Financialization As a Threat to the Nordic Welfare State

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Abstract

What does the phenomenon of financialization mean for welfare states? This article draws on empirical data from Denmark, where an international tax fraud scheme drained €1.7 billion from the public purse in just three years. The case exemplifies the global spread of financialization and allows us to extend the analytical horizon for theory in three new directions. First, the paper links for the first time two streams of research that have hitherto developed independently: work on the welfare state, where financialization is often treated as a necessity to ensure the fiscal viability of costly social programs; and work on offshore, where financialization is more often examined as a "curse" afflicting economically underdeveloped countries with weak democratic institutions. Second, the study details how processes underpinning financialization—including international capital mobility, complexity and secrecy—interact with the taxation systems on which welfare states depend: a topic that has not yet been addressed in the literature. Third, the paper addresses the under-theorized issue of agency in financialization, identifying transnational professionals as key actors linking the micro and macro levels in the global political economy. Ultimately, the paper concludes that in a financialized environment, the logic of state competition leads to a retreat in governance, threatening the viability of welfare regimes such as Denmark's.

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Introduction

What does financialization mean for Nordic welfare states? Financialization is a global phenomenon that, since the 1970s, has shifted many advanced economies from industrial to rentier capitalism, and accelerated the autonomy of finance from state power (Arrighi 1994; Krippner 2005). In recent years, research on financialization has shifted from its previous focus on Anglo-Saxon neoliberal regimes (e.g., Krippner 2012) to examine welfare states, which were long seen as inhospitable to the logic of finance (Lavinas 2018). This has spurred a vibrant stream of research seeking to explain the coexistence of welfare state regimes with some features of advanced financialization, such as high levels of household debt (Johnston, Fuller and Regan 2020) or privatized pension plans (van der Zwan 2020).

Nonetheless, the Scandinavian welfare states remain under-represented and under-theorized in this body of work—a problem which this paper seeks to rectify by analyzing a recent case study from Denmark, in which lax oversight of taxation cost the country more than 12.7 billion kroner (€1.7 billion). In light of the country's global reputation for rigorous fiscal regulation (Kleven et al. 2011), the scandal offers a rare glimpse of systemic failure. For social scientific theory, the case provides a chance to analyze "the unintended and often detrimental effects that the rise of finance and financialization could have on a continent of high to middle-income countries and relatively generous welfare states" (Shelkle and Bohle 2020: 8).

Following Arrighi (1994), the paper will take an international perspective on financialization, focusing on the relationship between Denmark's domestic governance and regulatory systems and the political decision to link the Danish welfare state to international financial flows. In this way, the article will contribute to ongoing debates on modes of economic globalization, which Krippner (2005: 202) has termed "one of the most vexed issues in all of social science."

Through analysis of the Danish case, this paper will extend current understandings of financialization in three ways. First, the paper answers repeated calls for examination of the

impact of financialization on welfare states, particularly in Europe (van der Zwan 2014; Schelke and Bohle 2020). Second, it will detail how global financialization interacts with the taxation systems on which welfare states depend: a topic that has not yet been addressed in the literature. Third, the analysis will examine sources of micro-level agency in financialization, identifying transnational professionals (Harrington and Seabrooke 2020) as key actors, along with some mechanisms linking them to macro-level outcomes in the global political economy.

The findings suggest that the negative impacts of financialization, which have typically been studied in the context of developing countries and offshore financial centers (Harrington 2016a; Bähre 2020), can also be visited upon developed countries renowned for their strong democratic traditions and rigorous domestic regulatory regimes. In particular, the Danish case illustrates the ways in which financialization can undermine welfare states: a particular irony, given that exposure of social benefit systems to global capital markets is typically justified on the basis of shoring up and stabilizing their finances (Lavinas 2018). Finally, the findings point to the role of professionals—such as attorneys, bankers and accountants, usually working across national borders—in draining welfare state coffers while using legal complexity and secrecy to avoid accountability.

The remainder of the paper proceeds as follows. First, it reviews the literature on financialization, the welfare state and competition states. Second, it provides a brief discussion of data sources on the Danish case, and the analytical method applied. Third, it details the Danish case, in which dividend tax avoidance and outright tax fraud were allowed to flourish, with the full knowledge of state officials who could have stopped it. Finally, the paper concludes with a discussion of the key contributions of the analysis, and its implications for future research.

