

negative publicity alone may be a very effective tool in eliminating adverse behavior.

It is nevertheless astonishing that the tax policies of certain VSC, which have often been criticized by larger countries as unfair, have not been tackled seriously. The problem with the modification of international treaties is only one explanation for this phenomenon, because there are always possibilities to challenge adverse practices. Think, for instance, of the endless discussions and retaliation policies between the EU and the USA in the WTO framework, when certain protectionist measures or «unfair» subventions are at stake.

Two arguments can provide good explanations. First, VSC and SAR are sometimes simply negligible, and what is important for them is practically a non-issue for larger countries. Given the ongoing discussion on tax havens and harmful tax practices, which are a serious concern for larger countries, this first argument can only be a partial explanation, and the argument is not supposed to hold in the case of tax policy. The second argument is assumed to have much more explanatory power. It states that influential groups in larger countries have an incentive to maintain loopholes in international treaties and regulations which allow VSC and SAR to pursue niche strategies. This argument might also explain why countries allow some of their territories to have a higher level of effective sovereignty than other parts of the country. These autonomous regions, of course, often originate from secession endeavors, but many countries have the possibility and power to cut back autonomous rights just as the international community could constrain VSC policy options, especially in the field of tax competition if it wanted to.

Which groups in larger countries might have an interest in maintaining the *status quo*? There are several groups that benefit from the *status quo* of VSC's and SAR's law-making authority. From a public choice point of view, (tax) competition between larger countries and VSC and/or SAR limits the effects of the territorial monopoly that one's own country can exert. In an environment of capital flow liberalization, the existence of VSC and SAR, combined with their tax haven policies, clearly limits the scope of action of a leviathan government in a larger country. Protecting VSC and SAR is therefore a kind of self-protection against the monopoly power of one's own government. Federalists, liberals, enterprises, rich individuals, advocates of subsidiarity and the relevant lobbies might have an interest in protecting the law-making au-