] In fact, the DSBA's legislative record is highly impressive. No proposal recommended by the DSBA's Section of Corporation Law, the committee of the DSBA that proposes changes to Delaware's General Corporation Law, has failed to pass through the Delaware General Assembly.[230] This record

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[227] Romano (2006).
[228] Marcel Kahan and Ehud Kamar, "The Myth of State Competition in Corporate Law," *Stanford Law Review* 55, no. 3 (2002): p. 717.
[229] Jonathan R. Macey and Geoffrey P. Miller, "Toward an Interest-Group Theory of Delaware Corporate Law," Texas Law Review 65, no. 3 (February 1987).
[230] This was true as of 1987 according to Alva (1990): p. 900. I have no reason to believe that this fact has changed since. All the changes the DSBA proposed to the General Corporation Law in 2019 passed the General Assembly and were signed by the governor. *See* P. Clarkson Collins, Henry E. Gallagher, and Roxanne L. Houtman, "Re: Report of the Corporation Law Section," DSBA.org (Delaware State Bar Association, June 27, 2019).

is astonishing especially given the high bar to amend Delaware's corporate law. The Delaware constitution requires that any amendment to incorporation law pass a two-thirds vote in each house of the General Assembly.[231]

Where Macey and Miller err is by claiming that the DSBA and the in-state and out-of-state CSPs that incorporate Delaware companies have opposing interests. Macey and Miller claim that the DSBA wants to maximize legal fees and minimize incorporation fees by increasing the volume of corporate litigation and required legal advising while CSPs would want to minimize these costs to obtain more clients.[232] Macey and Miller argue that because the DSBA is wealthier and more organized, it wins out over its competitors like large CSPs.

But in reality, the relationship between the DSBA and CSPs is not competitive; it is symbiotic.[233] An analysis by Curtis Alva in 1990 revealed the close ties between CSPs and the DSBA.[234] The top CSPs that register companies in the state of Delaware have members from their companies representing their interest on the DSBA Section of Corporation Law.[235] CSPs also meet annually with the section to recommend legislation. CSPs also meet frequently with the Secretary of State and the Assistant Secretary who also acts as the Director of the Division of Corporations, which administers incorporations and regulates corporate chartering.[236]

According to Alva, incorporation policymaking in Delaware works as follows: Having taken input from CSPs and other members, the DSBA Section on Corporate Law drafts policy. The Assistant Secretary of State in charge of corporations receives the recommendations from the DSBA corporate law committee and presents them to the leadership of the General Assembly houses,

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231 Del. Const. art. IX, §1.
232 Macey & Miller (1987): p. 503-508
233 Macey and Miller's sole evidence for competition between the DBA and CSPs is the CSPs' effort to repeal Delaware's "sequestration" statute. DBA won out over opposition from CSPs in 1966 and the statute remained in effect. But this combat between the two parties seems to be more of an anomaly than a trend. Macey & Miller (1987): p. 510-13.
234 Alva (1990): p. 899-900.
235 Alva (1990): p. 902.
236 Alva (1990): p. 902.

generally without any changes. Each house of the General Assembly passes the Department of State's proposed policies without debate or amendment. Along the way, representatives from top CSPs also meet with various senior officials in the Department of State and discuss their policy priorities.[237] Alva describes this process as one that creates efficiency and good policy. But by doing so, he misses a crucial step in this process, one that lays the groundwork for bureaucratic capture.

Not only is the Division of Corporations in the Department of State responsible for regulating incorporations for the state of Delaware, it is also responsible for collecting all taxes and fees related to incorporation.[238] The Department of State is directly dependent on the revenue collected from the CSPs that it is supposed to regulate. Under this type of interdependent relationship, it is no wonder that Delaware law ends up favoring the interests of CSPs. While CSPs and Delaware officials would likely argue that CSP involvement serves only to bring a practical edge to Delaware incorporation regulation, interest group influence on bureaucracies is more likely to yield rents for the interest group itself than good policy for the general public.[239]

This interdependence runs the risk of turning the Delaware Department of State from a regulator and taxer of large CSPs into a client of them, dependent on their will and subject to their coercion. This risk is charted in *Figure 5.1* below. Note the reciprocal relationship between CSPs and the Department of State conveyed by the arrows to the right of the figure. Note also the indirect effect it has on all corporate law making in the State of Delaware given that the General Assembly typically takes all recommendations of the Secretary of State's office and passes them into law. [240] I have omitted the Governor's role in signing the legislation because I was unable to find any evidence

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[237] Alva (1990): p. 896-902.
[238] Division of Corporations, "Annual Report and Tax Instructions," Delaware.gov (Delaware Department of State).
[239] *See* Daniel Carpenter and David A. Moss, *Preventing Regulatory Capture Special Interest Influence and How to Limit It* (New York, NY: Cambridge University Press, 2014) *and* Brink Lindsey and Steven Michael Teles, *The Captured Economy: How the Powerful Enrich Themselves, Slow down Growth, and Increase Inequality* (New York, NY: Oxford University Press, 2017).
[240] The General Assembly and Governor do have some control over the Secretary of State. Unlike in many states, the Delaware Secretary of State is not elected. He or she is appointed by the governor, confirmed by the Senate, and "hold[s] office during the pleasure of the Governor." Del. Const. art. III, §10.

that a Delaware governor has ever vetoed an amendment to the General Corporate Law passed by the General Assembly. Like the General Assembly, the Governor seems to act as a merely mechanical player in corporate law making. Both political actors merely accept the law which is ultimately created by the DSBA and the CSPs.

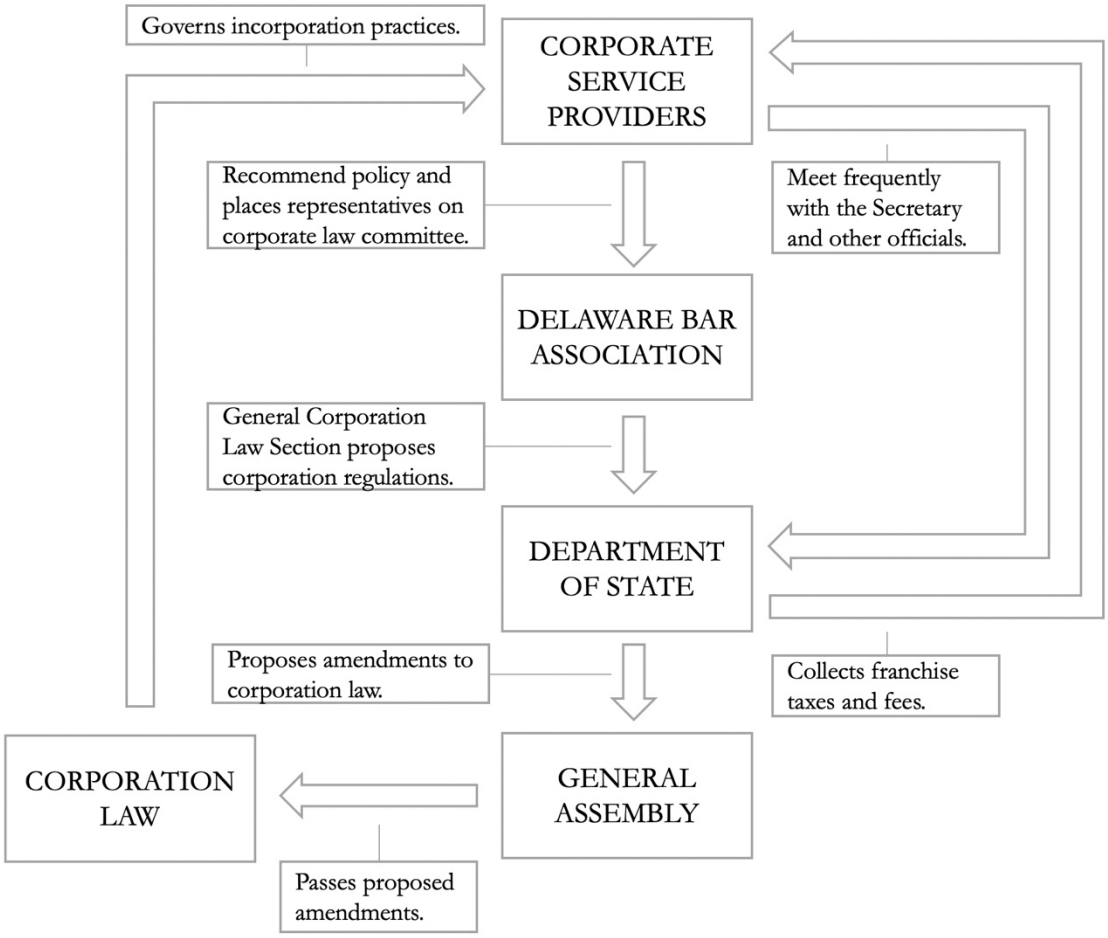

Figure 5.1: Diagram of Delaware corporate lawmaking.

The influence CSPs exercise over incorporation law and regulation may explain the unexpectedly low compliance with identity verification norms found in Delaware. Overall, U.S. CSPs are the most secretive sector of the incorporation market in the world according to *Global Shell Games* with a nation-wide compliance rate of less than ten percent—far lower than U.S. law firms

that provide incorporation services (which have a compliance rate of sixty percent.)[241] Therefore, compared to bar association influence, CSP influence on corporate policy may be significantly more likely to favor regulations that allow secrecy. CSPs also market privacy as a reason to use their registered agent service, where they serve as the legal custodian of a company in public filings. [242] This is particularly true when it comes to marketing Delaware companies. The corporate service provider CSC, which registered one of the Delaware shell companies used by arms dealer Viktor Bout, markets privacy as one of the reasons to use its services to incorporate a Delaware LLC. CSC explains that if you register a company with it in the state, your name will not have to appear on the Division of Corporation's website.[243] Though it may not be captured in the two secrecy metrics analyzed in Chapter 4, CSPs have found that Delaware policy is better for corporate secrecy than other states.