Literature review

Financialization and welfare states

Financialization has been defined as "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production"

(Krippner 2005: 174). As a practical matter, it means that economies once grounded in making and selling things have shifted to new ways of creating and distributing wealth; for example, trade and investment in financial securities have become the dominant modes of building wealth in the 21st century, assisted by fiscal policies in many countries that tax the profits at lower rates than are levied on income from work (Piketty 2013). Thus, the welfare state and financialization accomplish wealth distribution in ways that appear diametrically opposed: while the former emphasizes the reduction of inequality and the provision of protections and social safety nets, the latter prioritizes risk and profit—increasing inequality, while militating against regulations and restrictions.

Financialization is not just a way of making money, but a distinctive form of capitalism in which finance has become the core function in the economy; in addition, the influence of finance extends into the social, political and cultural realms. The concept of financialization has thus been adopted across multiple social scientific disciplines to describe how an increasingly autonomous realm of global finance has subsumed industrial production and altered the workings of democratic societies, particularly in Europe and North America (Engelen 2008). Moving wealth around the world in search of maximum profit at minimum cost is the essence of financialization economic activity under (Harrington 2017a). The terms “financialization” and “finance capitalism” (Peet 2011) thus refer to the web of interrelated processes through which finance has intruded globally, from informal interactions to formal institutions—including the state and its regulatory and governance functions.

Financialization has always been linked to states, but only recently to welfare states. For example, Arrighi’s (1994) work on the history of the phenomenon locates financialization first in 15th century Genoa, then in 17th century Holland, followed by 19th century England. Starting in the 20th century, for reasons linked to the end of World War Two, currency controls and the gold standard, the United States became the center of finance capitalism (Genschel 2005). Thus, Van der Zwan (2014) has identified Anglo-American dominance as a defining characteristic of contemporary financialization, along with prioritization of the interests of international rentier capital in nations’ internal governance and regulation. Ironically, from the dependence of financialization on the state springs the increasing *autonomy* of financial activity

from state control, through mechanisms such as mobility, secrecy and complexity (Harrington 2016a). All three enable rentier capital to escape taxation—a manifestation of state power that is particularly crucial to sustain the costly social benefits provided by welfare states (Goldstone 1991; Li 2002).

Given the seeming incompatibility of financialization with the welfare state, it is surprising to find that all of these features appear in the Danish case reviewed below. Several characteristics, particularly the autonomy and secrecy granted to some financial activity, would appear very much at odds with the long-standing reputation of the Danish welfare state for transparency and strict regulatory control (Campbell and Pedersen 2007). Furthermore, the catalyst for the Danish scandal—the decision to reduce oversight on foreign taxpayers in order to make the country more attractive to international rentier capital—would seem counterproductive in meeting the fiscal needs of a welfare regime. Fewer tax revenues means fewer hospitals, schools and care homes. Imposing a lighter, looser tax regime on international finance capital than on domestic constituents would also seem contrary to the egalitarian norms which represent an important source of legitimacy for welfare state governance. In both fiscal and normative terms, as Levi-Faur (2014: 611) has observed, regulation and the welfare state are "mutually constitutive."

But in Denmark, as in other European nations, financialization and the inequities it implied were introduced on the premise that they were necessary to ensure the long-term survival of the welfare state. Integration with the global financial system, including exposure to the risks of capital markets, was seen as unavoidable following long-term trends—such as de-industrialization and declining birth rates—that threatened welfare state pillars like the provision of housing and pension programs (Johnston, Fuller and Regan 2020; van der Zwan 2020). Sometimes, this approach works, at least for a while. The Channel Island of Jersey, one of the most financialized jurisdictions on earth, for years enjoyed a highly successful welfare state thanks to abundant incoming foreign investments; but the system ultimately crumbled due to the low tax levels that had attracted the investors in the first place (Bullough 2015).

From welfare state to competition state

Financialization, while globalized, is also intimately connected to domestic governance and regulatory policies; the local and global levels are synergistic in supporting finance capital (Peet 2011). Because finance capital moves transnationally, its owners can “shop around” in “the global ‘market for laws’” (Frankel 1998: 257). On the one hand, rentiers depend on state power to protect property rights and provide a banking system, among other institutional supports (Galbraith 1995); on the other hand, they need to escape constraints on their profit making activities. Thus, the owners of finance capital seek out jurisdictions offering the lightest regulatory regimes, along with secrecy around capital ownership and management (Shaxson 2011). When the desired legislative conditions and profit opportunities are unavailable, rentier capitalists seek to create them by influencing political processes, both at the cross-national and national levels (Harrington 2016a).

