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Master's thesis

How to win real-life Monopoly: The roles of tax havens and finance in the monopolisation of multinational corporations

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Abstract

Much like individual income inequality, there is an increasing gap between top corporations and the rest, in terms of revenue, profits, and power more broadly. This gap is reinforced and exacerbated by the largest corporations' ability to minimise taxes through the use of tax havens and the offshore system. There has been extensive research mapping the issue of corporate tax avoidance, as well as documenting the rise of market and monopoly power (concentration), however, there is less research combining these two. Monopoly power is thoroughly dealt with in the Monthly Review School tradition with their monopoly capital roots. Recent developments within the tradition have also incorporated finance as a key aspect of the tendency of capital to concentrate and centralise. Nevertheless, tax havens and the system around them have been excluded from this debate. This paper finds that tax havens play a crucial role in the process of concentration and centralisation of capital for three key reasons: (i) they act as a driver of financialisation which in turn accelerates the centralisation process, (ii) they provide cost minimising tools which have become central parts of capital accumulation, and (iii) they contribute to creating more opaque markets and increase the competitive advantages of the giant corporations, allowing them to increase barriers to entry. Tax havens and their usage by multinational corporations (MNCs) must therefore be seen as a systematic issue that plays a key role in not only the financial system, but also in the economy and capitalist system as a vehicle of capital accumulation in the hands of a few.

Overview:

1. Introduction

Multinational companies (MNCs) are the dominant economic actors in the modern global economy, more powerful even than many governments. Of the world's largest 100 economies by revenue, only 29 are national governments; the other 71 are companies (Babic et al., 2017). The control possessed by these MNCs goes far beyond just pricing power, but also politically, financially, economically, culturally, and ecologically.

Market power is obtained by MNCs through the use of a complex network of global value chains, with these corporations themselves also becoming an increasingly complex network of entities. Market power can be described as firms' ability to generate excess profits by raising prices above costs (Eeckhout, 2021, p. 24). However, as this thesis argues, market power also involves a superiour ability to reduce costs, such as through tax avoidance. Most MNCs' wealth will pass through tax havens and the offshore system, yielding a range of advantages for big businesses compared to small ones. Indeed, the Tax Justice Network found that 99 out of 100 of Europe's largest companies had subsidiaries in tax havens or offshore financial centres (Shaxson, 2011). Although presence in tax havens does not constitute tax avoidance, it represents the interconnectedness of MNCs and tax havens who also provide crucial services such as secrecy and cutting-edge financial services.

Tax havens host a substantial portion of the world's wealth, with the total estimated to be $21-32 trillion dollars (Tax Justice Network, 2022). This is equivalent to 25-37 percent of world GDP, larger than the US annual GDP, and at 20% (at the lower end of the estimate) of what is needed to cumulatively finance the energy transition from 2016 to 2050 (IRENA, 2020). Tax havens are estimated to cost governments around $500 billion depending on the estimate (Crivell et al., 2015; Cobham & Janský, 2017), which would have been equivalent to ten times as much as needed to vaccinate the entire world in 2021 (Horobin, 2021). This thesis will tie together these two cornerstones of the global economic and financial system, i.e., the rising market power of MNCs and tax havens.

In order to study MNCs and their use of tax havens and aggressive tax planning (ATP), this thesis will rely on the framework of monopoly capital, as a way to understand the rise in market power and monopolisation.[1] In brief, monopoly capital is a term, usually used in

[1] Aggressive tax planning is an overall term for the arrangements MNCs (or taxpayers in general) conduct to reduce their taxes, whether it is through licit or illicit means.

marxian political economy to describe a new form of capitalism, in which the giant corporation replaced the small (family) firm as the dominating unit in the economic system (Foster, 2021). Within the framework, monopoly capital refers to the giant firms with a certain degree of market power to set prices.[2] In the case of monopoly capitalism markets are concentrated in a general sense (Baran & Sweezy, 1966, p.20), which means they look at it as a tendency regardless of notable exceptions. The role of tax havens has ultimately been absent from discussions of monopoly capital and, to a lesser extent, financialisation. The objective here is to examine how MNCs take advantage of their complex and globalised organisational structure to minimise their tax bill through profit-shifting and to what extent this is linked to monopolising tendencies.[3] This will be a theoretical work aiming to connect the use of tax havens and offshore financial centres (THOFC) by MNCs to the theory of monopoly-finance capital, where the MNC is the unit of analysis.

There is a growing body of literature estimating the profit-shifting of MNCs, many thanks to important leaks such as the Panama and Pandora Papers. There is less work done, however, on how this links to the existing theory of the global economy that is becoming increasingly financialised. This thesis argues that the rise of tax havens and their surrounding system is highly related to the issue of rising financialisation. It is therefore necessary to have a theory connecting tax havens and the offshore system to the issue of rising monopolisation. Thus, this thesis will explore how MNCs are able to take advantage of the tax havens and the complex offshore system, and to what extent, and investigate the competitive advantages that can be gained through this; such as amplifying the process of monopolisation. The central thesis is that tax havens have a central role in the concentration and centralisation of capital and play a large role in the economy, and must therefore be treated as such through inclusion in theory and understanding. The additional question is whether this can be understood within the framework of monopoly-finance capital (MFC).

There are many indications of increased market power. To illustrate, big tech monopolies are becoming more omnipresent and increasingly knowledgeable about our behaviours and preferences. In the United States (US) there are effectively only three brands that control the entire baby formula market, where there is currently a shortage (Lodewick, 2022). Globally a

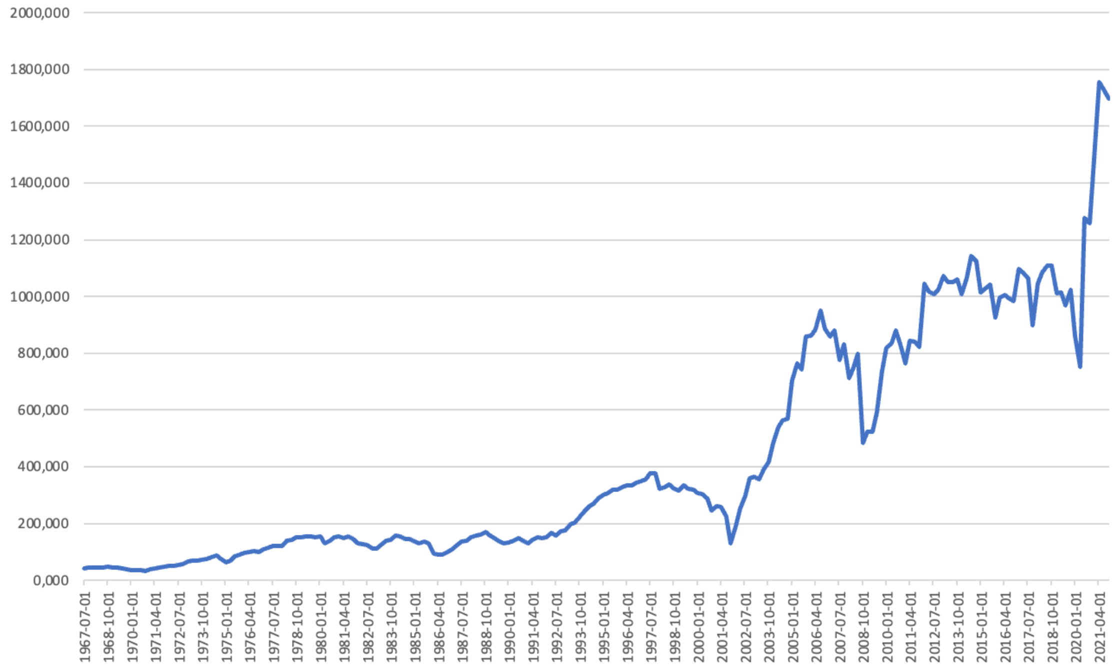
[2] The terms monopoly and monopolisation are not used here in the strict sense, but as overall terms for high (market) concentration and absence of competitive forces, including forms of duopolies, or more commonly oligopolies and monopsonies (Baran & Sweezy, 1966, p. 20), but not limited to.
[3] Profit shifting entails a technique of shifting (moving) profits between jurisdictions applied by MNCs in order to minimise their tax bill by taking advantage of differences in tax rates and rules.

wide range of retailers, fashion and makeup brands are often owned by a larger, usually more unknown, holding or parent company.[4] For instance, Luxottica owns 80 percent of the eyewear brands (Crutchfield, 2017), and 182 beauty brands are owned by a mere 7 companies (Willett-Wei & Gould, 2017), one of which is L'Oreal, which again is partially owned by Nestle (2019; Ethical Consumer, 2018), the largest company within the food and beverages sector. Similar things are happening in the music industry (Live Nation), media (Disney), and social media (Meta). However, more research is necessary to analyse the drivers behind this and evaluate whether this is a result of monopoly capitalism materialising.