Delaware is not exactly proud of this reputation. In an article entitled "Facts and Myths" on the Division of Corporation's website, the division states defiantly, "Delaware is not a secrecy haven, any more than any other state or the United States itself. Indeed, Delaware has done more than most states to ensure proper transparency."[244] Given this defensiveness, it is no wonder than that Delaware was one of the few states that initially refused to provide me with the fee data I requested. Only after I submitted a formal Delaware Freedom of Information Act request did they reply after missing the legally mandated 15-day deadline, providing me with a link to a public website that did not contain the data for the year I was requesting.[245] This behavior is somewhat unsurprising.

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[241] Findley, Nielson, and Sharman (2014): p. 76.
[242] *See* LegalZoom, "Registered Agent Services," LegalZoom (LegalZoom.com), accessed April 2, 2020 *and* Northwest Registered Agent, "What Is a Registered Agent?," Northwest Registered Agent (Northwest Registered Agent), accessed April 2, 2020.
[243] CSC, "8 Benefits to a Delaware LLC," accessed April 2, 2020.
[244] Division of Corporations, "Facts and Myths," Delaware Corporate Law (Delaware Division of Corporations), accessed April 4, 2020.
[245] I ended up procuring the data I needed from a document produced by the Governor's Office on a public website after the Delaware Office of Management and Budget claimed they also did not have the records I requested.

Delaware ranked forty-eighth out of fifty states on the Center for Public Integrity's survey of state government accountability and transparency.[246]

The Delaware case displays the interplay between the supply-side and demand-side models of corporate secrecy. The high volume of fee revenue that Delaware collects facilitates the capture of corporate law by the DSBA and CSPs. Because Delaware gathers such a high share of its revenue from incorporation fees, there is the implicit threat that CSPs could take their business elsewhere if the Secretary of State does not adhere to their demands. Even though secrecy is not central to Delaware's dominance, it cannot risk unilaterally creating identity verification requirements for fear the larger CSPs could guide their clients to other states. While this type of scenario likely would not move the large Fortune 500 companies that generate large amounts of franchise tax revenue for Delaware, they might move more of the smaller holding and shell companies that desire secrecy for both legal and illegal reasons. These small companies generate a large proportion of fee revenue depicted in my data. While exactly what percentage of Delaware's fee revenue comes from shell companies versus large businesses cannot be known without more detailed data, fee revenue is by its nature a volume business. For secrecy, the distinguishing factor that creates the dependency cycle is fee revenue. But these forces favoring secrecy in Delaware would not operate if the state was the only competitor in the market. For CSP pressure to work, Delaware needs to have a competitor that CSPs can threaten to move to, even if only implicitly. To that end, for three decades one state has been offering those who seek corporate secrecy a proposition that has attracted millions of Americans over the course of this country's history: "Go west."

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[246] Yue Qiu, Chris Zubak-Skees, and Erik Lincoln, eds., "How Does Your State Rank for Integrity?" State Integrity 2015 (Center for Public Integrity, November 9, 2015).

"Welcome to Nevada" sign on Route 95 circa 2015.[247]

The Delaware of the West

The history of the State of Nevada has been colored by the pursuit of innovative statutory methods to generate tax revenues and facilitate economic development. In search of economic prospects after the Great Depression, the state reduced the residency required to get a divorce within its borders to six weeks, turning Nevada into a destination for those who wished to escape the strict divorce laws of the era. With the legalization of gambling in 1931 and no limits on prostitution, the state became a center for tourists and organized crime.[248] Nevada gained its rapid and continuously growing economy by using its legal code to generate economic opportunity. Nevada has acquired a reputation for marketing its lax legal code to businesses and industries. In this

[247] Famartin, "File:2015-11-03 14 18 35 "Welcome to Nevada" sign along southbound U.S. Route 95 entering Clark County, Nevada from San Bernardino County, California.jpg," Wikimedia Commons (Wikimedia Foundation, November 3, 2015).
[248] Gregory Lewis McNamee and Roman J. Zorn, "Nevada: History," Encyclopædia Britannica (Encyclopædia Britannica, Inc., January 17, 2020).

context, it is no wonder that Nevada politicians looked at the easy revenues the Delaware government generated from incorporations and decided their state should get into the game.[249]

While Nevada started trying to take business from Delaware long before the 1990s,[250] it first began seriously marketing itself as the "Delaware of the West" in 1991, when the state significantly relaxed its corporate code.[251] Yet Nevada was failing. From 1986 to 1990, two percent of companies that conducted initial public offerings were incorporated in Nevada but from 1996 to 2000, only 1.1 percent had Nevada charters.[252]

Not until the new millennium did the competition become serious. Nevada's tactic was tinged with the rebellious flavor it has given to every state government project it has embarked upon throughout its history. Instead of copying the dominant player's laws like Delaware did with New Jersey a century prior, Nevada legislators decided to offer something Delaware did not have – unprecedented liability protections for corporate officers and directors. The new corporate law would protect company officers from legal liability "for breaches of the duty of loyalty, acts or omissions not in good faith, and transactions from which an officer or a director derived an improper personal benefit," liabilities that are generally considered foundational to corporate law.[253] This would mean that if an officer of a company committed any of these egregious acts, only the company could be held liable for damages in civil court. Some lawmakers worried that its policy would make Nevada a home for the "scoundrels" of the corporate world. State Senator Dina Titus said the state could just as well hang up a sign reading "Sleaze balls and rip off artists welcome here."[254] Nevada would become the Wild West for corporate officers.

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[249] Michal Barzuza, "Market Segmentation: the rise of Nevada as a liability-free jurisdiction," (*Virginia Law Review* 98, no. 5, September 2012): p. 966.
[250] William L. Cary, "Federalism and Corporate Law: Reflections upon Delaware," (*The Yale Law Journal* 83, no. 4, March 1974): p. 665.
[251] Michel (2017): p. 19.
[252] Kahan & Kamar (2002): p. 720.
[253] Barzuza (2012): p. 941.
[254] Barzuza (2012): p. 954 citing the comments of Senators Bob Coffin and Dina Titus.

In 2001, when the bill set to create these sweeping liability protections was debated in the Nevada Legislature, legislators completely dropped the rhetorical veil of new policy for the sake of better law. The revenue motive for the reforms was shockingly transparent. That year, the Nevada government faced a serious budget crisis. Projected revenues were coming up $130 million short.[255] The shortfall particularly hit Nevada's schools which faced a massive gap in their funding.[256] The state needed a solution and it turned to the incorporation business. On the supporting side, the debate on the introduction of the bill was riddled with mentions of how it would help Nevada take incorporation business away from Delaware.[257] Clearly, visions of Delaware-sized incorporation revenues were swimming in the heads of Nevada's lawmakers.

The pressure put on legislators to pass the law was severe. During the debate on the bill, Senator Titus explained the pressure that her fellow legislators put on her to pass the bill to solve the budget crisis:

> I have been threatened, and I do not use this term lightly, that if Senate Bill No. 577 does not pass in this exact form, the so-called education funding package deal falls apart.... For that reason, I will vote for this bill, but I do so with a heavy heart. Nevada has sold its soul, tarnished its already shaken reputation, today, in exchange for a $30 million band-aid.[258]

When the choice was posed that way, between an education for Nevada's children and becoming a haven for fraud and other criminality, there was only one option for Nevada representatives. The bill passed unanimously in the Nevada Assembly and with only a lone dissenter in the Senate.[259]

But why incorporation fees and not another source of revenue? Nevada had few other choices. In 1996, Nevada lawmakers tied their own hands, passing a constitutional amendment that

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[255] Tim Johnson, "Expecting Rules to Tighten around Shell Companies after Panama Papers? Not Likely," McClatchy DC (McClatchy Washington Bureau, August 1, 2016).
[256] Michel (2017): p. 19.
[257] Nevada Senate Judiciary Committee, "Minutes of the Senate Committee on Judiciary: Seventy-First Session May 22, 2001," Nevada Legislature (Legislative Counsel Bureau, May 22, 2001).
[258] Barzuza (2012): p. 954-55 citing Senate Debate on S.B. No. 577.
[259] The dissenter was the same Senator Bob Coffin who voiced concern about "scoundrels" making the state their legal home. Johnson (2016).

required a two-thirds vote in each legislative chamber to raise taxes.[260] In doing so, Nevada secured its reputation as a permanently low-tax state but closed more reputable avenues to raising revenue when the crisis came in 2001.

The law worked, mostly luring firms smaller than the corporate behemoths that make their legal home in Delaware.[261] As my data demonstrate, Nevada now collects a sizable portion of its yearly revenue from incorporation fees alone, a portion which does not include other business taxes and fees the state levies.