One result has been competition among states to attract foreign investment. In the context of ultra-mobile transnational capital, this has led to a decisive shift in power relations, in which rentiers have acquired outsized influence over the domestic governance and regulation of nation-states, while the states themselves have lost power to intervene in processes of profit making and wealth accumulation (Robinson 2001). In practice, the states end up reducing oversight over financial services and providing rentiers with crucial infrastructure in return for little or no tax contributions; throughout history, this has repeatedly created opportunities for fraud, as in the 2008 financial crisis that followed policy interventions by a succession of Wall Street executives serving as Secretaries of the US Treasury (Harrington 2016c). Still, many states accept these risks and costs in the hope of supplementing their economies and employment numbers by facilitating financial transactions.

This tradeoff is the driving force in the political economies of offshore financial centers (Harrington 2016b); it is therefore somewhat surprising to find a similar ethos expressed in highly advanced welfare states like Denmark. But in one of his early speeches as head of government, former Prime Minister Anders Fogh Rasmussen (2001-2009), made explicit the competition state imperative: “*A healthy and well-functioning business community must be the cornerstone in creating a profit for the Danish welfare society. We will not get any welfare without the business community making money. It's that simple*” (quoted in Hansen and

Triantafillou 2020). In other words, Rasmussen—whose party continued his policies for a decade after he left office to lead NATO—proposed that financialization was both necessary to and synergistic with the welfare state. In this view, the fiscal support for social benefits programs was expected to come by way of the funds generated by foreign direct investment in Danish firms (Dalsbø and Solli 2019); thus, policies had to be made as hospitable as possible to those foreign investors. This is crucial to understanding why Rasmussen and his successors in Danish government conceived of state competition in financialized terms.

Competition states, understood in the research literature as nations that achieve socio-economic success through their institutions (Campbell and Pedersen 2007), ordinarily operate by protecting their domestic economies and labor markets. They repress competitors by upholding many of the same policies pursued by welfare states. But state competition takes on a very different meaning in the context of global financialization. In particular, competition takes place by organizing governance institutions around the interests of global capital and its owners; this means reducing oversight and lowering regulatory "barriers." Both policies were pillars of Rasmussen's platform and those of all subsequent Danish governments (Hansen and Triantafillou 2020). Rasmussen, who served as the country's Minister of Taxation before becoming Prime Minister, showed particular interest in reducing the "administrative burden"—that is, regulatory control—of taxation. He may have realized that reducing the capacity to collect tax or catch tax cheats would be a low-visibility, low-controversy way to shrink the welfare state (Pierson 1994). While there is no proof that this was his intent, it's worth noting that Rasmussen shot to fame early in his political career by publishing a book proposing that Denmark should transition from a welfare state (which he claimed created a "slave mentality" of government dependence in citizens) to a low-tax neoliberal regime (Rasmussen 1993).

Whatever Rasmussen's intentions, his policies put Denmark's welfare state in direct conflict with its leaders' ambitions for the country to succeed as a competition state. Crucially, it shifted the orientation of governance from regulation-*of*-competition—to ensure worker protections and distributional fairness—to regulation-*for*-competition (Levi-Faur 1998). These efforts succeeded insofar as they catapulted Denmark to the ranks of top "attractive business locations" in the world, second only to noted tax haven Singapore; at the same time, Denmark

plunged into the bottom third of countries ranked on the OECD's regulatory restrictiveness index.[1] As described below, this strategy led to the intentional crippling of one arm of the Danish state's regulatory power, and ultimately to a multi-billion-kroner theft from the nation's treasury that is unlikely ever to be recovered; this represented a devastating blow to the legitimacy of the welfare state (*Dagens Industri* 2018). This case illustrates how, in a financialized world, the logic of the competition state leads to state retreat, which in turn threatens the viability of welfare regimes.

Method

Empirically, this article is based primarily on investigative reports that are still quite recent, with key information still emerging. The paper therefore must rely on a limited set of journalistic and government sources, as shown in Table 1 and summarized below. Other than a brief summary published in a multi-case analysis of global wealth chains (Christensen, Seabrooke and Wigan 2020), and another summary that appeared in a Norwegian MA thesis on dividend arbitrage (Dalsbø and Solli 2019), there are no known scholarly analyses of the Danish dividend tax fraud case.

[INSERT TABLE 1 HERE]

The primary data source for this paper consists of the transcript of a six-episode podcast created by investigative reporter Jesper Tynell of the Danish national broadcasting company, DR. This is currently the most comprehensive and detailed account of the scandal available, and it draws from interviews with all the key Danish tax officials involved. The transcript is not publicly available, but Tynell shared it for use in this research; the text was provided in Danish, which I had translated into English by a native Danish speaker, with the results checked for accuracy and corrected by Tynell himself. Since the podcast is publicly available, references to its contents will be made in relation to episode numbers.