The consequence of the rise of big business and their associated market power is that their size itself can be used to increase the gap between them (giant MNCs) and small and medium enterprises (SMEs). This gap in size can also be used to further improve their position through profit-shifting. It is particularly big business that can push up the prices due to their high levels of market power, enabling them to increase profits, even in times of crisis such as the current cost of living crisis. For instance, small and medium enterprises (SMEs) are less likely to weather supply chain shortages and inflation hikes (Manayiti & Edgecliffe-Johnson, 2021). The gap between small and big business is therefore likely to increase as a result. Big retailers are currently portraying record profit margins (Manayiti, 2021). This is also reflected in Figure 1, where profits of non-financial corporations have soared to an historic high since the second quarter of 2020.

[4] For instance, LVMH is a company that owns most brands that are associated with luxury, from the Champagne Moet & Chandon and Veuve Clicquot, the cognac Hennessy, to the world's most renowned fashion brands such as Fendi, Christian Dior, Louis Vuitton, Givenchy, and Marc Jacobs. In addition, it owns many of the largest jewellery and watch brands, the makeup retailer Sephora, and it also dabbles in the yacht business.

Figure 1: Non-Financial Corporation Profits After Tax



Source: U.S. Bureau of Economic Analysis, Nonfinancial Corporate Business: Profits After Tax (without IVA and CCAdj) [NFCPATAX], retrieved from FRED, Federal Reserve Bank of St. Louis

By linking tax havens and the offshore system to the tendency of monopolisation inspired by the monopoly-capital framework of Baran and Sweezy (1966), this thesis finds that tax havens are an integrated part of the financialisation process. Most simply put, through significantly increasing profit rates of the giant MNCs relative to other firms through massive tax bill reductions thanks to services provided by tax havens and offshore financial centres. The thesis is divided into four sections. The second is a literature review of the various aspects that need to be covered, such as the concepts of concentration and centralisation, finance/financialisation of the economy, intellectual property rights, the difference between giant corporations and the rest, and the role of taxation when it comes to increased monopolisation. The third part will provide a more theoretical foundation of MFC and the rise of financialisation through the lens of tax havens separately. The fourth and last section is thus focused on bridging MFC with tax havens, which is tightly linked to the rise of financialisation.

2. Literature Review

The issue of tax havens and profit shifting is mostly dealt with within the International Political Economy (IPE) and economic geography literature (e.g. Palan et al., 2010), as well as extensive empirical research within mainstream literature (Zucman, 2015; Garcia-Bernardo et al., 2019). As a result, there is a need to expand the heterodox literature on this increasingly important issue. This paper aims to do so by taking a holistic institutionalist approach and connecting the network of tax havens to the tendency of increased concentration and centralisation of capital. The latter aspect relies on a body of neo-marxian literature, which treats the economy as a continuous process, outside the typical boundaries of nation-states. In this manner, this work can act complementary to the growing body of empirical research on tax havens, in particular by contextualising it.

2.1 Concentration and centralisation

Concepts of market power

An account of what is meant by the process of concentration and centralisation is necessary to establish the role tax havens have in this process. Mainstream literature utilises concepts such as industry concentration, market concentration, and market power. The latter is defined by Eeckhout (2021, p.24) as firms' ability to set prices above production costs (markup). In turn, this improves their ability to raise profits and thus yields higher stock prices. Actual market power is significantly challenging to measure, which is why profits sometimes can be used as an alternative. Many economists also rely on the Herfindahl-Hirschman Index (HHI), which measures the sum of individual firms' market shares squared belonging to a given market. However, Eeckhout (2020) identifies two main limitations of the HHI: (i) the market share is only indirectly related to markups and is not always a suitable proxy for market power, and (ii) it relies on the definition of a market and identifying all the relevant actors. Along similar lines, Bajgar et al. (2019) argue that the definition of market concentration is narrow, as it refers to the weight of the lead firm in a specific (product) market. Industry concentration on the other hand, according to the authors, captures whether the economic activity is concentrated within a small number of large firms or business groups. Thus, industry concentration is more in line with the tendencies of interest in this thesis and more closely linked to the concept of centralisation.

Neo-marxians have developed a body of literature and theory about how capitalist development would lead to an increase in market and monopoly power (see foundations of this argument in Lenin, 1916/2010). The notion of the rise of monopolisation has occupied a central place in a stream within marxian economics under the "monopoly capital" framework.[5] Most notably by the MRS with authors such as the pioneers Paul Baran and Paul Sweezy (1966). They noted that similarly to Kalecki (1938), the increasing tendency of monopolisation in the economy is reflected in the widening profit margins of the giant corporations (Baran & Sweezy, 1966, p. 19). According to Marx, economic concentration is the result of the process of concentration (accumulation within the firms) and centralisation (fewer and larger firms) (Foster et al., 2011; Marx, 1976: Vol 1, 777-80). Brancaccio et al. (2018) construe centralisation simply as the tendency for capital centralisation in continuously fewer hands. They also pinpoint that centralisation is concentration of both ownership and control. The theory of rising monopolisation refers to both concentration and centralisation of capital, where firms will not only become larger themselves, but also wield greater power; economically, politically, and culturally.

As illustrated above, the mainstream and marxian literature overlap greatly in many of these definitions. Both market and industry concentration are both too narrow concepts on their own, because they may neglect the global nature of the modern economy and businesses. They are also likely to omit important tendencies as large business groups tend to be multi-industrial and have complex ownership structures (UNCTAD, 2016, p. 125). Nevertheless, the key characteristic is that concentration and centralisation, which are the overall terms that will be applied here, are both difficult to specify and measure due to their abstractness. Thus, a combination of them all must be considered, and in an evolutionary manner.

Methods to measure market power

Using the HHI, Grullon et al. (2019) find that concentration has increased in more than 75 percent of US industries over the two last decades. Similarly, Bajgar et al. (2018) also

[5] The notion of monopolisation refers here to the (continuous) process of a rise in market power, industry concentration, and ultimately centralisation.

estimate that industry concentration has risen by 75 percent in both Europe and the US between 2000-2014. De Loecker et al. (2020) found a staggering increase in markups, from 21 percent above costs in 1980 to 61 percent more recently. Most of this development, in line with the hypothesis of this thesis, occurred in the top percentiles of the revenue distribution. In addition, the average profit rate increased from 1 to 8 percent. Foster et al. (2011) demonstrate this tendency in the US through a combination of (i) increased industry concentration by the largest firms and their percentage of sales, (ii) increase in the net value of acquisitions, (iii) increase in the revenue of the top 200 companies as a share of total business revenue, and (iv) increased profits of largest firms. The profit rate, in general, has also been shown to increase since the 1980s (Duménil & Levy, 2002), in accordance with the timing of financialisation and globalisation. All this suggests that there is an increasing tendency of concentration and centralisation. However, the rest of this section will highlight the mechanisms in which this occurs, with particular emphasis on ATP which has been largely neglected in the debate on concentration.

2.2 Big vs Small

Defining the giant corporation

This thesis will largely revolve around the idea of the giant corporation, which goes by many names depending on the literature. Firstly, as argued by Palan et al. (2020), although often referred to as multinational companies, they are not a company, but instead a network of companies; usually connected through equity holding. These networks are also characterised by a certain hierarchy in terms of ownership and control, which has given rise to the term 'lead firms' in Global Value Chains (GVC) literature (Gereffi, 1995). Bair (2005) describes these powerful firms as the chain driver due to their level of control. However, the notion of lead firms is not identical to the idea of the large MNC, as the lead firms refer to the dominant firms within the chain or industry in question. Instead, what is referred to as an MNC, both here and in the literature, is more correctly named conglomerates, i.e., multi-industry firms or networks. That is, they are multinational and multi-industrial. Materially, these will take the form of parent companies/conglomerates such as Unilever, Alphabet, Caterpillar, and Disney. The dominant firms can be simplified as the largest 500 companies in terms of market value as set by the FT 500.

In the Monthly Review school (MRS) these firms are usually referred to as giant corporations (Baran & Sweezy, 1966; Foster, 2014) or transnational corporations (Cowling & Sugden, 1987). Like the work of Cowling and Sugden, this thesis is interested in the MNC in terms of its role in the global economic system in driving monopolisation, which is arguably a large role and must be viewed in an evolutionary setting for the purpose of this thesis. The authors also contribute with an important distinction between control and ownership in their definition of the transnational firm: “a means of coordinating production from one centre of strategic decision-making when this coordination takes the firm across national boundaries” (Cowling & Sugden, 1987, p.3). Here the definition of the giant firm is not restricted to mere ownership, but instead, the control it wields, which is a crucial distinction in terms of such firms often being chain drivers.