Silver State Secrecy

Corporate secrecy has been a significant part of Nevada's success. Anonymity and identity protection not only make it harder to catch criminals behind shells, they also make it harder for consumers or other companies to sue the people behind small businesses. Even before the law's passage, Nevada marketed itself to those who did not want to face legal action for their company's behavior, boasting on its website that Nevada was "the most difficult state in the country in which to pierce the corporate veil," the process by which a litigant is able to reach the person behind a corporation to seek damages and hold the owner liable.[262] But after the law's passage, the tenor of the marketing was even more geared towards secrecy. In 2002, promoters of Nevada companies touted "No I.R.S. Information Sharing Agreement" and "Minimal Reporting and Disclosure Requirements" on the Nevada Secretary of State's official website.[263] To this day, Nevada highlights secrecy as one of the advantages of incorporating in the state. The Governor's Office of Economic

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[260] Johnson (2016).
[261] Ofer Eldar and Lorenzo Magnolfi, "Regulatory Competition and the Market for Corporate Law," (*American Economic Journal: Microeconomics*, Forthcoming; *Yale Law & Economics Research* Paper, No. 528, April 15, 2019).
[262] Kahan & Kamar (2002): p. 717, citing the website of Nevada Corporation Services, accessed 2000.
[263] Kahan & Kamar (2002): p. 717.

Development advertises that Nevada, along with low taxes, offers "privacy [for] business owners."[264] CSPs also highlight the limited information needed to set up a Nevada corporation as one reason you may choose the state for your company.[265]

Other aspects of the Nevada incorporation system outside of the Secretary of State's office also point to its unique secrecy advantage. While Nevada has established a specialized business court like Delaware, it is nowhere near as streamlined. It is also incapable of creating the robust jurisprudential record Delaware's court has built over the decades. The courts do not publish public opinions, preventing Nevada from creating a large and sound body of corporate law.[266] While legal theorists have taken this as evidence that Nevada will not be able to compete with Delaware in the long run, this is a misreading of the situation.[267] Instead, the likely goal of the business courts is to deal quickly with matters of misconduct arising from the liability rules, all without releasing opinions that would arouse public scrutiny. In this context, Nevada's business courts are yet another part of the corporate secrecy puzzle.

But what were the effects of these dubious reforms and marketing efforts? The years since 2001 have proved Senator Titus right. The toxic combination of secrecy and extremely limited liability drew some of the worst actors to the state of Nevada. In February 2012, a former attorney named William Reed was found guilty of using approximately 2,500 anonymous Nevada shell companies to evade taxes for his clients. According to the Department of Justice, Reed and his partners used Nevada shells to disguise the origins of client money and shift millions to offshore

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[264] Nevada Governor's Office of Economic Development, "Doing Business in Nevada," DiversifyNevada.com (Nevada Governor's Office of Economic Development), accessed April 6, 2020.
[265] Northwest Registered Agent's website explains that "[p]art of the reason people incorporate in Nevada is because the formation documents require little information and are easy to file online through the secretary of state's website." "Nevada Registered Agent," Northwest Registered Agent (Northwest Registered Agent), accessed April 6, 2020.
[266] Lynn M. LoPucki, "Delaware's Fall: The Arbitration Bylaws Scenario" in *Can Delaware Be Dethroned? Evaluating Delaware's Dominance of Corporate Law*, (Cambridge, U.K.: Cambridge University Press, 2018): p. 5.
[267] LoPucki (2018): p. 5.

accounts.[268] Two years earlier, a Kansas attorney was sentenced to two to four years in federal prison for using more than seventy Nevada shell companies to help his clients avoid paying $3.5 million in taxes.[269] These are only two of the numerous cases of tax evasion using Nevada LLCs in recent years.[270] One Nevada company "received 3,774 suspicious wire transfers totaling $81 million over a period of approximately 2 years." Authorities could never bring a case against it because Nevada laws prevented them from identifying the beneficial owner.[271]

Nevada's secrecy also has a global flavor. The Panama Papers revealed that international clients of Panamanian law firm Mossack Fonseca enjoyed using Nevada to launder money. A Nevada shell company called Murray Holdings LLC was used to embezzle funds from the Brazilian state oil company, Petrobras, and stash the money in luxury real estate in the corruption scandal that engulfed the Brazilian political system starting in 2014, known as Operation Car Wash.[272] In fact, Nevada was Mossack Fonseca's favorite American destination for incorporating companies for their tax-dodging clients.[273] Over the past twenty years, Nevada has become one of the most notorious havens for dirty money in the world.

Serious pressure has been brought to bear on the state for exactly that reason. Numerous journalistic articles in the wake of the leak attacked Nevada for being a destination for corrupt

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[268] U.S. Attorney's Office, District of Nevada, "Former Colorado Lawyer Pleads Guilty to Conspiracy, Tax and Identity Theft Charges for 'Asset Protection' Scam," U.S. Attorney's Office Nevada: Archive (U.S. Department of Justice, February 14, 2012).
[269] U.S. Attorney's Office, District of Kansas, "Lenexa Attorney Sentenced for Tax Fraud," U.S. Attorney's Office Kansas: Archive (U.S. Department of Justice, February 24, 2010).
[270] John L. Smith, "Money-laundering crackdown should put Nevada on notice," (*Las Vegas Review-Journal*, October 21, 2012): 1B. accessed from *NewsBank: Access World News*.
[271] Yvonne D. Jones, "Company Formations: Minimal Ownership Information Is Collected and Available," GAO.gov (Government Accountability Office , April 2006): p. 6.
[272] Kevin G. Hall and Marisa G. Taylor, "US Scolds Others about Offshores, but Looks Other Way at Home," McClatchy DC (McClatchy Washington Bureau, April 5, 2016).
[273] Of course, not all of Mossack Fonseca's clients were engaged in illegal activity. Regardless, Nevada was their most utilized American incorporation destination according to the International Consortium of Investigative Journalists' "Offshore Leaks Database." In fact, the only US states found in the leak were Nevada and Wyoming – with 1,260 legal entities in Nevada and 35 in Wyoming. ICIJ, "Offshore Leaks Database," accessed March 30, 2020.

money.[274] U.S. Senator Ron Wyden sent a letter to the state demanding an explanation for the malfeasance.[275] The reputational costs of the Panama Papers to Nevada were not insignificant. Therefore, the question remains – not just *how Nevada became a secrecy jurisdiction* but *why has it stayed that way*?

Capturing Nevada

Like Delaware, some unique factors in Nevada help it sustain is pro-incorporation, pro-secrecy position. The first is reputation – as legal scholar Michal Barzuza notes, "Nevada has branded itself as consistently providing lax law. The state's political climate is generally hospitable to lax law, so offering lax corporate law is merely symptomatic of the state's broader approach."[276] Similar to the way Delaware relies partially on its reputation to maintain corporate dominance, Nevada is able to lean on its history of relaxed regulation to demonstrate that it will consistently maintain a lax legal environment. The second factor is structural. The state's requirement for a two-thirds vote of both chambers to raise taxes makes it incredibly difficult to raise revenues through additional taxes.[277] This favors non-tax forms of revenue like incorporation revenue. Yet neither of these factors explain how the incorporation revenue system sustains itself in particular. It is clear from the Delaware case that constant legal change is required to keep up with the tide of competition.[278] To understand this dynamic, one must turn to the same type of interest group analysis I used for Delaware.

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[274] *See* Hall & Taylor (2016), Johnson (2016), and J. Weston Phippen, "Nevada, a Tax Haven for Only $174," The Atlantic (Atlantic Media Company, April 6, 2016).
[275] Johnson (2016).
[276] Barzuza (2012): p. 966.
[277] Johnson (2016).
[278] For more on how states need to amend their corporation laws to keep up with other states, *see* Romano (2006).

In Delaware, direct and indirect CSP influence takes center stage in the fight for corporate secrecy. But there are reasons to believe the same cannot be true in Nevada. There is a substantial barrier to CSP organization in the state. Because it is so easy to set up a corporation in Nevada, the primary incorporation service offered is simply a registered agent service.[279] These services are incredibly easy to open and operate in the state. As then-Secretary of State Ross Miller said in testimony before the state Senate in 2013, "My Labrador Jack, if he were a natural person, could be a commercial registered agent if he had $75, because he has a Nevada address and is capable of fetching the paper."[280] This low barrier to entry (and therefore high number of CSPs) would tend to make it difficult for the industry to coalesce around set policies and objectives like the few large CSPs are able to do to dominate the Delaware market. To solve this problem, Nevada registered agents have turned to a tried and true method of political influence. They have formed an industrial association.

A website run by the Nevada Secretary of State touted having "the only state association of incorporation professionals" and boasted that the association "continually works to improve and strengthen Nevada's incorporation laws" among the "Unique Advantages" of incorporating in Nevada.[281] The Nevada Registered Agent Association (NRAA) was founded in 2002, the year after the corporate reforms which made the state a true competitor for Delaware.[282] NRAA represents the

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[279] As described in Chapter 2, the registered agent serves as the legal custodian of the company, accepting any legal paperwork or lawsuit filings against the company at the agent's office. In many jurisdictions, the name of the registered agent is the only name that appears on public or non-public databases.

[280] Steve Reilly, "Dozens of Firms Creating Foreign-Based Shell Companies in Two U.S. States," USA Today (Gannett Satellite Information Network, May 27, 2016).

[281] Nevada Secretary of State, "Unique Advantages," Why Nevada? (Nevada Secretary of State, October 7, 2011) accessed from "Wayback Machine" (Internet Archive).