Supplementing the podcast transcript, I drew on a report by the EU financial regulator (ESMA 2020), as well as a variety of news articles. The latter group included two pieces by Tynell (2020a, 2020b) on the Danish case, as well as numerous articles on the broader dividend

tax fraud that affected European welfare states (e.g., Segal 2020; Meers 2018). I also drew on the investigative reporting on the Scandinavian impact of the fraud published by Correctiv, a consortium of journalists involving collaboration from 12 countries (e.g., Sokala 2018a, 2018b); these articles were based on a trove of 180,000 secret documents from professionals and organizations involved in the dividend tax fraud, as well as interviews with insiders and whistleblowers.

In drawing together these sources, the objective was to provide the political and social context necessary to examine the Danish case; the analytic strategy was oriented to description and classification. As Gerring (2012) has noted, this approach to data analysis makes an important and distinctive contribution to social scientific knowledge, though it is often undervalued; within the natural sciences, naming, identifying and classifying have long been recognized as essential to the advancement of understanding. Such work is particularly necessary to constructing the emerging theories developing within the sociology of globalized finance. This article extends current theories of financialization, building on models developed in my ongoing work on finance and fraud extending back for nearly a decade (author). The application to Denmark of ideas derived this research enables me to derive insights that can be extended to other realms of research, not only on regulation and governance, but to the economic sociology, anthropology and political economy of welfare states and globalization.

The Case Study

In August 2015, news broke of the largest financial fraud in Denmark's history: at least 12.7 billion Danish kroner (€1.7 billion) had been "looted" (Tynell, Ep 6) from the nation's treasury by foreign financiers engaged in a dividend tax scam. And those were just the losses incurred during the previous three years; the total amount of theft from the public coffers was unknown but certainly far greater, since insiders at SKAT (the Danish tax agency) had been warning since 2002 that foreign individuals and organizations were obtaining dividend tax refunds by fraud (Tynell Ep 2). Denmark was not the only country targeted by this multi-national scam—which ultimately robbed European countries of at least €55 billion and was described as "the robbery of the century" (Segal 2020)—but it was among the worst-affected.

The country's distinctive position was particularly clear in comparison to other Scandinavian welfare states: Norway remained almost untouched by the fraud, while Sweden and Finland escaped the disaster completely due to their different fiscal regulatory regimes (ESMA 2020).[2]

Most shocking of all, however, was the revelation that a succession of Danish government ministers had ignored more than a decade of pleas from SKAT officials to close the legal loopholes that made the massive fraud possible in Denmark. Ministers with the power to stop dividend tax scams maintained this refusal to act even in the face of a Parliamentary mandate, and an analysis from government economists showing that fraud *must* be taking place: in 2009, the economists showed that SKAT was receiving nearly nothing in dividend tax revenues from foreign entities year after year; sometimes, SKAT was actually losing money, because it paid out more in refunds than it was received in withholding tax (Tynell Ep 4). Despite this, nothing changed, because "The consideration of banks and investors was given greater weight than the consideration of [regulatory] control…. the consideration of attracting investors to Denmark won over the consideration of [regulatory] control" (Tynell 2020b).

This was not an unfortunate error, but a deliberate political choice, as eyewitnesses and participants in the decision process have attested. For example, Carl Helman—a career civil servant and former attorney in the Ministry of Taxation—was instrumental in rejecting warnings from SKAT's dividend tax administrators. Though he now says that he regrets taking this position, he explains that it seemed necessary at the time, for the sake of Denmark's economy:

> "consideration for Denmark as an attractive investor country means that you with eyes wide open can accept certain risks of tax fraud. But the dilemma is probably that Denmark is a small country…And we live off trade. In that situation it's possible you have to make that consideration. 'A little tax fraud is okay', ha, ha… But, yes…." (Ep 6).

In other words, Helman viewed Denmark's survival as a competition state as contingent not only on attracting transnational rentier capital, but on allowing the owners of that capital to rob the public purse. Helman himself did not innovate this perspective, but enacted what he and others regarded as a received agenda from his superiors in the Ministry. How this agenda of financialization was developed in Denmark, with results quite distinct from those in the

country's neighboring Scandinavian welfare states, will be reviewed below, following a brief discussion of the methods used to pull off "the biggest tax theft in the history of Europe" (Segal 2020).

Dividend tax avoidance and evasion

Dividend fraud schemes, hatched in the Anglo-American financial centers, began targeting European welfare states in the early 2000s. This was for two reasons. First, because the vast troves of "taxpayer funds were an irresistible mark…they never ran out;" and second, because "American and British…traders regarded the Continent as a backwater of old economies ripe for swindling…" (Segal 2020). The most aggressive and innovative attacks were launched by a pair of traders—one British, the other from New Zealand—working for the London office of an investment bank headquartered in New York.