What separates them

The rise of big business is affecting our lives in countless ways, as there is a rise in market power across all sectors in the US according to De Loecker and Eeckhout (2018). Similar evidence has been found in Europe (Bajgar et al., 2019), although contested by authors such as Philippon (2019). However, the economy operates on a global level, meaning that the impact of increases in market power in the US is not confined to the US. This can be illustrated by the concentrated digital economy, but also in markets such as the credit market controlled by three companies: Visa, MasterCard and American Express (The Economist, 2018). The large money managers, BlackRock, Vanguard, and StateStreet also collectively control 25 of the votes in shareholder meetings of S&P 500 companies (Bebchuk & Hirst, 2019).

Similar to the increasing inequality between individuals, as shown by Saez and Zucman (2019), there is an indication of similar tendencies between firms with a rise of superstar companies (Autor et al., 2020). In mainstream literature, the MNCs in question have occasionally been referred to as ‘superstars’, due to the marked difference in their performance compared to other companies. Manyika et al. (2018) found that superstar firms have increased their economic profit by 1.6 times whilst the bottom decile has 1.5 times more economic loss now compared to 20 years ago. To illustrate the scale of the superstars, Wier and Reynolds (2018) for instance find that the top 0.001 percent of firms book around one-third of all corporate profits globally. They also show the inequality gap between the average firms and the top decile when it comes to profit shifting, which accounts for 98 percent of the tax losses in the case of South Africa. Hager and Baines (2020) also compare how the top 10 percent of US firms had a higher effective tax rate (ETR) than the median firm in the 1970s, this gap closed in the early 1980s, and since the mid-1980s they have benefitted from a lower ETR. Thus, a more extensive analysis that goes beyond the US-based firms to examine if we find the same tendency in other regions and globally is necessary.

Philippon (2019) claims most of the concentration is a US phenomenon which he attributes to politics. This may be true relative to Europe, where it can be clearly shown that concentration has happened at a slower pace. Nevertheless, European markets are highly affected by US firms, as these are MNCs and can wield the increased market power they gain in the US to later get ahead in European markets. Second, as shown in the introduction, the retail sector in many countries is becoming highly consolidated, with most retail brands belonging to a network of chains, both high-end and lower range.

2.3 Finance as a means to accumulate

Defining financialisation

The rise of finance has allowed firms to accumulate in a new manner, allowing for unprecedented profitability. Christophers (2017) questions whether financialisation is a meaningful concept at all due to its broadness, covered by a large body of disparate literature. Financialisation can be used to express the historical development of the most recent stages of capitalism, dating back to the 1970s (Toporowski, 2020). Scholars such as Fine (2012) or Lapavitsas (2013) on the other hand, refer to financialisation as the continued penetration of finance into manifold fields of economic, social, and political life, as well as its altering of social relationships.

The focus of this thesis however is on the centralisation of capital, which is accelerated by the rise of finance (Foster et al., 2011). Financialisation is therefore defined by the monopoly-finance capital literature as the directional shift in the economy from production to finance. According to Foster & McChesney (2012), this is driven by the objective of profitability and capital accumulation against the forces of stagnation. Financialisation will be treated as a profitability phenomenon here, under which high and increasing profits are maintained (Christophers, 2018). And it is here financialisation coincides with MFC, as is expressed by Kalecki and Foster, that increasing profits is also a reflection of monopolisation.

The profitability concept differs from mere increases in profit, but instead encompasses the increased ability to capture more value with the same amount of capital – in line with Krippner's (2005) accumulation-centred view of finance. Little effort has been made, however, in connecting this ability to capture more value with firms' pursuance to minimise corporate tax rates. This occurs in various ways in practice, but it is driven by a network of financial centres, also known as tax havens, which are key actors in the financial system and as such, the global economy.

Defining tax havens – identifying them as a central part of the finance sector and source of monopolisation

Contrary to common belief, tax havens are not limited to tax purposes (Moon, 2019: 56), but also offer a range of financial services (Palan et al., 2010) and secrecy. Multinationals routinely use tax havens for activities such as treasury operations and insurance (Zucman, 2015, p. 123). It is also used as an escape route from rules and laws, as Shaxson's (2011) definition of the term goes. In effect, tax havens have become financial centres, giving a name to the concept of Offshore Financial Centre (OFC), although there are also onshore ones such as the City of London, Netherlands, Ireland, and Luxembourg.

Although the use of tax havens is extensive, it is difficult to measure precisely. Even in 1999 however, it was estimated that half of the world's money stock flowed through or resided in tax havens (Hampton & Abbot, 1999, p.1). The financial services and tax reductions offered by these locations provide MNCs with a way to increase the rate of profits without increasing investments or efficiency. As a result, tax havens are major drivers of concentration and centralisation. Tax havens have also led to strong tax competition between nation-states as will be discussed further below.

The financial sector as a source of centralisation

Financial deregulation paved the way for new means of accumulation for corporations, enabling them to become more financially independent and increase profit margins[6], as credit and finance became more readily available (Foster et al., 2011). A range of financial innovations followed as a result. For instance, the MRS focuses on how finance has expedited the rate of mergers and acquisitions (M&A). Foster et al. (2011) find that not only has the nominal value of M&As greatly increased but also its share of world income. This trend has continued in the decade since, and M&As hit record values during the pandemic, with half of the global M&A deal value taking place in the Americas (Bain & Company, 2022). M&As provide clear evidence of how finance facilitates and drives monopolisation.

2.4 Intellectual Property Rights

Why do Intellectual property rights matter for tax havens and monopolisation?

The idea of intellectual property rights (IPR) itself revolves around the idea of inhibiting and protecting against competition. However, there is a disparity in access to IPR, with increasing monopolisation of intangible assets amongst the top firms. Access to data, for instance, provides huge market advantages and enables firms to increase profits and market power (Rikap, 2021). This will be increasingly true for larger firms and especially MNCs. By monopolising data they can get more detailed information about their customers and markets to improve their position accordingly.

In other words, big data is monopolised by the top firms and as a result, we see a monopolisation of knowledge (Pagano, 2014). In addition to protection against competition, IPR also provides firms with another way to shift profits and minimise their taxes through techniques such as transfer pricing which will be explored further in section 4.1. There are also tax havens specialising in holding IPR, attracting MNCs to establish holding companies and subsidiaries to hold IPR there by giving them tax breaks or exemptions.

According to Avi-Yonah (2019), the international tax regime (ITR) is based on two principles: that active (business) income be taxed by where the income comes from, i.e., where it is sourced; and passive (investment) income to be taxed by the residence jurisdiction

[6] Net profit margins however can also be used as a proxy for monopolisation as in Kalecki (1938), which is strongly tied to the use of tax havens.

of the investor. The objective of the principles is to avoid double taxation, but also, double non-taxation. The current ITR can be deemed as outdated, as it has not kept up to date with the increased mobility of capital and companies gaining increased shares of their income from intangible assets. The rise of intangibles and of digitalisation has made it easier for those corporations to escape source-based taxation. An example is Google, which earns revenue on people browsing and using their services, but will generally not be taxed in the countries where those activities take place. This breaches Avi-Yonah's first principle of the ITR. With globalisation came the relaxation of capital controls from the 1980s onwards, facilitating offshore investment. This made it increasingly difficult to tax passive income, therefore also breaching the second principle.

Rikap (2021) refers to the leading corporations of the current century as intellectual monopolies, which are driven by the rise of intangibles and their ability to monopolise knowledge, which in turn usually results in concentration. She argues that there is centralisation of intangible assets amongst the top firms, which in turn is the main driver of capital concentration. The intellectual monopolies gain their position not through pure innovation, but by absorbing the knowledge by acquiring intellectual property. Microsoft's success does not rely on the success of its productive capacity, but on its ability to hinder others from competing with them through IP – either through the means of acquiring competitors or driving them out of the market. As argued by Kurz (2017), there are two relevant elements to the rise of information technology (IT). First, IT has since the 1970s led to a rise in monopoly power. Secondly, the increased monopoly power is then protected by IPR. As such, the rise of IT and intangibles has led to a larger divide between leading firms and others. Thus, it should be viewed as a particular manner of capturing more value by corporations.