[282] While their founding date is not on their website, Nevada business entity search reveals that a Nevada Registered Agent Association, Inc was formed on December 5, 2002 as a non-profit corporation dissolved in 2017 and reformed that same year. The company is legally active as of this writing. Nevada Secretary of State, "Business Filings," SilverFlume: Nevada's Business Portal (Nevada Secretary of State), accessed April 8, 2020. This matches with the Association's first copywrite year on their website, 2003.

registered agent industry in Nevada by "promoting and fostering…[l]egislation and policy that strengthens Nevada's status as a corporate haven."[283] It seems to be doing quite well at its goal.

Unlike in Delaware, CSP legislative influence in Nevada seems to follow multiple approaches. While the CSPs in Delaware channel most of their influence through the Delaware Bar Association and directly to the Secretary of State, the NRAA frequently lobbies the Legislature. When amendments to Nevada's corporate law were debated in the 2017 and 2019 sessions of the Nevada legislature, the Nevada Registered Agent Association testified in the Senate Judiciary Committee and offered comments and amendments to both bills. In the most recent legislative session, 2019,[284] the NRAA had five paid lobbyists registered to lobby on its behalf and four in the 2017 session.[285] Similar to the strategy pursued by Delaware CSPs, the legislative debate also indicated that the NRAA often communicates with the Nevada Secretary of State and provides input to the State Bar of Nevada (SBN) on matters of corporate law.[286] To fully flesh out the influence pattern in Nevada corporate law, I will briefly outline how the NRAA and SBN influence corporate law and regulation in Nevada through the lens of 2017 and 2019 acts to amend the corporate law.

In the 2017 bill (Senate Bill 41), the process seems to have followed a direct legislative input approach. The bill, which was written by the Secretary of State's office, proposed new ways of allowing the Secretary of State's office to investigate violations of the law relating to registered agents.[287] During the committee process, the NRAA provided amendments to the bill to the Senate

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[283] Nevada Registered Agent Association (NRAA), "Our Mission," NRAA.biz (Nevada Registered Agent Association, Inc), accessed April 8, 2020.
[284] The Nevada legislature only meets once every two years. Nevada Secretary of State, "Unique Advantages," Why Nevada? (2011).
[285] Nevada Legislative Counsel Bureau, "Lobbyist Reports," Public Reports (Nevada Legislative Counsel Bureau), accessed April 7, 2020. see 2017 and 2019 Employer reports.
[286] *See* Nevada Senate Committee on Judiciary, "Minutes of the Senate Committee on Judiciary: Eightieth Session April 24, 2019" Nevada Legislature (Legislative Counsel Bureau, April 24, 2019) and "Minutes of the Senate Committee on Judiciary: Seventy-ninth February 20, 2017" Nevada Legislature (Legislative Counsel Bureau, February 20, 2017).
[287] Nevada Senate Committee on Judiciary (February 20, 2017): p. 2-3.

Judiciary committee and worked directly with legislators on the text of the bill. In fact, the concerns of the NRAA were the second issue raised by the committee chair during the committee meeting.[288] During the session, a lobbyist for the NRAA, Scott Scherer, voiced the NRAA's support for the bill while testifying in committee and offered amendments that seem to have been accepted in full by the drafters of the bill.[289] The evidence available points to this as the primary point of involvement of the NRAA with the bill. The SBN seems not to have been directly involved, though, as the 2019 bill will demonstrate, they are often consulted before a bill is brought to the floor.

The 2019 corporate law bill (Assembly Bill 207) seems to have followed a process more similar to that of corporate law in Delaware. The SBN's Business Law Section drafted the bill with input from NRAA and proposed it directly to the Nevada Legislature with sponsorship from a member of the Assembly.[290] But it diverges from the Delaware process in that CSPs also directly interacted with the legislature beyond their work with the Bar association. At the amending stage, lobbyists from the NRAA provided input and helped the drafters change the language of the bill directly.[291] In this bill, it seems as though the Secretary of State's office had almost no direct input. Neither the Assembly nor Senate Judiciary Committee meetings had any mention of the Secretary of State's office.[292] Clearly, the primary actors in this reform were the SBN and the NRAA.

These two bills were not anomalous. A 2015 amendment to the incorporation law involved frequent communication between the Secretary of State and the NRAA and the SBN on the text of

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[288] Committee Chair Tick Segerblom asked the Chief Deputy in the Office of the Secretary of State, "Have you seen the proposed amendment from the Nevada Registered Agent Association?" To which the Chief Deputy replied, "Yes. The Office of the Secretary of State has not had a chance to discuss the proposed amendment with the Registered Agent Association. Some changes to the proposed language may be necessary." Nevada Senate Committee on Judiciary (February 20, 2017): p. 3.
[289] Nevada Senate Committee on Judiciary (February 20, 2017): p. 4-5.
[290] Nevada Senate Committee on Judiciary (April 24, 2019).
[291] Nevada Assembly Committee on Judiciary, "Minutes of the Meeting of the Assembly Committee on Judiciary: Eightieth Session February 28, 2019," Nevada Legislature (Legislative Counsel Bureau, February 28, 2019).
[292] Nevada Assembly Committee on Judiciary (February 28, 2019) and Nevada Senate Committee on Judiciary (April 24, 2019).

the bill and the NRAA provided amendments directly to the Legislature.[293] In a 2013 Assembly Bill, both NRAA and the large national CSP, CT Corporation, provided similar amendments during an Assembly Judiciary Committee debate.[294] Generally, the NBAA has extensive input into any proposed bills relating to their industry and would be able to actively oppose any measure that damaged it. Qualitatively, the legislators in both Judiciary committees seem favorably disposed to the opinions of the NRAA and take their suggestions. Beyond the legislative process I have charted in these two bills, regulatory notices from the Secretary of State's Office indicate that the NRAA and the SNA are consulted on changes to incorporation regulation and given drafts before they are published.[295]

My work indicates the model for CSP influence in Nevada displayed in *Figure 5.2*. The diagram is quite different than the Delaware model but is characterized by the same reciprocal relationship between CSPs (represented by the NRAA) and the Secretary of State. I have omitted the fact that the Nevada Legislature creates the incorporation law which governs the CSPs for the sake of clarity, but that same relationship exists in Nevada. Note the circular flow from the NRAA to the SBN to the Secretary of State, with the legislature in the middle, accepting input from all sides. There is clearly more contest in the corporate lawmaking process in Nevada. But when there is contest of wills over corporate law, it is not between democratic political constituencies, it is between the NRAA and the SBN, both of which seem to favor secrecy.

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[293] Nevada Senate Committee on Judiciary, "Minutes of the Senate Committee on Judiciary: Seventy-Eighth Session February 4, 2015" Nevada Legislature (Legislative Counsel Bureau, February 4, 2015).
[294] Nevada Assembly Committee on Judiciary, "Exhibit Q," Nevada Legislature (Legislative Counsel Bureau, April 4, 2013).
[295] Nevada Office of the Secretary of State, Commercial Recordings Division, "Notices of Workshop and Hearing R081-13," Nevada Legislature (Nevada Legislative Counsel Bureau, October 29, 2013); "Notices of Workshop and Hearing R079-13," Nevada Legislature (Nevada Legislative Counsel Bureau, November 20, 2013);

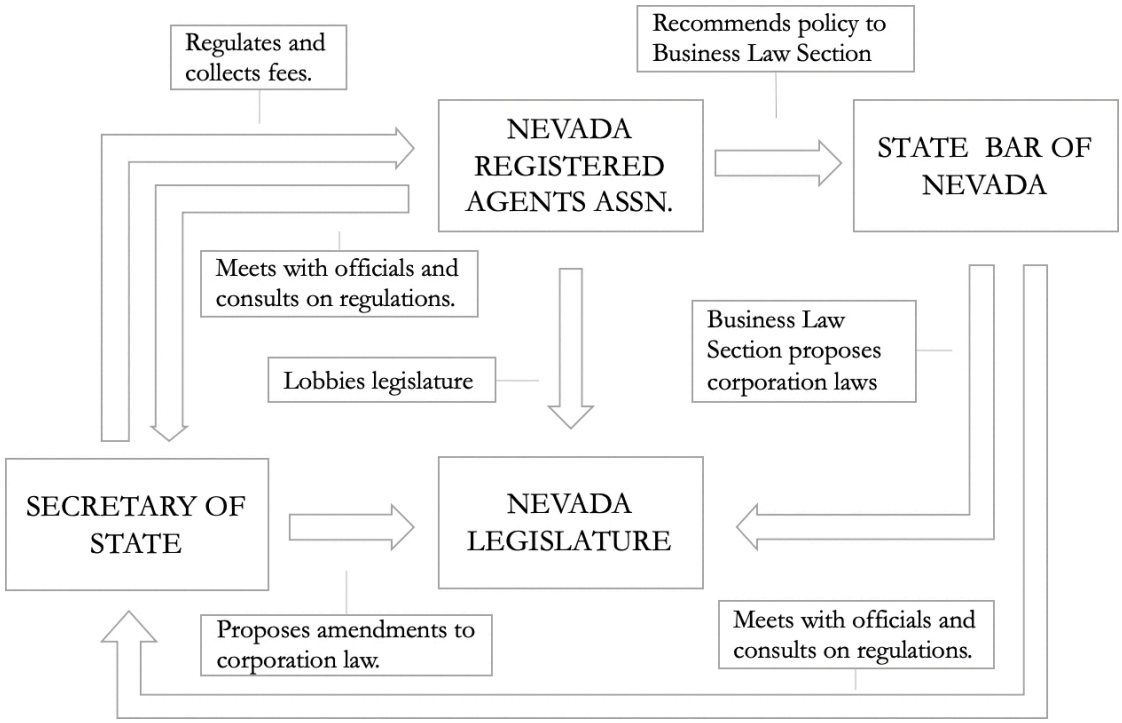

Figure 5.2: Diagram of Nevada corporate lawmaking.