The swindling took place through requests for tax refunds on grounds that ranged from legally questionable tax avoidance to outright illegal tax evasion. In all its forms, the technique—known under the umbrella term of "dividend arbitrage" (Sokala 2018a)—involved concealing the true ownership of European company shares in order to reduce or eliminate the tax due when dividends were paid on those shares. Dividends are the cash payments made by some firms to owners of company stock, usually on an annual or quarterly basis; in some countries, dividends are taxed as a special kind of income, known as "capital gains." The amount of the tax depends on a variety of factors, including where the owner is located. For example, a 27% tax is withheld on dividends paid from Danish companies, but—unlike Danes—foreign shareholders are entitled to claim a refund on all or part of that tax from SKAT. At most, they end up paying a 15% dividend tax, and some pay zero, if they can show that they are based in countries or cities (such as Malaysia, or Paris) that have special nil-tax agreements with Denmark.

The older, more established form of dividend arbitrage involved shareholders "loaning" their stocks to individuals or organizations based in those low- or nil-tax jurisdictions, in order to claim refunds to which they would otherwise not be entitled. In this way, the temporary "borrower" of the shares receives the dividend tax refund, takes a percentage of the amount as

payment for their service, then returns the shares—plus the remainder of the refund—to the original owner. This has been tolerated as a form of legal "tax planning" in many countries, because it is prohibitively expensive for national tax authorities to identify the true ownership of shares, or who actually receives the dividend payments. In Denmark, SKAT officials were actively *prevented* from verifying claims to dividend tax refunds: the Danish banks, who *could* identify foreign stock owners, would only share that information with the government once a year, *after* SKAT was required to pay out refunds. In addition, investigations by SKAT were discouraged by a rule requiring them to pay all dividend refund requests within 30 days, or face interest penalties for delay (Tynell Ep 2); under pressure to avoid those interest payments, there was no time for SKAT to verify refund claims. Although SKAT repeatedly asked Danish banks for earlier or more frequent disclosures of the identities of foreign shareholders, which would have made claim verification possible, the banks refused, claiming that complying with the request would impose excessive burdens on the financial industry and scare off foreign investment.

In the newer and "more advanced version of the dividend stunt" (Sokala 2018a) innovated by the traders in London, multiple dividend tax refunds were sought on a single set of shares; sometimes, as in the scheme that targeted Denmark starting in 2012, these refund claims were made by entities that never owned the company shares in the first place, and therefore never received dividends nor paid tax (Fastrup and Svaneborg 2019). As with the mostly-legal form of dividend tax arbitrage, successful execution of the maneuver involved moving the shares—at least on paper—through a complex chain of ownership that included banks and often collective investment vehicles (such as foreign mutual funds) that concealed the identities of individuals and firms who benefited from the refunds. Some academics have described these schemes as so complex that it is as if someone found a way to "weaponize string theory…its impenetrability is part of what made it so successful" (Segal 2020). In any case, the result is that foreign entities receive "free money" from state treasuries, and the latter sometimes end up—like Denmark—paying out more in refunds than they receive in dividend tax owed by international investors. In other words, those refunds were financed by domestic taxpayers. As one Swedish newspaper put it, "While ordinary people hoped that their

taxes would go to schools and hospitals, some financial experts invented how they could take their money" (*Dagens Industri* 2018).

The innovators of the new dividend arbitrage scam—who included "the best legal minds in Europe," along with elite professionals in banking and finance—knew this and made it explicit, both among themselves and with the clients to whom they pitched these schemes (Segal 2020). Hanno Berger, a famous German tax attorney who worked with the London traders to coordinate an onslaught of dividend tax refund requests on several European treasuries simultaneously, was said by an eyewitness (now turned whistleblower) to have told his team: "Anyone who takes issue with the fact that there'll be fewer kindergartens in Germany because of the trade we do is in the wrong place; here's the door" (Meers 2018). Documents uncovered by the multinational investigative reporting team led by Correctiv discovered marketing materials used by Berger and his team to sell this form of dividend arbitrage to investors. According to the documents, these efforts were framed explicitly by "an antigovernment pitch." As the whistleblower later confirmed, "They would say, 'If you have a problem with how your hard-earned money is being spent in taxes, we've got an idea for you'" (Segal 2020).