Another way this may increase profits without investment is that intangibles facilitate tax avoidance and tax evasion. As such, profits can rise without any increase in capital expenditure, or even alongside a decrease. This matches the results found by Gutierrez and Phillipon (2017) indicating that the higher the share of intangibles in the industry the lower the rate of physical investment. According to Rikap (2021), intellectual monopolies declare profits and retained earnings offshore/tax havens more often than any other firms, enabling them to minimise taxes. They are able to do this because it is easier to transfer intangible assets to tax havens than tangible assets. This greater ability to avoid taxation becomes a competitive advantage in terms of cost, which reinforces their ability to concentrate wealth and increases the process of centralisation further. These intellectual monopolies are also able to take advantage of complex business structures with a large set of affiliates, suppliers, and holding companies to externalise their tax burdens due to the control they yield within the value chains.

Overall, in addition to protection against competition, IPR also provides firms with another way to shift profits and minimise their taxes through techniques such as transfer pricing which will be explored further in section 4.1. There are also tax havens specialising in holding IPR, attracting MNCs to establish holding companies and subsidiaries to hold IPR there by giving them tax breaks or exemptions.

2.5 Tax avoidance and concentration

The purpose of taxation is often argued to be to raise government expenditure, but it also has many other functions such as a measure against the market power of companies (Clausing et al., 2021). The documented levels of tax avoidance, therefore, have many harmful outcomes. Amongst them will be the reduced protection against the increasing market power of companies which can have detrimental effects on inequality and poverty as shown by Philippon (2019) and Ennis et al. (2019). There is a growing body of empirical literature on tax avoidance by MNCs estimating the extent of the issue. Tørsløv et al. (2018), estimate that MNCs shift 36 percent of their profits to tax havens. The literature also indicates that both the statutory tax rate (Clausing et al., 2021) and the ETR have decreased (Piketty et al., 2018) over the past few decades. Garcia-Bernando et al. (2021) also found that higher profit rates were linked to lower ETRs, which may be connected to the use of tax havens. The difference and reduction in ETR indicate a “race to the bottom” and as hypothesised in this thesis, tax competition may have the added effect of regressive tax rates – leading to higher levels of industry concentration. Tax competition is also amplified by tax havens through their provisioning as a source of bargaining power for MNCs against nation-states. That is, as argued by Egger et al. (2018), the larger and more profitable firms are, the more valuable to tax authorities they are, leaving large MNCs with more bargaining power to lower their ETR by threatening to relocate.

Tax havens lead to increased concentration and centralisation

Evidence of and explanations for the role of tax avoidance in increasing concentration and centralisation can be found both in mainstream and heterodox literature. Martin et al. (2020) combine two trends that are usually only studied separately in their investigation: increased concentration amongst U.S. firms, and the rising trend of corporate tax avoidance by U.S. firms. They find that tax avoidance explains around 25 percent of the increased concentration of U.S. firms since the 1990s using an instrumental variable and difference-in-differences estimation approach.

Hager and Baines (2020) showed that there is an immense tax advantage for big business both domestically and abroad compared to smaller and median firms. This can be explained by the fact that the minimisation of taxes is part of an accumulation strategy (Rikap, 2021). In turn, this increases their ability to raise barriers to entry and widen their moat and as a result, discourage competition. Crucial to this understanding is the different opportunity for the minimisation of taxes for large corporations compared to the rest. Tax havens and related instruments are tools that are out of reach for most firms, thus perpetuating and extending the unequal revenue distribution. Large businesses are able to use this increase in revenue and power to reduce both the ETR and STR, as echoed in Egger's (2018) concept of bargaining power. This also enables big business to improve their ability to acquire other companies and competitors and further investments, particularly in intellectual property. Larger (MNCs) also have easier access and capabilities to shift profits, due to aspects such as high fixed costs and broad connectivity. However, there is little literature on specifically why larger MNCs can more easily shift profits to THOFC.

It can be shown from what has been discussed in this section that there is a large difference in the size of firms, and that this is growing over time. Larger firms have greater capabilities to grow even larger through acquisitions, and more access to funding, financial services, data, and intellectual property to protect their position and create barriers for competitors. Thus, competition does not only determined by pricing or price-setting, but also particularly ability to reduce unit costs to increase profit margins relative to competitors (Davis & Orhangazi, 2020), which can be obtained through the use of tax havens. Tax havens are integral to this process, as will be explored further in section 4, whereas the following section will provide a theoretical background to contextualise the systematic rise of MNCs.

In recent years, mainstream empirical research in the area of tax havens (Zucman, 2016; Garcia-Bernardo et al., 2021)), profit shifting (Tørsløv et al., 2018) and rising concentration (Bajgar et. al., 2019; Gutiérrez & Philippon, 2017; De Loecker et al., 2020) has led to crucial findings of the extent of tax avoidance and the role tax havens play in the global economy and financial system. However, as this research has heavily focused on empirics and the use of linear/ methods, the findings have rarely been contextualised in terms of their impact on modern capitalism and the global economy.

3. Theoretical foundations of monopoly-finance capital and the rise of tax havens

3.1 Monopoly- Finance Capitalism and its three stages

In the seminal work of Baran and Sweezy (1966), Monopoly Capital, it is argued that global capitalism cannot be analysed within a model of 'free' competition and market relations, but instead must be viewed in monopolistic terms with the multinational company (MNC) as the unit of analysis.[7] They aimed to put the MNC in the centre of analysis and direct a spotlight toward the general traits that make the global economic system, regardless of variations. MNCs have dominated the economic system for decades (Cowling & Sugden, 1987).

This section will focus on the theory of monopoly-finance capital, which provides a methodological framework to understand the dominance of MNCs and their general tendencies as actors in the global economic system, placing them in their wider context. The

[7] Monopoly and monopolisation is not used here in the strict sense, but as overall terms for high (market) concentration and absence of competitive forces, including forms of duopolies, or more commonly oligopolies and monopsonies like in Baran and Sweezy (1966, p. 20).

historical evolution of capitalism will be categorised into three broad stages. The first stage is early capitalism as it was understood by Marx, where the means of production are owned by a (general or undifferentiated) capitalist class. In this stage, competition in the sense described by classical political economists – on the grounds of the price or quality of their products – is fairly prevalent. The second stage is defined as monopoly capitalism, based on Baran and Sweezy's development of Marx's Capital. As a result of concentration and centralisation, a smaller number of dominant firms will exist within any given market, who are more able to exercise control over prices and hold effective political power. Due to the globalised nature of capitalism, this mostly takes the form of MNCs. The rise of finance over the last few decades has further morphed the way in which capitalism operates, leading to the third stage; monopoly-finance capitalism.