The Nevada-Delaware Nexus

Competition between Delaware and Nevada is crucial to the secrecy system in both states. Throughout the Nevada legislative record on almost every bill about incorporations are comments about how to keep up with or beat Delaware. During debate on A.B. 207 in 2019, Assemblyman Jason Frierson said, "We are trying to constantly catch up with states like Delaware that have had the pleasure of being at the forefront when it comes to an environment for corporate formation."[296] Delaware officials are also concerned. Myron Steele, who was at the time Chief Justice of the Delaware Supreme Court, voiced his concern about competition from Nevada.[297] Companies see the competition too. CSC provides a helpful page for its clients comparing the advantages of Nevada

[296] Nevada Assembly Committee on Judiciary (February 28, 2019): p. 3, opening statement of Assemblyman Jason Frierson.
[297] Stephen M. Bainbridge, "Interest Group Analysis of Delaware Law," in *Can Delaware Be Dethroned?* (2018): p. 138-39.

and Delaware, though as a Delaware-based company, one senses its bias towards the latter.[298] These national CSPs like CSC and CT Corporation pressure both states. Politicians on both sides are clearly feeling the heat, even if the states – as the evidence suggests – are not offering the exact same corporate product.

Nevada-Delaware competition, though not perfectly symmetrical, creates the external structure that forces both states to maintain pro-secrecy systems. The demand-side factors – the mobile nature of corporations, the fact that they tend to locate in pro-secrecy states, the desire for weak regulations overall – drive this interstate dynamic. The supply-side factors – state government revenue seeking, rent seeking by the domestic interest groups that profit from incorporations, legislature and executive agency dependence on interest group input – reinforce the system and shape it within the state. In short, corporate innovation in Nevada forces Delaware to adapt its laws to head off competition or risk losing one of its largest revenue sources. This pressure allows domestic interest groups to present innovations like corporate secrecy to state government to use as a competition strategy. Both factors are necessary to compete. Without the former, there would be no incentive for interstate incorporation competition; without the latter, no one would push corporate secrecy policies on the state governments given the reputational and societal costs associated with secrecy revenues.

Interstate competition between states like Delaware and Nevada sustains corporate secrecy and the anonymous shell companies that result. Criminals and kleptocrats like Viktor Bout are able to profit off this system because these states are in a constant struggle to maintain the friendliest incorporation regime for their customers. Even if most of the people they serve are engaging exclusively in legal activity, the externalities of these lax incorporation policies are crime, corruption,

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[298] Corporation Services Company (CSC), "Forming an LLC or Corporation in Delaware vs. Nevada," incorporate.com (Corporation Services Company), accessed April 8, 2020.

and kleptocracy. The incorporation industry turns government offices into salespeople bound to the interest groups that bring them revenue. These states have almost no incentive to reform themselves because of the massive revenue loss they would incur. Doing the right thing is just too costly.

Beyond the Delawares of the East and West

I have focused on Delaware and Nevada because they, more than any other states, drive the correlations I have found in hypotheses one and seven. But I do not mean to suggest that those two states are the only ones engaged in selling secrecy. Alabama and Wyoming both have low compliance rates even if they are not accompanied by as high fee revenue.[299] South Dakota, a state not included in the *Global Shell Games* data, has been cited by experts as one of the secrecy jurisdictions in the U.S. It has profited most by providing secretive financial trusts to stash billions in funds away for the ultra-wealthy.[300] Each state that has sought to compete in the secrecy game seems to try to bring something new to the table, whether it was Wyoming with the LLC in the 1980s or South Dakota with its trust regime. A future study of financial secrecy in the United States should address all of these states as well as legal vehicles beyond shell companies like anonymous trusts.

Corporate secrecy in the United States is not a two-state industry. There are more than two laboratories of secrecy even if these two are the ones that show up most prominently in my data. But the additional states competing in the secrecy game do not decrease the forces driving secrecy I have described above; they bolster them. Nor do the substantial advantages built up by the current players foreclose the emergence of new secrecy havens in the United States.

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[299] Alabama's low compliance may be the result of random variation. The *Global Shell Games* study only received five replies from Alabama CSPs, one of which was compliant – Nevada and Delaware had 75 and 52 respectively. Wyoming had 20 replies. Michael G. Findley, Daniel L. Nielson, and J C Sharman, "U.S. League Table," Global Shell Games (Website), 2014. Accessed from the Internet Archive.

[300] Michel (2017): p. 28-30.

Beyond the states themselves, U.S. territories, particularly Puerto Rico and the U.S. Virgin Islands score high on metrics of financial secrecy.[301] Furthermore, the nexus between U.S. financial centers and the offshore havens that I have described in previous chapters is worthy of further investigation. The system of offshore finance often seems to be a transatlantic one – connecting London and its offshore peripheries with New York and its on-shore secrecy havens. This story along with the others I have described above remain to be told.

The tale of U.S. secrecy is bigger and more elaborate than any single work could encompass. But I hope I have demonstrated its vital importance for people and governments around the world. In the next chapter I will offer my concluding thoughts and attempt to leave the reader with some of my answers. Because I cannot help myself, I will also tell one last story about shell companies in the United States. This one is about how they have affected the highest levels of our government. After all, no work of politics in this era is complete without a mention of Donald Trump.

[301] Tax Justice Network, "Financial Secrecy Index – 2020," Financial Secrecy Index, Tax Justice Network (2020).

CHAPTER 6: CONCLUSION

The President's Laundromat

The photo was taken in the Red Room of the White House.[302] The President of the United States smiles, flag pin pinned to his lapel, trademark red tie around his neck, his arms hanging to his sides. To his left stands the former Mayor of New York City, a man who shepherded that city through one of the hardest times in its long history, a performance that earned him the moniker, "America's Mayor." At the far left stands the Vice President, leaning slightly on his left foot so as to be in full view of the camera. Between the President and Vice President stand two men – both heavyset and balding, grinning broadly. At the time this photo was taken, these two men were completely unknown to the American public, yet they were engaged at the highest, and most unusual, level of U.S. foreign policy. Their names are Lev Parnas and Igor Fruman.

Source: Lev Parnas' Instagram posted April 11, 2019, via the Wall Street Journal.[303]

[302] Darlene Superville, "White House Makeover: Melania Trump Upgrades, Refreshes and Restores for State Dinner," USA Today (Gannett Satellite Information Network, September 18, 2019).
[303] Shelby Holliday and Adele Morgan, "Private Photos of Indicted Donor Depict Ties to Trump, Giuliani," The Wall Street Journal (Dow Jones & Company, October 21, 2019): 4:11.

The full story of Lev Parnas and Igor Fruman is perhaps one of the strangest in an era full of strange political sagas. How did these two men, political unknowns before 2018 even in Republican fundraising circles, get so close to the president that by 2019 they were featured in multiple photos with the him, his sons, his daughter, and his entire legal team?[304] How did they become so close with Rudolph Giuliani that they became central to the attorney's efforts to develop a diplomatic backchannel designed to gain negative information on Trump's primary political rival and now presumptive Democratic Presidential nominee, former Vice President Joseph Biden?[305] How did two "Soviet-born Florida businessmen"[306] become central to the third presidential impeachment in U.S. history? According to numerous news agencies, a legal non-profit, and the Department of Justice, the answer lies in a Delaware shell company called Global Energy Producers LLC.

It all began in early 2018 – before the midterm elections. In late February 2018, Igor Fruman made the duo's first donations to Donald Trump, $2,700 to Trump Victory Committee and the same amount to Donald J. Trump for President, the legal maximum for candidate-affiliated groups.[307] That gained Parnas and Fruman entrée to the Trump world. Two weeks later, the two attended a fundraiser for the President at his club, Mar-a-Lago in Palm Beach.[308] But in order to gain real access, Parnas and Fruman likely realized they would need to spend a lot more than $5,400.

In early April, Parnas and Fruman set up Global Energy Producers LLC (GEP) in Delaware, using the Corporation Trust Company as their registered agent.[309] Parnas and Fruman seem to have

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304 Holliday & Morgan (2019).
305 Aubrey Belford and Veronika Melkozerova, "Meet the Florida Duo Helping Giuliani Investigate for Trump in Ukraine," OCCRP (Organized Crime and Corruption Reporting Project, July 22, 2019).
306 Belford & Melkozerova (2019).
307 The legal limit for the 2017-2018 cycle for individual contributions to a candidate or candidate committee was $2,700. Center for Responsive Politics, "2018 Campaign Contribution Limits," OpenSecrets.org (The Center for Responsive Politics), accessed April 14, 2020.
308 Belford & Melkozerova (2019).
309 Campaign Legal Center, "Straw Donor Complaint to FEC: Global Energy Producers, LLC," Campaign Legal Center (Campaign Legal Center, July 25, 2018), see attached compliant: p. 3.

gone to some lengths to make it seem as though GEP was a real business with real business activity. According to the Campaign Legal Center (the organization that first identified GEP's potentially illegal activity), on two separate occasions the pair attempted to commission a logo for the company on a design website.[310] Parnas and Fruman represented the company as a player in the transatlantic liquefied natural gas business. But as of this writing, no evidence of any natural gas deals has been found.[311]

According to a federal criminal indictment now pending in the U.S. District Court for the Southern District of New York, Parnas and Fruman proceeded to use Global Energy Producers as a front for donations to Super PACs, most notably $325,000 to one PAC that the Campaign Legal Center has identified as pro-Trump Super PAC, America First Action.[312] The pair proceeded to use the company to donate $50,000 to a PAC supporting the future governor of Florida, Ron DeSantis.[313] They also listed GEP as their employer in donations to the Republican National Committee and Representative Pete Sessions.[314] But why would Parnas and Fruman need a shell company? Donating large amounts to candidates and Super PACs is not illegal. But it is illegal to use a shell company to cloak the real origin of a donation – which, as we now know, was not Parnas and Fruman.