In other words, the dividend arbitrage scam was purposefully framed as an attack on the welfare state; that was part of its appeal, both to the professionals who executed the scheme and to their wealthy clients. Though this might seem like a strange way to sell financial services, it is surprisingly common in the upper echelons of the investment world. Berger, who—in addition to his dividend tax refund scheme—represented German professional soccer players and the family that owns BMW as private clients, would have been very familiar with this antagonism to the welfare state among the ultra-rich (Meers 2018). The global prevalence of resentment of taxation and redistribution by high net worth individuals is also a recurring theme research on the wealth management profession (Harrington 2016, 2018), suggesting another point of confluence in offshore and onshore financialization processes.

That the anti-government pitch was not just talk was confirmed later, in an investigation conducted by Christoph Spengel, a professor of tax law at the University of Mannheim. After

being given access to confidential documents in the case by investigative journalists and the German government, Spengel calculated that Germany—which was targeted first and most aggressively, as Europe's largest economy—was robbed of at least €31.8 billion before the legal loopholes that allowed the dividend fraud to occur were closed in 2012 (Sokala 2018a). "You could finance universities, education, unemployment and preschools with this money. So the damage is enormous," Spengel told a Swedish newspaper (*SVT Nyheter* 2018b). He added that the damage was done with the full complicity of the world's largest banks and leading professionals in law and finance, all of whom profited handsomely from what they knew—as internal emails document—to be criminal activity. Spengel's view was corroborated in late 2020 by the justice minister of the German state of Nordrhein-Westphalia, who likened the professionals involved in dividend tax fraud to "mobsters" whose work represented "organized white-collar crime of unimaginable magnitude" (Segal 2020).

The puzzle of Danish government inertia

The financial services industry and its professionals also loomed large in the Danish case, primarily by blocking any attempts to protect the country against dividend tax fraud. Each time the representatives of SKAT—particularly the head of dividend taxation, Lisbeth Rømer, and her colleague Jette Zester—asked for help in combatting abuse of the refund system, representatives of the country's financial industry stood in their way. Specifically, SKAT needed to know the names and locations of foreign shareholders in order to assess whether they were entitled to a refund; but despite the seeming reasonableness of the request, "The banks have not wanted this all along. They have always been against and dug in their heels," Rømer said in a recent interview (Tynell 2020a). The Danish Banker's Association not only rebuffed direct appeals to cooperate with SKAT: they were also instrumental in *persuading Tax Ministry officials not to cooperate,* despite the mounting evidence that fraud was rampant in dividend tax refunds to foreign entities (Tynell Ep 4).

For example, over the course of three years, between 2009 and 2011—after the quantitative evidence of dividend tax fraud had been established by government economists—the Danish financial services industry pressured three successive Ministers of Taxation to give

up the exercise of their own regulatory powers (Tynell Ep 5). Specifically, they persuaded the Ministers not to sign executive orders drafted by the Ministry's own staff: orders that would have helped SKAT verify the legitimacy of dividend tax refund claims by requiring banks to divulge the identities of foreign shareholders in Danish firms. As Rømer put it, with considerable understatement, "This shows the power of the banks and the financial world….we are all very dependent on this banking sector" (Tynell Ep 4).

In short, the financial services industry was actually intervening in the regulatory process, advantaging foreign rentiers over domestic constituents. They succeeded in obstructing some essential functions of government, such as preventing looting of the tax revenues on which the Danish welfare state depended. This repeatedly raised questions in the minds of SKAT officials as to who really made and enforced the rules for fiscal governance in Denmark; as Tynell asked rhetorically (Ep 4), **"**is it Lisbeth Rømer and her colleagues in the Danish Tax Agency, the civil servants in the Ministry of Taxation or other ministries - or is it really the financial sector and the banks, which in practice are allowed to decide?"

Officially, the Danish financial services industry explained their opposition to seemingly common-sense regulation by calling upon the logic of the competition state, as articulated by former Prime Minister Rasmussen (Hansen and Triantafillou 2020). In letters and meetings with SKAT, as well as with the Ministry of Taxation, financial industry representatives argued that verifying the identity and share ownership of foreign investors claiming dividend tax refunds would impose insupportable administrative costs on Danish banks, and decrease Denmark's attractiveness as an investment site. The implication was that regulatory control would scare off foreign capital, to the detriment not only of Denmark's international competitiveness, but of its continued viability as welfare state.

The implied threat the banks leveled at Denmark's domestic political economy—"let our clients have secrecy and autonomy, or else they'll take their money away!"—is identical to the arguments made by financial services representatives in offshore financial centers (Harrington 2016a). This is not to suggest that Denmark is an offshore center. Rather it illustrates how the detrimental effects of financialization on democracy and economic justice, sometimes known

as the “finance curse” (Harrington 2016b), impacts not only the countries that become well-known as tax havens, but also the highly advanced welfare states.