Stage 1 – The capitalist system: a ferociously competitive system

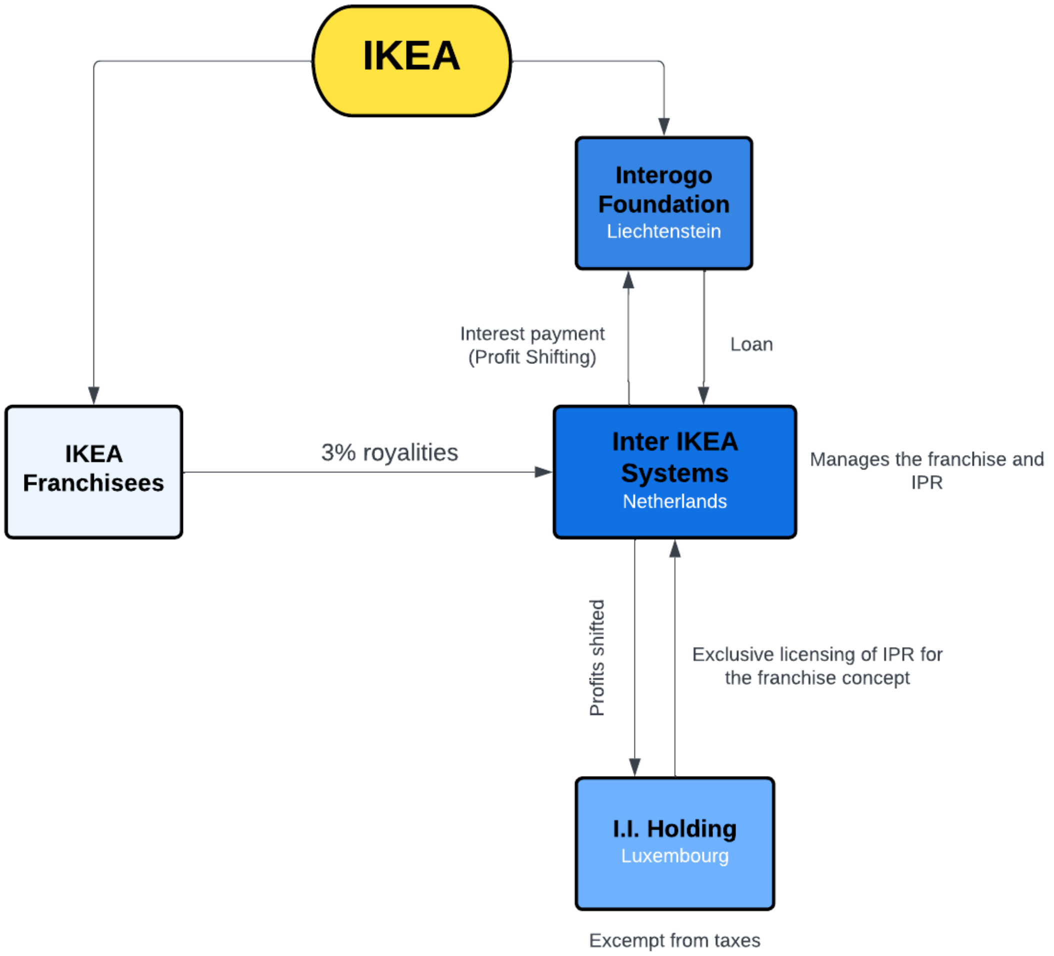
The first stage of capitalism can be described simply as the stage with a larger degree of competition. According to Palermo's (2017) interpretation of Marx, competition has a regulatory effect on the conflict between capital and labour. Competition as a concept however is not meant in the harmonical sense such as the one applied in neoclassical theory where it is usually described as the antithesis of market power. Instead, it is a coercive mechanism that ultimately produces the opposite – increased market power and monopolisation – where the firms are active agents who interfere in the market and gain greater control over time. The coercive aspect of competition can also be linked to Veblen's (1921/2001, p.5) concept of sabotage in economics, which he defines as "peaceable or surreptitious restriction, delay, withdrawal, or obstruction". For instance, the competitive behaviour of tech giants such as Google, Facebook, and Microsoft has been about acquiring and destroying potential new entrants (Nesvetailova & Palan, 2020; Eechout, 2021). In Veblen's view, businessmen had to master the skill of sabotaging markets and realise that competitive markets do not bring about profits to master their profession. In sum, although this stage is marked by higher levels of competitiveness in the neoclassical sense– as the forces of concentration and centralisation have not yet progressed far enough – the starting point for capitalism is not harmonious competitive markets.

Marx pointed out the duality of competition; although it brings about capital accumulation, growth, and technical progress it also leads to stagnation and crisis. It is competition that drives firms to innovate, improve efficiency, and introduce methods to better exploit the division of labour and increase returns in order to accumulate capital (Palermo, 2017). In turn, firms that have been able to innovate in some way, gain a competitive advantage which also puts them in a better position to sabotage other firms from competing with them, increasing their barriers to entry. As such, the duality of competition is that it itself leads to less competition over time. On a more aggregate and holistic level, the actions of individual companies can be viewed as a tendency in the global economy. That is, a tendency of concentration due to the coercive law of competition itself leads to the rise of giant corporations and a higher degree of monopolies.

Stage 2 – The rise of the giant corporation

The term monopoly capital is a term that was developed to describe a new form of capitalism in which the small (family) firm had been replaced by giant corporations as the dominating unit in the economic system (Foster, 2021). This stage is reached when there is a significant emergence of oligopolies across many sectors of the global economy, thanks to the process of concentration and centralisation (Mott, 1994). As noted in Foster and McChesney (2012), the monopoly capital stage is about the rise of the giant corporation, which today are often MNCs. This argument is also echoed by Cowling and Sudgen (1987), who see the growth of transnationalism as driving the monopolising tendencies of the economic system. In turn, this gives rise to a potential rise in profit rates and market shares of individual firms, but at the aggregate level, there is a tendency towards secular stagnation.

Baran and Sweezy synthesised Marx's theoretical work on concentration and centralisation, combining it with Kalecki and Steindl's work on monopolies (Baran & Sweezy, 1966, p.56). Their contribution not only demonstrates that modern capitalism is characterised by evergrowing monopolistic tendencies – but also provides a theoretical basis for why this occurs. Marx and monopoly capital theory explains the forces of concentration and centralisation as the central forces of the capitalist system. Concentration refers to the capital accumulation within a firm (Hoogvelt, 2001), made possible through accumulating monopoly power. Centralisation refers to the tendency towards fewer and larger firms (Brancaccio et al.,



2018), as powerful firms are able to outcompete or acquire/merge with their competitors. MNCs can be seen as a result of increased concentration and centralisation, and an embodiment of the process of monopolisation in itself (Choonara, 2009, p.128). When this becomes overarchingly present in the global economy, it can be named monopoly capitalism.

Although monopolisation can sometimes be seen clearly through an increase in industry concentration, ownership structures have also been made more complex through globalisation, creating a web of GVCs that may not constitute direct ownership. This has some implications for the theory laid out by Baran and Sweezy, as their theory of monopoly capital was focused on increased concentration within industries. Building on their work, recent developments by Suwandi, Jonna and Foster (2019) base the theory around the global commodity/value chains, emphasising MNCs' use of the two methods of outsourcing, Foreign Direct Investment and arm's length contracting/trade. The latter refers to how MNCs can demand production to be carried out according to their exact specification using their purchasing power, also known as a non-equity mode of production phenomenon. In this manner, arm's length trade allows the MNCs to act with monopolistic power without having direct ownership, exerting control of value chains (Suwandi, 2019). In other words, they consider monopolisation in terms of control, rather than merely ownership.

Although not a part of the monopoly capital tradition, Schumpeter (1942) influenced Baran and Sweezy (1966), in particular his understanding of competition. He argues that, in some cases, the creative side of "creative destruction" remains in the hands of the same large corporations, driving further centralisation. When taking MNCs as the unit of analysis in modern capitalism, we also need a thorough understanding of what distinguishes giant corporations (MNCs) from other enterprises. One of the key characteristics of MNCs is that they have much broader market access, often enjoying monopolistic power, which can then be used to increase the barriers to market entry and the development of competitors (Shepherd & Shepherd, 2003). This moating technique entails making it more costly and risky for competitors to enter the market, including techniques such as taking actions to raise the costs for competitors, patents, and taking exclusive control over strategic resources (Foster et al., 2011). For the purpose of this thesis, it must also be noted that it is exactly the evolution of the modern enterprise that gives rise to the variations of 'capitalisms' described here. It is also important to note that the modern MNC operates as a network of companies that are connected through equity holdings, as opposed to one cohesive whole (Palan et al., 2020). This complex organisational structure also makes it increasingly challenging to regulate and surveil the activity of MNCs. Furthermore, in such networks ownership is not necessarily the most important aspect, it is control of activity which empowers them to appropriate and direct global value chains.

Stage 3 – Secular stagnation and finance

In the decades after the publication of Monopoly Capital, Sweezy continued the work on this theory, and with it observed the increasing role of finance. Sweezy also acknowledged that the biggest weakness of his seminal work with Baran was the absence of finance in their model/theoretical framework in a meaningful way (Foster, 2014, p. xxiii).[8] In the light of increased financialisation, the Monthly Review School eventually incorporated finance into their work in the late 1990s and early 2000s, which led Foster to coin the term 'monopoly-finance capital' (Foster, 2014; Foster 2006), the current stage of global capitalism. He predicted an increasingly unstable and unpredictable system driven by the expansion of finance from the 1970s onwards. This was emphasised by the global financial crisis which followed relatively shortly after. Indeed, since the great financial crisis of 2007/08, financialisation has grown even more visible – making it indispensable for any analysis of monopoly capitalism and the modern capitalist system.

In the view of Foster and the Monthly Review School, it is secular stagnation that pushes the economy towards financialisation. This stagnation stems from the nature of competition and the centralisation process. In other words, financial innovation was a response to the increasingly stagnant economy (Foster et al., 2011), shifting the engine of the global economy towards debt, which is reflected in the exponential growth of the debt to GDP ratio compared to GDP itself. Financial markets and their deregulation have fundamentally altered the manner in which firms accumulate and produce (Milberg, 2008), the concentration of control, and the nature of competition. One particularly important channel is through M&As, but the rise in profit shares, higher dividend payments and share buybacks are also increasingly prevalent.

Veblen was one of the first thinkers to develop a theory of monopoly capital (Foster, et al., 2011). Nesvetailova and Palan (2020) apply the Veblenite concept of sabotage to finance as the ultimate way to make profits, arguing that financial markets are also subject to the issue of coercive competition. According to the authors, financial markets are not competitive as there are huge barriers to entry; significant pre-existing wealth is required to establish a new hedge fund or insurance company. Moreover, the increasing range and scope of financial institutions and instruments have also widened the spread of ownership and control of already large corporations, through equity holdings, enabling wider and bigger networks for the MNCs.