Given that it was only formed a month before, it is not surprising that GEP did not have $375,000 in business funds to shell out for political donations. In fact, GEP was only the name listed on FEC forms as the origins for the donation. The money was actually sent by a company

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310 Campaign Legal Center (2019): p. 4-5.
311 U.S. Attorney's Office, Southern District of New York (USAO-SDNY), Lev Parnas and Igor Fruman Charged with Conspiring to Violate Straw and Foreign Donor Bans," U.S. Attorney's Office Southern District of New York, (U.S. Department of Justice, October 10, 2019), see attached indictment: p. 7.
312 USAO-SDNY (2019), see attached indictment: p. 6 and Campaign Legal Center (2018): p. 5.
313 Campaign Legal Center (2019): p. 7
314 Campaign Legal Center (2019): p. 6-7.

controlled by Parnas and his wife, Aaron Investments I, LLC registered in Florida.[315] But that company was not the true origin of the funds either. In the year prior to the donation, this "investment company" only received about $60,000 in transfers. Even if all of that money was given to America First Action, it would only account for less than twenty percent of the donation.

Where did the rest of the money come from? Two days before making the donation to America First Action, Aaron Investments I, LLC received $1.26 million from an attorney trust account owned by a Russell S. Jacobs.[316] These accounts are often used by criminals who wish to utilize the veil of attorney-client privilege to conceal the true origins of laundered money.[317] Jacobs, who owns a Miami real estate law firm, describes himself on his LinkedIn as "Your Dirt Lawyer."[318] According to the Campaign Legal Center, Jacobs' firm is known for assisting foreign buyers in evading federal anti-money laundering laws relating to buying real estate with anonymous shell companies.[319] The origins of the $1.26 million are still unknown.

This was not the end of Parnas and Fruman's efforts to use GEP to conceal the true origins of federal donations in order to forward their political agenda. According to the federal indictment, Parnas and Fruman later solicited approximately $1 million for political donations from an unidentified foreign national and conspired to send that money through GEP in order to conceal its foreign origin.[320]

Using a Delaware shell company incorporated by one of the largest corporate service providers in the U.S., Lev Parnas and Igor Fruman were able to inject hundreds of thousands of dollars of unknown origin into a U.S. election. They were able to use that money to influence U.S.

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315 Brendan M. Fischer and Margaret Christ, "RE: Additional Facts Relevant to MUR #7442," CampaignLegal.org (Campaign Legal Center, June 20, 2019): p. 2.
316 Fischer & Christ (2019): p. 3.
317 United States of America, Department of the Treasury, *National Money-laundering Risk Assessment 2018*: p. 34-35.
318 Russell S. Jacobs, "Profile: Russell S. Jacobs," LinkedIn, (LinkedIn Corporation), accessed April 16, 2020.
319 Fischer & Christ (2019): p. 4.
320 USAO-SDNY (2019), see attached indictment: p. 14, 20.

foreign policy and gain the ear of the President and his top advisors. They were able to subvert the democratic process.

The Parnas and Fruman incident is not an isolated case, shell companies are often used to conceal the origins of political donations.[321] The anonymous shell company has blown a gaping hole through our campaign finance laws. Parnas and Fruman were only caught was because they were particularly bad at laundering the foreign money. The funds only seemed to have passed through two or three legal entities. Sophisticated money laundering schemes usually rely on tens if not hundreds of legal entities and bank accounts. We cannot always rely on those who wish to corrupt our democracy to be so incompetent. By allowing the anonymous company to flourish in the United States, we have made corruption too easy.

What Now?

There is no one solution to the shell company problem. But the most widely agreed upon and most obvious is creating a register of the beneficial owners of all companies. This database would contain up-to-date information about who actually owns controlling stakes in companies, not just the official registered officers of the company. The Corporate Transparency Act, which passed the House of Representatives in October 2019, would create such a registry. The bill creates a comprehensive beneficial ownership reporting requirement for companies along with enforcement resources and criminal penalties sufficient to give the law teeth.[322] For a while the bill seemed likely to pass. The bill received wide bipartisan support in the House and even gained the tentative support of the Trump administration.[323] Even the Secretary of State of Delaware has endorsed the

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[321] Donald R. Liddick, "Campaign fund-raising abuses and money laundering in recent U.S. elections: Criminal networks in action," (*Crime, Law and Social Change* 34, 2000).
[322] *See* Library of Congress, "H.R.2513 - Corporate Transparency Act of 2019," Congress.gov (Library of Congress).
[323] Library of Congress Office, "H.R.2513 - Corporate Transparency Act of 2019" & Office of Management and Budget (2019).

bill.[324] But since its passage through the House, the bill has floundered in the Senate. If it does not pass by the end of the 2019-2020 legislative session, it will need to be reintroduced and passed again. The prospects for any action on the bill before the end of the session seem bleak. One major reason why the bill has not been taken up may be that the American Bar Association opposes both the House bill and the Senate version.[325]

It seems we are seeing a macrocosm of state bar association policymaking in Delaware and Nevada. As anti-corruption law expert Matthew Stephenson told the website Quartz in July 2019:

> There's a faction of lawyers who are heavily represented not necessarily in the ABA as a whole but on relevant ABA committees on this issue, that make a lot of money from registering companies anonymously…They're worried about losing business because in some cases the anonymity is precisely what the clients care about…[326]

The bill threatens to take away America's status as one of the safest secrecy jurisdictions. While that may benefit society, it would cost these attorneys dearly.

This is not the first-time beneficial ownership legislation has failed in the U.S. Congress. In 2008, Senators Carl Levin, Norm Coleman, and Barack Obama – serving his last year in the Senate before becoming president – introduced a bill which would have required states to maintain beneficial ownership information on companies.[327] That bill, which was virulently opposed by the Nevada Registered Agent Association (NRAA), never even received a vote.[328] In every legislative

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[324] Jeffery W. Bullock, "Letter to The Honorable Maxine Waters / The Honorable Patrick McHenry" (Delaware Department of State, April 30, 2019).
[325] Larson Frisby, "Gatekeeper Regulations on Attorneys," AmericanBar.org (American Bar Association), accessed April 20, 2020.
[326] Max de Haldevang, "The American Bar Association Is Fighting Washington's Efforts to Tackle Money Laundering," Quartz (Uzabase, July 1, 2019).
[327] Library of Congress, "S.2956 - Incorporation Transparency and Law Enforcement Assistance Act," Congress.gov (Library of Congress).
[327] Library of Congress Office, "H.R.2513 - Corporate Transparency Act of 2019" & Office of Management and Budget (2019).
[328] The then-president of the NRAA issued an extensive statement on the Senator Levin's bill. Though they criticized the legislation, the effort did seem to spook the NRAA. Later that year, the NRAA adopted ethical guidelines for its members, aimed in part at "prevent[ing] the exploitation of Nevada Business Entities for criminal activities." *See* Derek Rowley, "RED HERRING ALERT: The Incorporation Transparency & Law Enforcement Assistance Act," NRAA.biz

session since then, some type of beneficial ownership legislation has been proposed in Congress. Yet, every year, reform fails. The current legislative session seems to be the closest the U.S. has ever gotten to mandating beneficial ownership registration.

But maybe federal reform is not the solution. Maybe one should just shame the problem states into acting. Maybe the laboratories can cook up the solution to the problem they created. But the fundamental forces at play in the secrecy game make state-driven change impossible. The competition between states like Delaware and Nevada sets up a classic commitment problem. If one state unilaterally reforms, it immediately begins to lose incorporation revenue to the state that did not reform. As Nevada Senator Tick Segerblom explained to the Las Vegas Review Journal, "We are known as the Delaware of the West…We don't want to make changes and shoot ourselves in the foot unless other states make the same changes."[329] Delaware legislators have similarly expressed opposition to unilateral reform. A Delaware Senate Resolution passed in support of a national beneficial ownership database stated that "the passage of federal legislation to establish a national database… would discourage business entities from leaving Delaware to register in states with laxer laws and regulations" and thereby "[maintain] Delaware's corporate tax revenue stream and [protect] Delaware's corporate brand."[330] Senior political leaders in both of these states have no interest in unilaterally disarming by forbidding anonymous shell companies. Given these incentives, a grand state compact on transparency without federal intervention seems unlikely. If there will be no state compact, the only solution remaining is a federal solution.

The prospects for reform may be dubious but there is some room for hope. The prevalence of money laundering in the news (especially as it is tied to President Trump) may make the issue a

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(Nevada Registered Agent Association, Inc, June 23, 2008) *and* Nevada Registered Agent Association (NRAA), "News," NRAA.biz (Nevada Registered Agent Association, Inc.), accessed April 30, 2020.

[329] Sandra Chereb and Sean Whaley, "Secretary of State Points to New Laws on Oversight of Corporations in Nevada," Las Vegas Review-Journal (Las Vegas Review-Journal, May 11, 2016).