Ultimately, the financial services industry was treating the country’s Treasury like a private piggy bank, which could “in principle sustain unlimited losses;” as Tax Ministry attorney Carl Helman noted after the scandal broke, “Now we can see how much the banks have been actively involved in actually promoting tax evasion” (Tynell Ep 5). The legitimacy and practical assistance the Danish banks provided to the fraud committed by foreign rentier capitalists also enriched the financial sector itself, through transaction fees (Westerberg 2018). Thus, as Lisbeth Rømer observed, by failing to act on SKAT’s warnings, Denmark has “since 2004…opened up the biggest buffet” for rentier capital and the banking industry (Tynell Ep 5). Private financial interests took advantage, at the expense of domestic taxpayers and the public interest.

By the time a Minister of Taxation finally stood up to the financial industry and signed the executive order requiring them to turn over to SKAT identifying information on foreign shareholders in Danish firms, it was 2012; that turned out to be too little and too late to stop the most aggressive round of looting the country’s treasury. It was too little, because the order did not require banks to identify investors who owned Danish company shares through collective investment funds and “nominee” accounts, both of which concealed their real names and locations; these cases represented about 70% of all foreign investment (Tynell 2020a). It was too late, because the signed order would not go into effect until 2014, by which time the amount that SKAT paid out annually in dividend tax refunds to foreign investors had exploded due to the new, illegal dividend scam (Fastrup and Svaneborg 2019). After hovering around 1 billion kroner annually through 2011, dividend tax refunds crept up to 1.5 billion kroner in 2012, nearly doubling to 2.7 billion kroner in 2013, reaching 4.1 billion kroner in the *first half* of 2014 (Tynell Ep 6). The damage was done.

Consequences for the Danish financial sector and welfare state

Ultimately, the impact on Denmark's economy and financial sector turned out to be less than dire: losses to SKAT at the height of the dividend tax fraud (2012-2015) amounted to less than half of one percent of national tax revenues, while warnings about capital flight and onerous administrative burdens turned out to be unfounded.[3] For example, once Danish banks began providing information on the foreign shareholders who *could* be identified, the task turned out to be not nearly as burdensome as the financial services lobby had claimed. As former head of SKAT's dividend tax office Lisbeth Rømer observed,

> "We kept hearing that it wasn't feasible for the banking world. But, fortunately, they were wrong. Their objections were put to shame. The minister overruled and insisted that our system needed it. And it turned out the banks were perfectly able—without any problems" (Tynell Ep 5).

Moreover, contrary to the financial services industry claim—rooted in former Prime Minister Rasmussen's competition state strategy—that any attempts to identify foreign shareholders would cause rentier capital to flee Denmark, nothing really changed. The proportion of Danish company shares held by foreigners remained essentially the same as before the scandal and the rule changes, at just over 50%. "Foreign shareholders," Tynell concludes, "continue to invest in Danish companies, even though it is now more difficult to get reimbursement" for dividend taxes (Ep 6).

This is confirmed by independent sources, such as longitudinal World Bank data showing that inflows of Foreign Direct Investment (FDI) have barely changed, even after the Danish government in summer 2015 shut down all dividend tax refunds, then tightened the rules for claiming refunds going forward.[4] According to the Danish National Bank, incoming FDI has for decades accounted for a steady influx equivalent to between 30% and 40% of the country's Gross Domestic Product (Isaksen, Kramp and Klausen 2016: 60); if anything, the current World Bank data suggests that the pattern of incoming foreign money stabilized after 2015, perhaps because there was less incentive to profit from share manipulations.

This raises the question: what was all the fuss about? Tightening regulations didn't cause foreign investors to flee Denmark—instead, we find a pattern of stability that has also

been observed in other countries, where dire warnings of capital flight in response to stricter financial governance have repeatedly turned out to be wrong (e.g., Young 2017). So why did the Danish financial services industry, and so many successive ruling coalitions in government, treat the imposition of straightforward documentation requirements on foreign investors—in keeping with the standards of most developed countries—as an existential threat? A clue may be found in an analysis of the impact of FDI on Denmark, which notes that "The main recipients of FDI in Denmark are the *financial intermediation*" firms (Damgaard 2011: 60, emphasis in original). This suggests that the objections raised by the financial services industry, which were presented as driven by concern for national economic well-being, may instead have been motivated by self-interest.