An understanding of the monopoly-finance capital stage of the economic system can be used to illustrate how more competition, counterintuitively, leads to monopolisation through

[8] Financialisation is defined here as the shift of gravity of the economy away from production towards finance, from Foster and Magdoff (2009, p. 77).

centralisation. In simpler terms, more competition leads to less competition (monopolisation) because there are winners (MNCs) of that 'competition' who will then use their position as victors to hinder others from competing with them. It is important to emphasise that the understanding of competition used here is rooted in a critique of capital itself, which embodies a larger debate that is beyond the scope. These real economy processes are further reinforced through financialisation. This section has outlined several general tendencies but has not discussed the existence of counteracting forces.

3.2 Tax havens as drivers of financialisation

Tax havens and their origins

Despite the increased interest and scandals surrounding various leaks such as Panama and Pandora Papers, there is little discussion of the origins of tax havens. Zucman (2015) describes the story as emerging from Switzerland and its banking sector in the 1920s. This was largely a response to the rising taxes in many European countries after World War I (Shaxson, 2011). Berkeley history professor Vanessa Ogle (2020) links the rise of tax havens to the process of decolonisation, where white settlers moved money from the (former) colonies to tax havens. During the colonial period, white settlers amassed significant financial wealth from colonised regions, and the process of decolonisation with the formation of new governments led them to move their assets to tax havens, to avoid high tax rates and exchange controls in Europe. Consequently, there was an expansion of tax havens and offshore finance after the 1950s which was followed by the expanding Eurodollar market and an acceleration of the total value of assets held in them (Larudee, 2009). Indeed, it was largely thanks to the development of the Eurodollar market that made offshore banking more mainstream.[9] This is highly related to Britain's attempt to reinvent itself after WW2 and repurposing its former colonies. The British territories were also encouraged to branch into corporate and financial services.

What is a tax haven?

[9] Eurodollar is also known as the offshore financial market (Palan et al., 2010), and entails the exchange of a currency outside its jurisdiction.

There is not a consensus on an exact definition of tax havens and the term itself can be misleading. Shaxson (2011, p. 25) defines it as places that “provide escape routes from rules and laws elsewhere”. Thus, any jurisdiction can essentially function as a tax haven for specific legal persons. Another crucial point that must be included when defining/understanding what tax havens are, is that they make active efforts to attract foreign capital as opposed to the claim that they are innocent bystanders (Palan et al., 2010). These jurisdictions create regulation that is purposefully made to avoid legislation or regulation in another jurisdiction (Shaxson, 2011). Contrary to common belief, tax havens are not limited to tax purposes, but also operate as fiscal havens offering a range of financial services (Palan et al., 2010) and secrecy. Thus, in effect, tax havens have also become financial centres, giving a name to the concept of Offshore Financial Centre (OFC) but also onshore financial centres such as the City of London, Ireland, Luxembourg, and the Netherlands operate as tax havens. In other words, tax havens play an important role, and increasingly so, in the economy and should thus be included in the theory. The financial services and tax reduction offered by these locations provide MNCs with a way to then increase the rate of profits without increasing investments or efficiency. It is therefore of interest to research how tax havens and financialisation feed into increased concentration.

Tax havens as an integral part of the offshore and financial system

The focus here will be on what Shaxson (2011) calls the offshore system, that is the global structure of tax havens and the infrastructure that is involved such as accountants, lawyers and MNCs.[10] The argument outlined in this thesis is that the organisational business structure of modern multinationals is heavily embedded within this system, for which they are active in creating and benefiting. Thus, individual tax havens or single actions of tax avoidance ought not to be seen or treated only as acts of wrongdoing, but rather in the context of the offshore system. This system is also a key factor in the global (financial) economy. TJN (2020) estimates that between 21 and 32 trillion USD sits in offshore tax-havens. This number is also significantly increased if it would include onshore financial centres such as London and the Netherlands, but it is increasingly hard to distinguish the form of financial activity. Tax havens and their surrounding system were also one of the most important factors that gave rise to the global financial crisis of 2008-9 (Palan et al., 2010). For instance, the connection

[10] This thesis will also rely on Shaxson’s (2011) definition of ‘offshore’ as moving or using money across borders artificially.

between Wall Street's use of credit default swaps (CDS), which played an instrumental role in the collapse of the global economy, and the Cayman Islands – the world's fifth-largest financial centre (Shaxson, 2011) – where this business was conducted. The financial institutions were able to engage in riskier activities such as the CDS due to the flexibility provided by the infamous tax haven.[11]

A common feature of tax havens is their secrecy (Shaxson, 2011), from the ("Swiss") banking secrecy to ownership diffusion. This includes hiding both illicit and licit flows. Tax havens enable their "customers" to evade and avoid taxes, avoid regulation (antitrust, environmental, and financial), or various laws. Countries for instance that wish to attract foreign funds may offer secrecy and preferential tax treatment. Such secrecy jurisdictions create a space for unregulated corporate secrecy. The US was ranked as the largest contributor to global financial secrecy in the financial secrecy index (TJN, 2022), scoring very high on a range of secrecy indicators such as company ownership records and corporate tax disclosure. This has been an historic development from the pressure tax havens have put on countries, and then the financial sector, in this case, Wall Street, and corporations have been able to lobby governments to provide more secrecy.

A crucial aspect of the secrecy provided by the offshore system is its contribution to complexity and opaqueness. One example of this is trusts, which generate a legal separation between the technical owners (legal owners/trustees) and the actual beneficial owners (Schjelderup, 2016,).[12] The beneficial owner may be individuals (e.g. shareholders) or an organisation that have entered into a contractual agreement of an asset and how it should be managed. What is most important is that trusts in general are absent from public records and do not require any registration (Palan et al., 2010, p.92). Trusts provide a vehicle to minimise taxes, as companies can easily distribute profits to beneficiaries without having to be substantially taxed. Foundations are similar to trusts, but they do not require any owners or shareholders, and must serve a specific goal of the income of the assets. In this manner, investors and corporate officers can stay anonymous. Tax havens also contribute to opaqueness through lax regulation and a purposeful lack of due diligence (Palan et al., 2010).

The advantages of tax havens and their services

[11] The flexibility includes both lack of regulation and transparency, i.e., secrecy.
[12] Trusts was and remain an Anglo-Saxon legal concept (Palan et al., 2010)

The Swiss private banker Rudolf Elmer sums up the advantages of tax havens as: "tax, regulatory, and legal advantages. You have a lot of freedom" (Shaxson, 2011). Offshore has, in tandem with financialisation, developed as a separate regulatory institution, outside the borders of nation-states (Palan, 1999). This has enabled them to operate with extreme opaqueness, which serves several advantages for those that can access the services provided within the offshore system. It is particularly the conjunction of the various tax havens and their related institutions, that all provide different services and specialisations, that is the key benefactor element and enhances the opaqueness and opacity. The Irish and Dutch double sandwich is a good illustration of the additional benefit of combining several different tax havens. The structure of the offshore system also encourages a certain type of business organisation, and as we see today that MNCs are an intricate network of holding companies, subsidiaries, affiliates, intermediaries, and sub-contractors. Thus, the structure of corporations develops to adapt and take full advantage of the offshore system, where the financial activities are registered in holding companies in low-tax countries when that is possible (Palan et al., 2011).

Special purpose vehicles (SPVs) play a particular role in the organisational structure of MNCs, which facilitates tax avoidance, externalising liability, and accumulation with lower risk. SPVs are entities established by (large) companies to isolate the holding of risky assets, and they operate as subsidiaries or affiliates of the company (Palan et al., 2010). Such entities were heavily used by Wall Street in the lead up to the global financial crisis, where they were used to store (away) huge amounts of debt on behalf of the parent company (Shaxson, 2011), improving the aesthetics of their balance sheets for auditing as in the case of Enron (Palan et al., 2010), and to protect the company against bankruptcy. Therefore, SPVs are also considered to be a form of shadow bank and are used as vehicles to avoid regulation (Shaxson, 2011). SPVs are used by a number of financial actors to locate their holding of complex financial products. There are various benefits to their avoidance of regulation, including getting around antitrust laws and financial regulation (on debt). SPVs also make it easier to transfer/sell assets such as M&A, where companies can sell the SPVs as a way to transfer assets. This will both make the process of M&A smoother, but also be liable for less regulation and due diligence if located offshore. SPVs are thus one of the specific tools of the offshore system that enables MNCs to utilise the system to reduce their tax liability and avoid regulation.