[330] Delaware General Assembly, "Senate Concurrent Resolution 37," Delaware General Assembly (Legislative Hall, June 6, 2019.

priority for the next administration should a Democrat be elected in 2020. But even if beneficial ownership transparency is enacted by the federal government for all companies, financial secrecy is like whack-a-mole; criminals will find new legal vehicles and new entities to hide ill-gotten funds. This ingenuity can also be a weakness. Very few criminals are experts in the complexities of corporate structuring and financial accounting. Even the ones who are can rarely devise a complex money laundering operation in U.S. dollars without engaging the mainstream financial system. This simple fact creates a potential weak link in grand corruption enterprises, one that governments can exploit. In order to fully tackle the anonymous shell company problem, we must regulate these professional enablers of crime and corruption.

Regulate the Enablers

I am not the first to point out how these enablers are often central to criminal schemes. A Financial Action Task Force (FATF) and Egmont Group[331] report outlined how "specialists and professional intermediaries" including lawyers, accountants, and CSPs were involved in the majority of the 106 case studies of beneficial ownership concealment for criminal means the report catalogued.[332] Both the 2015 and 2018 National Money Laundering Risk Assessments from the Department of the Treasury warned of the money laundering risks from professionals. The Hudson Institute's Kleptocracy Initiative has outlined how professionals like lawyers, CSPs, and financial service providers need stricter regulation to counter money laundering.[333] Democracy expert Larry Diamond proposes regulating these enablers as one of his measures to save contemporary

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331 The Egmont group is a global consortium of financial intelligence units (FIUs) from different national governments. The US's FIU, FINCEN, organized the group and plays a leading role. *See* FINCEN, "The Egmont Group of Financial Intelligence Units."

332 Financial Action Task Force (FATF) and Egmont Group, *Concealment of Beneficial Ownership* (Paris: FATF, 2018): p. 46.

333 Ben Judah and Nate Sibley, "The Enablers: How Western Professionals Import Corruption and Strengthen Authoritarianism," Hudson Institute (Kleptocracy Initiative, September 5, 2018). *See also* Ben Judah and Belinda Li, "Money-laundering for 21st Century Authoritarianism: Western Enablement of Kleptocracy," Kleptocracy Initiative, December 2017.

democracy from kleptocracy and corruption.[334] The European Union (EU) has long taken precautions against the involvement of professionals in money laundering. The EU's first anti-money laundering (AML) directive issued in 1991 applied EU AML standards to "those professions and undertakings whose activities are particularly likely to be used for money laundering purposes."[335] But the United States has continually failed to impose the same standards on these professionals as it does on banking institutions, despite the fact they are often just as central to money laundering and terrorist financing schemes.

Senior FIFA officials could not have laundered the millions they received in bribes through a Nevada shell company without the help of law firm Mossack Fonseca.[336] The former president of Malaysia could only steal hundreds of millions of dollars from his people with the help of investment bank Goldman Sachs.[337] Angola's first daughter, Isabella Dos Santos, could not have stolen millions from the Angolan people without the help of accountancies PricewaterhouseCoopers (PwC), KPMG, and the consultancy, Boston Consulting Group.[338] Viktor Bout could not have laundered his money without the help of the CSP Corporation Services Company (CSC).[339] Each of these cases tells a story of how large, usually American companies were often willfully blind to the criminality they were assisting. While some of these firms have been brought up on criminal charges since, these public cases are likely only the tip of an iceberg of crime and corruption.

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334 Diamond (2019); p. 195.
335 Council of the European Communities, "Council Directive 91/308/EEC of 10 June 1991 on Prevention of the Use of the Financial System for the Purpose of Money Laundering," EUR-Lex (Publications Office of the European Union, June 28, 1991). *See also* International Bar Association (IBA), "Introduction to AML: 4. Europe," IBA Anti Money Laundering Forum (International Bar Association), accessed April 27, 2020.
336 Obermayer and Obermaier (2017): p. 296.
337 Rozanna Latiff, "Goldman Sachs Pleads Not Guilty in Malaysia over 1MDB Bond Sales: State Media," ed. Jason Neely, Reuters (Thomson Reuters, February 24, 2020).
338 Ben Hallman et al., "Western Advisers Helped an Autocrat's Daughter Amass and Shield a Fortune," ICIJ (International Consortium of Investigative Journalists, January 19, 2020).
339 Division of Corporations, "Entity Search" https://icis.corp.delaware.gov/Ecorp/EntitySearch/NameSearch.aspx. Results for "VIAL COMPANY." Accessed: October 8, 2019.

Many of these professionals, even in well-established firms with otherwise sterling reputations, feel very comfortable exploiting this loophole in the U.S. AML system. An undercover sting conducted by anti-corruption campaign organization Global Witness alarmingly found that top New York law firms were very willing to help a fake kleptocrat launder his money using U.S. shell companies. As the leader of the campaign explained:

> [W]e feel like our worst fears were confirmed, yet it was still striking to see how uniformly the lawyers documented in that investigation were all too willing to give advice on how to structure company ownership in a way that would evade or skirt anti-money laundering rules or monitoring.[340]

In real grand corruption and criminal cases, these enablers often claim they were unaware of the criminal activities of their clients. But this is often not the case. These enablers work closely with these criminals. It is their job to understand the needs of their client and tailor their services to these needs. The idea that an accountant, someone who is trained to identify financial malfeasance; a lawyer, who is an expert in what is legal and illegal; and a corporate service provider who is an expert by practice in the normal behaviors of businesses, cannot identify the warning signs of criminality is a proposition that is absurd on its face.

If the ignorance defense fails, these professionals claim that any attempt to probe into criminal behavior would breach their client's privacy. This defense is most often employed by lawyers who jealously guard against any attempt to weaken attorney-client privilege rights.[341] This is certainly a legitimate concern in the abstract. But if this right is granted, all society gains is securing the right of wealthy people to structure their assets in full secrecy from the government. Furthermore, this particular privacy right would give professionals carte blanche to suborn criminal behavior. Granting this right results in gains for the very few who can afford to structure their

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[340] de Haldevang (2019).
[341] Frisby, "Gatekeeper Regulations on Attorneys."

wealth and losses for the many who lose out from the bad actors who use this right to steal, defraud, and corrupt our governments.

The program I propose is simple: these professionals should be required to submit suspicious activity reports (SARs) when they come across behavior that displays warning signs for money laundering.[342] This is the same requirement applied to banks by the USA PATRIOT Act in 2001. Under such a regulation, if a professional received a suspicious solicitation for the incorporation of a shell company like the ones the authors of *Global Shell Games* sent for their study, the CSP or attorney would be required to file a SAR with law enforcement who could investigate further. Regulators should also impose stiff penalties on professionals who fail to conduct adequate due diligence, allowing their services to be used to launder money.[343] I am not the first to propose this reform, but I believe my analysis of the actions of CSPs lends support to its necessity. If the regulatory incentives remain as they are today, those who create U.S. shell companies will continue to carve out legal havens from favorable state governments. Comprehensive regulation of these intermediaries of corruption is the only thing that can break the cycle of influence that pushes states like Delaware and Nevada to foster anonymity.

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[342] While some will argue that requiring lawyers in particular to submit SARs about their clients will harm attorney-client privilege rules, this is not actually the case. Ethical rules for lawyers around attorney-client privilege already account for both the need for privileged communications and the ethical burden that lawyers face not to suborn criminality. The setting up of a shell company used for illegal action is a quintessential example of when this exception applies. While assisting a client with money laundering clearly falls within the crime-fraud exemption of attorney-client privilege, this fact must be made clear and codified into law. Placing an obligation on any attorney acting in the capacity of a CSP or financial intermediary for the use of shell companies to file a SAR could be accomplished without violating the central tenet of the attorney-client relationship. Regular procedures to protect the disclosure of privileged information could easily be established. Any SAR submitted by an attorney would be screened by a "taint team" in the agency to which it was sent, which would redact any privileged information before it was passed along for law enforcement purposes. As with all taint review processes, the team's determination would be reviewable by a judge after any enforcement action was brought against the attorney's client. For a brief analysis of attorney-client privilege and financial crime, *see* Paul Rosenzweig, "Michael Cohen, Attorney-Client Privilege and the Crime-Fraud Exception," Lawfare (The Lawfare Institute, April 10, 2019). *See also* in Judah & Sibley (2018).

[343] I owe this recommendation in part to the report by Judah & Sibley (2018).

Choosing Transparency

The title of this work derives from the term "laboratories of democracy" credited to the late Supreme Court Justice Louis Brandeis. In 1934, Justice Brandeis wrote, "It is one of the happy incidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."[344] In modern application of this quote, it often seems that the "laboratory" element is emphasized to the detriment of its prerequisite – the collective choice of democratic citizens. The unifying theme of the development of secrecy in all jurisdictions is that it is led by a small clique of professionals who hope to profit off the result. In neither Delaware nor Nevada did a large mass of their populations, much less a majority, rise up and demand that the legislature make their home state a corporate secrecy haven. Corporate secrecy in its first iteration has always been about the profits of a few, not rights and benefits for the many.[345]

The cost of these laboratory laws has been great. By innovating on corporate secrecy, states like Delaware and Nevada have not just risked the rest of the country, they have risked the entire world. They have tunneled a gaping hole in the domestic laws of any country concerned with preventing corruption, fraud, tax evasion, drug trafficking, terrorism, and all the other ills facilitated by anonymous shell companies. But even though the American people did not choose secrecy – unwittingly delegating their democratic power to state bar associations and corporate service provider lobbyists – only the choice of the American people can end secrecy. Every day that goes by more dirty money flows through the United States – but the American people are in control of the tap. If they choose, they can switch it off.

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[344] 52 S.Ct. 371, 76 L.Ed. 747 (1932) at 57.

[345] This is not to say that innovation in corporate forms has no public benefit in every case. LLCs are often much easier for small business owners to manage. I write of the secrecy component specifically and the incentives behind its creation.

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APPENDICIES

I. Complete Regression Table

		B	*Std. Error*	*t-value*	*β*	*p-value*
Hypothesis 1						
	Flat Fee Revenue					
	Global Shell Games	- 7.352e-10 .	3.755e-10	- 1.958	- 0.3416626	0.05995
	Library Card Project	7.556e-10	1.041e-09	0.726	0.1140673	0.472
	Openness	2.265e-09	3.011e-08	0.075	0.01189606	0.9404
	Proportional Fee Revenue					
	Global Shell Games	- 16.52584 **	5.05771	- 3.267	- 0.5187335	0.002791
	Library Card Project	4.8639	15.9833	0.304	0.1140673	0.7625
	Openness	-477.511	453.816	- 1.052	- 0.1641138	0.299
Hypothesis 2						
	Proportional Corporate Tax Revenue					
	Global Shell Games	4.45792 .	2.29407	1.943	0.3120634	0.06006
	Library Card Project	3.4951	5.3537	0.653	0.3120634	0.517
	Openness	- 233.016	150.474	- 1.549	- 0.2181305	0.1281
Hypothesis 3						
	Ballotpedia Partisanship Score					
	Global Shell Games	0.001188	0.001856	0.64	0.1075822	0.5262
	Library Card Project	-0.001963	0.004229	- 0.464	- 0.06755627	0.6446
	Openness	0.01925	0.12147	0.159	0.02311408	0.8747
Hypothesis 4						
	Population					
	Global Shell Games	5.520e-10	4.599e-09	0.12	0.02028539	0.9051
	Library Card Project	- 1.203e-09	1.153e-08	-0.104	- 0.01506845	0.9173
	Openness	4.798e-07	3.232e-07	1.485	0.2095251	0.1442
	Log Population					
	Global Shell Games	0.11862	0.08759	1.354	0.2231345	0.184
	Library Card Project	0.0445	0.1909	0.233	0.03363039	0.817
	Openness	6.085	5.405	1.126	0.1603927	0.266
Hypothesis 5						
	Unemployment Rate: 1980-2018					
	Global Shell Games	- 0.02232	0.04171	- 0.535	- 0.09007381	0.59599
	Library Card Project	0.04878	0.07636	0.639	0.09181682	0.526
	Openness	0.9957	2.1940	0.454	0.06536463	0.652
	Unemployment Rate: 2000-2018					
	Global Shell Games	- 0.02080	0.04334	- 0.480	- 0.08084036	0.6343
	Library Card Project	0.05676	0.08163	0.695	0.09986109	0.4902
	Openness	0.376	2.352	0.160	0.02307176	0.8736
Hypothesis 6						
	GDP Per-Capita: 2000-2018					
	Global Shell Games	- 3.831e-06	4.184e-06	- 0.915	- 0.1529237	0.3662
	Library Card Project	- 1.814e-06	9.396e-06	- 0.193	- 0.02785743	0.8477
	Openness	4.826e-04 .	2.604e-04	1.853	0.2584379	0.06997
	Median Income: 2018					
	Global Shell Games	5.517e-06	3.765e-06	1.465	0.2404032	0 .1518
	Library Card Project	1.404e-06	8.575e-06	0.164	0.02362921	0.8706
	Openness	3.062e-04	2.419e-04	1.266	0.1797184	0.2117
Hypothesis 7						
	Companies Per Resident					
	Global Shell Games	- 1.2539 **	0.4072	- 3.079	- 0.4669976	0.004087
	Library Card Project	0.02161	0.12451	0.174	0.02531121	0.8629
	Openness	- 0.003965	0.004329	- 0.916	-0.1324356	0.3643

Significance codes: '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

II. State Incorporation Fee Data

State	Total Fee Revenue	Proportional Fee Revenue	Fee Data Year
Alabama	8119364.05	0.00030413	FY 2019
Alaska	6040369.8	0.00051609	FY 2019
Arizona	18000000	0.00048008	FY 2018
Arkansas	2530842.43	0.0000197	FY 2019
California	87131938	0.00032311	FY 2018
Colorado	820350	0.0000197	FY 2019
Connecticut	31368127	0.00092094	FY 2019
Delaware	424100000	0.03909837	FY 2018
Florida	406000000	0.00454576	FY 2019
Georgia	58025435	0.00108384	FY 2018
Hawaii	10226000	0.00067281	FY 2018
Idaho	N/A	N/A	N/A
Illinois	N/A	N/A	N/A
Indiana	10589373	0.00031496	2018
Iowa	4786577.9	0.00020471	FY 2018
Kansas	13598704.1	0.00079039	FY 2019
Kentucky	N/A	N/A	N/A
Louisiana	20015765.3	0.00064044	FY 2018
Maine	12579288.5	0.00142752	FY 2019
Maryland	219042499	0.00473759	FY 2019
Massachusetts	120904961	0.00202074	FY 2019
Michigan	26619334	0.0004895	FY 2017
Minnesota	16095092.3	0.0003817	FY 2019
Mississippi	11703197.9	0.00053138	FY 2019
Missouri	N/A	N/A	N/A
Montana	6712000	0.00096548	FY 2018
Nebraska	4274997.74	0.00035304	FY 2019
Nevada	186405937	0.01263084	FY 2019
New Hampshire	14034195	0.00225123	FY 2019
New Jersey	N/A	N/A	N/A
New Mexico	3880624	0.00018899	FY 2019
New York	52107190.8	0.00031822	2018
North Carolina	N/A	N/A	N/A
North Dakota	5131623.35	0.00077858	2019
Ohio	12793034.3	0.00018359	2018
Oklahoma	1800000	0.0000755	FY 2019
Oregon	46489340	0.00109025	FY 2019
Pennsylvania	36218224	0.00042655	FY 2018
Rhode Island	5618066	0.00060657	2018
South Carolina	9357045	0.00036468	FY 2019
South Dakota	7156535	0.00160568	FY 2018
Tennessee	N/A	N/A	N/A
Texas	101460726	0.00088067	FY 2018
Utah	12081178.9	0.00071792	FY 2019
Vermont	7122050	0.00125499	2019
Virginia	65835337.8	0.00126422	FY 2018
Washington	48000000	0.00107421	FY 2017
West Virginia	N/A	N/A	N/A
Wisconsin	24314194.2	0.00050445	FY 2018
Wyoming	19290401.5	0.00409737	FY 2019

III. State Secrecy Metrics

State	GSG Compliance Rate	Library Card Index Score	Opencorporates Score
Alabama	0.2	-7.73	25
Alaska	N/A	-8.12	65
Arizona	0.56	-7.73	35
Arkansas	0.67	-9.09	20
California	0.54	-7.65	25
Colorado	0.82	-8.53	70
Connecticut	0.78	-7.76	30
Delaware	0.06	-8	15
Florida	0.65	-8	50
Georgia	0.5	-8.32	25
Hawaii	N/A	-8.53	25
Idaho	0.75	-8.53	25
Illinois	0.75	-8.04	20
Indiana	0.42	-7.21	30
Iowa	0.83	-8.57	75
Kansas	0.57	-7.91	25
Kentucky	0.6	-8.53	25
Louisiana	0.6	-7.73	30
Maine	0.89	-8.57	25
Maryland	0.64	-7.83	25
Massachusetts	0.5	-6.31	30
Michigan	0.9	-8.04	20
Minnesota	0.88	-8.57	10
Mississippi	N/A	-6.73	30
Missouri	0.4	-8.04	25
Montana	0.19	-8.57	25
Nebraska	N/A	-8.53	30
Nevada	0.2	-8.09	25
New Hampshire	0.63	-8.04	30
New Jersey	0.81	-7.73	25
New Mexico	N/A	-7.77	30
New York	0.44	-9.73	45
North Carolina	0.5	-8.57	25
North Dakota	N/A	-8	20
Ohio	0.62	-8.65	25
Oklahoma	N/A	-6.63	25
Oregon	0.69	-8.53	60
Pennsylvania	0.52	-8.57	25
Rhode Island	N/A	-8.57	15
South Carolina	N/A	-8.04	25
South Dakota	N/A	-8.53	25
Tennessee	N/A	-8.53	25
Texas	0.52	-8.2	80
Utah	0.86	-8	20
Vermont	N/A	-8	30
Virginia	0.79	-8.65	55
Washington	0.67	-8.57	80
West Virginia	N/A	-8.16	30
Wisconsin	0.75	-8.57	25
Wyoming	0.2	-8.53	50

IV. Example Data Solicitation

Subject: Corporation Fee Revenue
Dear _____, I am a researcher from Stanford University studying state corporate law and how it relates to public finances. I am looking to gather data on [State's name]'s total annual revenue from corporation filing fees – including any initial registration fees, service fees (online, rushed, etc), and any annual or semi-annual fees. Aggregate or itemized data for fees related to all corporate types including LLCs, LPs, business corporations, and business trusts would be ideal. My goal is to collect data on the total share of each state's revenue is gathered from these fees. If your office could provide me with this data at your earliest convenience or connect me with the department to contact to obtain this data, it would be much appreciated. Sincerely, Bryce Tuttle