The repercussions of tax havens

The issue with tax havens is not only that they have facilitated risky financialisation and tax avoidance, but it also has a ‘spillover effect’ onto onshore jurisdictions that have embodied more and more offshore characteristics. For instance, the rise of tax havens has led countries to drive down their STR, with ETRs also being heavily reduced, in a race to the bottom (Shaxson, 2011).

4. Connecting monopoly-finance capital with tax havens

The rise of monopolisation has been established, what is more challenging to demonstrate is what drives this tendency. In this thesis, we contribute to filling this gap by elaborating on the role played by tax havens, and the financial industry connected to them. This thesis puts forward three arguments. First, tax havens provide highly cost-minimising services that have become a central part of MNCs' capital accumulation, namely tax avoidance. Secondly, they increase the opacity of finance, which aids the competitive advantages of the giant corporations that utilise them and enables them to increase the barriers to entry in their industries – and as a result, maintain and strengthen their monopoly position. Thirdly, albeit overlapping and complementing the two other aspects, they operate as vehicles of the financialisation of the capital accumulation process, which in turn accelerates the processes of concentration and centralisation.

4.1 Tax havens as a cost minimising vehicle

Although it is far from their only function, tax havens do indeed accommodate tax avoidance, tax evasion, and ATP in general. Reduction in taxes paid yields huge amounts of cost savings for MNCs. It is evident that tax minimisation has become a standard business strategy, the Institution of Taxation and Economic Policy (ITEP) found that 55 of the largest US corporations paid no tax in 2020, much of which is due to tax refunds and breaks (Gardner &

Wamhoff, 2020). To a significant extent, it is the offshore system that makes cost minimisation possible. Tørsløv et. al. (2020) identifies three forms of profit shifting activities that MNCs use: the manipulation of export/import prices between the parent company and its subsidiaries, intra-group interest payments, and lastly, the movement of intangibles within the group. What connects all of them is that they involve the establishment of entities (e.g. SPV) in THOFC.

The case of transfer pricing

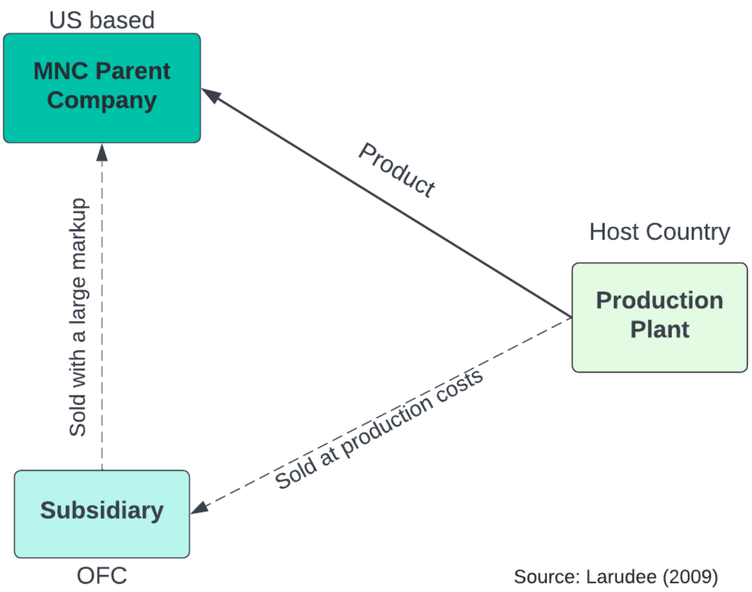
Transfer pricing is one of the key instruments employed by MNCs to avoid and minimise paying taxes paid (Palan et al., 2010), and a pivotal explanation of what shapes the current MNCs and how they grow larger than other firms (Shaxson, 2011). As firms heavily trade within their own corporate family or network (intra-firm trade), it is necessary to establish what constitutes genuine transfers between them. This is done through what is known as the "arm's length principle", which entails that the prices of goods and services are equivalent to those which would be charged in case of an open-market trade with unrelated entities (OECD, 2006). However, it has become common practice to misprice trade between related parties.[13] This has been identified as by far the largest component of profit shifting, accounting for around 80 percent (Tørsløv et al., 2020; Heckemeyer & Overesch, 2017).

To illustrate this intra-group trade we have Figure 2, which shows the case of the trade of goods. In this scenario, a US-based MNC creates a subsidiary in a tax haven. The goods will be produced in a host country with low production costs. First, the producing host country will sell the product to the OFC at an artificially low cost and as a result, make limited profits in the host country, and thus pays limited or zero taxes. The subsidiary will then sell the product to the parent company with a large profit margin, but since the profits are made in a tax haven it will be subject to a very low tax rate. In this manner, the US-based MNC is also likely to go on selling the product at market price and not make profits due to the artificially high price it paid for the product to its subsidiary; and in turn, pay little tax also in the US. Due to the advantages of the reduced tax liability, the MNCs can even sell their products

[13] Authors such as Clausing (2003), Vicard (2015), and Liu et al. (2020) show the extent of transfer (mis)pricing and how the motive of this manipulation of prices is to reduce taxes on profits.

below market price to gain market power. Instead of following these financial transactions, the product itself will merely go directly from the host country to the parent.

Figure 2: Product vs Financial Trail



The technique of transfer pricing as shown in Figure 2 illustrates that the organisational structure of the modern MNC is highly adapted to utilise the benefits provided by tax havens, and as will be shown later, this also includes the secrecy and flexibility provided. The complex structure of MNCs' networks also makes it very difficult to determine whether the arm's length principle is followed. The opacity of the services provided by THOFC makes it easier to disguise illegitimate transfer pricing. Moreover, in addition to moving profits to jurisdictions with low statutory rates of tax, the transfer pricing technique can also be used to move businesses to locations where subsidies and tax breaks are given (Palan et al., 2010). All in all, it is about flexibility in the GVCs to maximise gains.

Intangibles and profit shifting

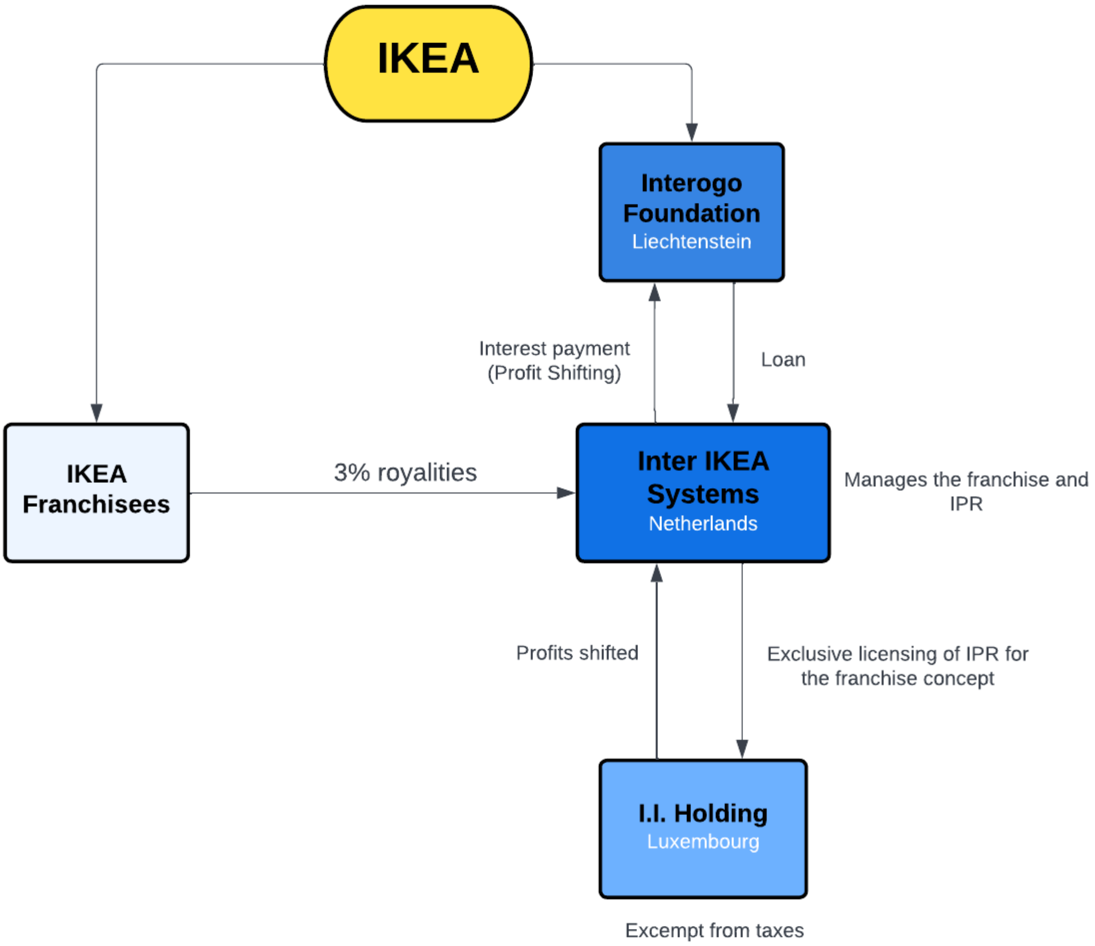
The rise of intangible assets also paves an easier way for MNCs to shift profits. MNCs can simply register the IPRs in tax havens, for instance by establishing SPVs. Intangible assets are highly valuable, thus, having them registered in a subsidiary located in a THOFC in itself will reduce the tax burden, although the IPR is being used by the parent. Another way profits can be shifted through the use of intangibles is by moving them within the company network as described by Tørsløv et al. (2020), as we will see with the case of IKEA.

Intangibles assets can also be used to better disguise transfer pricing. As explained by Zucman (2015, p. 104), compared to selling basic products intra-group with inflated pricing, manipulating the prices of intangibles carries a much lower risk of being challenged by tax authorities. Thus, a connection can be drawn from tax havens to intellectual monopolies such as Apple (Rikap, 2021; Palan et al., 2021), Amazon (Phillips et al., 2021), and Google, who are the most embedded in THOFC (Rikap, 2021).

The case of IKEA

The giant retailer IKEA, famous for producing affordable and practical furniture, provides a particularly good example of how IPR and organisational structures are used to minimise taxes and showcases that it is not only tech companies that turn to this method. Figure 3 illustrates parts of IKEA's business/organisational structure, which since the 1980s has been based on a franchise system (Milne & Toplensky, 2017). The owner of IKEA's IPR (trademark and concept) is a holding company based in Luxembourg (I.I. Holding), but managed by the company in the Netherlands (Inter IKEA Systems) which charges 3 percent royalty fees from the IKEA franchisees (stores) (European Commission, 2017). However, through the annual licence fees, most of the profits were shifted to the Luxembourg holding company where they were not taxed. Due to scrutiny from the European Commission (EC) and changes in regulation in 2011, IKEA altered its structure, and Inter IKEA System bought the IPR from I.I. Holding in Luxembourg. To finance this, however, it took a loan from its parent company in Liechtenstein (Interogo Foundation). The EC found that the amount agreed on for the IPR differs from the fair market value and that the Dutch tax administration was complicit in endorsing these acts. IKEA then also progressed to use the loan as a way to shift profits by manipulating the interest payments from Inter IKEA Systems to its parent in Liechtenstein. IKEA's case portrays all three forms of profit shifting identified by Tørsløv et al. (2020), and how their structure was indeed adapted in accordance.

Figure 3. IKEA's structure



The point here is to illustrate, as the European Commission (EC) (2020) ruled, that the actions of the IKEA group, and the endorsement of the Dutch tax administration, not only significantly lowered the group's taxable income but created an economic and competitive advantage. The commission also stated that they were given an unfair advantage compared to other companies. Nevertheless, IKEA in a response to the scrutiny has remained rather transparent about their way of organisation. In a press release named "We are open about the way we are structured", the owner expressed how IKEA has always viewed taxes as a cost, and as any efficient company, it acts to minimise such costs. However, it argues that it does so to reinvest as much of the profits in the company as possible. Although this may be true in the case of IKEA, the financialisation literature clearly shows that increasingly less of the profits are being reinvested in the company (Durand & Milberg, 2019) and a larger share has gone to shareholders through an increase in dividends and stock buybacks (Krippner, 2005). The case of IKEA also shows how an MNC may restructure itself to minimise its taxes and gain competitive advantages. They were able to do so with great help from their accounting and legal experts, Deloitte and PricewaterhouseCoopers (PwC) (Marthinsen & Walberg, 2019). Such services and levels of expertise are highly expensive and mostly not available to smaller firms, and can in this manner reinforce the monopolising tendencies.

4.2 Opaque markets

Tax havens are crucial in creating more opaque markets. The lack of transparency is a key tactic for multinationals, aiding them in their quest for capital accumulation and concentration. The opaqueness is not just due to the (services provided by) tax havens themselves, but also caused by the complexity of the offshore system and complex business organisational structures that are tied to them. Opaqueness in markets informs us that it is the opposite of what is considered free markets, where the actors should have access to the same information.

Tax havens and their secrecy also often conceal actual concentration, making it seem like there is competition when there is none. This can be demonstrated with the Mossack Fonseca case (Panama Papers) which was not aware of who the beneficial owners of 70 percent of the over 28 000 companies they provided services to (Fitzgibbon, 2018). In other words, tax havens conceal ownership, keeping large parts of the organisational structures hidden from authorities and the public. Thus, authorities are therefore unable to tax or regulate MNCs correctly. Tax havens and its related secrecy thus provides a pathway for MNCs to reduce their unit costs and increase their market power. From the point of view of the economy as a whole, tax havens allow firms to grow larger and as a result there will be fewer firms.

4.3 Financialisation and monopolisation

As discussed above, finance has the role of an accelerator of concentration and centralisation. However, finance/financialisation is a broad term, and as such, it has contributed to this process in various ways. First, finance has allowed for a faster manner for firms to finance activities, access to credit, and gain quick profits through trading within the financial markets. In other words, what Sweezy (1997) coined “the financialisation of the capital accumulation process”. This is largely thanks to a range of financial innovation tools and securitisation, with which shadow banking arose. And as pointed out above, much of financial innovation was developed through the use of THOFCs.

5. Conclusion

It is necessary to discuss the manners in which the financialisation of accumulation occurs. The financialisation literature within heterodox economics has become increasingly broad, and it is, therefore, useful to specify how financialisation materialises (in the economy). Tax havens have functioned as a key tool for the finance industry and a vehicle for the financialisation process, and as such played a large role in giant corporations’ ability to grow larger (concentration) and in turn result in fewer firms (centralisation). The minimisation of cost through the reduction of tax, generating an alternative manner to gain a competitive advantage other than through price competition. Cost-minimisation through tax avoidance is thus a naturalised strategy for MNCs. This thesis aimed at linking the use of tax havens and ATP of MNCs to the tendency of concentration and centralisation, where financialisation is largely driven by the offshore system.

Future research should include more empirical research documenting the effect of tax havens and tax avoidance on the monopolisation of MNCs. However, there are several limitations for such work as stand-alone, partly due to the immense lack of data due to the opaqueness of the offshore system. Such data is also likely to neglect some crucial holistic elements, as data is generally based on a nation-state system, whereas the financial and offshore system operates in a different manner.

This issue can be analysed upwards and downwards, i.e. to the concentration of owners as potentially driving this (asset managers, ultimate owners) or to the effects downwards, such as the implications on workers and consumers. The inequality between firms also impacts/translates into rising wealth inequality between individuals, as well as between the global north and south, as most MNCs are based in the former. Another issue with the 'superstars' is that they also contribute less to the overall society relative to a few decades ago (Guitierrez & Phillipon, 2019). The movement of headquarters and business offshore has also reduced the bargaining power of workers on a systematic level, as outsourcing has become substantially easier and widespread.

With the current crisis of living costs due to inflationary hikes and supply shortages, it is important to scrutinise how much of which is affected by the level of monopoly. Companies are using the inflation rise as a cover to raise their prices (Owens, 2022). This is highly connected to the high concentration of top firms in the major food markets in the U.S. An investigation by the Guardian and Food Water Watch found that the top few corporations control on average 64 percent of sales on the 61 most regular grocery items (Lakhani et al., 2021); with dozens of markets having a substantially higher average. Although inflation is not a topic of this paper, it illustrates one of the ways market power and monopolisation can directly affect us.

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List of Abbreviations:

ATP - Aggressive Tax Planning

EC - European Commisssion

ETR - Effective Tax Rate

FSI - Financial Secrecy Index

GVC - Global Value Chains

HHI - Herfindahl-Hirschman Index

ICIJ - The International Consortium of Investigative Journalists

IT - Information Technology

ITR - International Tax Regime

IPE - International Political Economy

IPR - Intellectual Property Rights

OFC - Offshore Financial Centre

M&A - Mergers and Acquisitions

MFC - Monopoly-Finance Capital(ism)

MNC - Multinational Corporation

MRS - Monthly Review School

SME - Small Medium Enterprise

SPV - Special Purpose Vehicles (also known as Special Purpose Entities)

STR - Statutory Tax Rate

THOFC - Tax Havens and Offshore Financial Centres

TJN - Tax Justice Network