Leaving aside questions of the money economy, it is also worth asking about the impact of the scandal on Denmark's "moral economy" (Mau 2003). This is the intersection of public opinion with social policy, from which welfare states derive their legitimacy to govern. Among other things, that legitimacy depends on domestic taxpayers' belief that their fiscal contributions to the state are being used to provide public goods that will benefit them. While Danes have typically ranked among the most satisfied citizens in the world on this issue, former Tax Ministry attorney Carl Helman offered a pessimistic outlook:

> "This whole scandal has shaken people's confidence—not just in the Danish Tax Agency, but in the state—in the Danish government in general. And I think that whether or not it scares off some foreign investment, it is perhaps more significant in relation to coherence and reconstruction of this trust—the general trust of the population in the Danish government" (Tynell Ep 6).

These concerns are supported by recent national polling data: 61% of Danes report that they have lost trust in SKAT over the past decade; furthermore, 67% now do not believe that SKAT can catch tax cheats (Hyltoft 2021a). Current Minister of Taxation Morten Bødskov attributes this national crisis of faith to rampant reductions in staff and services under previous administrations, and says it will take at least 10 years to rebuild the tax service and public trust in it (Hyltoft 2021b).

So while the dividend tax fraud imposed a relatively small short-term cost on national finances, there has been a much more substantial loss of trust in public trust in governance—and this may lead to much longer-term damage, even if tax revenues are stabilized through reforms. Of particular consequence is the loss of faith in regulatory legitimacy, particularly when it comes to equity between domestic and foreign taxpayers. In contrast to the laxity Denmark has shown in its treatment of foreign investors, and the reputation it has carefully cultivated as an attractive environment for FDI, the country imposes a notoriously harsh and unforgiving regime on domestic taxpayers (Kleven et al. 2011). The same system that presents to foreign taxpayers as "friendly" and "low bureaucracy," appears to some domestic taxpayers as unresponsive and unjust.[5] Not only is there a steep national decline in trust in the tax administration, but there is increasing publicity around cases of "violent injustice" (Hyltoft 2021b) perpetrated by SKAT on domestic taxpayers.

This two-tiered system of regulation—one set of rules for Danes, another for foreign investors—likely plays an important role in undermining trust not only in SKAT the organization but in paying tax more generally. While many countries make special allowances and "sweetheart deals" for wealthy foreign individuals and companies (Harrington 2016a and b; Cook 1989), Denmark's double standard was extreme: as Danes faced rigorous scrutiny from SKAT, foreign rentiers helped themselves to the Danish treasury with no oversight at all. Moreover, the country's permissiveness toward tax fraud by foreigners has been deeply at odds with the belief systems that have traditionally sustained Nordic welfare states. Inequality before the law is a particular affront to the high levels of egalitarianism and normative cohesion that have long characterized governance in the region. Thus, the threat posed by a two-tiered system of fiscal regulation is arguably greater in Nordic welfare states than elsewhere, because they depend so heavily on perceptions of egalitarianism to maintain the legitimacy of governance generally, and of high tax rates in particular (Campbell and Hall 2017).

Scandinavians' trust in government and high "tax morale"—belief in the legitimacy of taxation and willingness to meet their fiscal obligations to the state—have long been among the highest in the world (Rothstein and Uslaner 2005; Luttmer and Singhal 2014). While tax rates are also among the highest (fluctuating between 50% and 60% on personal income in

Denmark, Sweden and Finland), so is compliance: in 2014, Denmark's tax gap of 3.4%, Finland's gap of 5.2% and Sweden's gap of 6.9% were all well below the EU average of 10.7% Raczkowski (2015).[6] The region's regulatory agencies have themselves linked this to their countries' egalitarian ethics; in Sweden, for example, the national tax agency displays on the front page of its website the motto "Our vision is a society where everybody wants to do their fair share" (*Vår vision är ett samhälle där alla vill göra rätt för sig*, quoted in Larsen 2017, p. 422).

Thus, Denmark's dividend tax fraud scandal represents not just a symbolic blow to perceptions of equity and just governance, but a genuine crisis that strikes at the heart of the welfare state. Mounting public disillusionment has already become visible in the country's electoral politics, and with Tax Minister Bødskov suggesting that a full decade will be necessary rebuild capacity and trust in SKAT, Denmark's model is likely to continue "creaking" under the strain (Gronholt-Pedersen 2019). Not only is the restoration of public trust a challenging long-term task, but now that Danes see how foreigners haven gotten away with tax fraud for so long, they may consider trying it themselves—if only as a form of protest against the two-tiered fiscal regulatory system. As one Danish social scientist put it in a recent newspaper interview, "There are quite a few who do not trust that SKAT will find those who try to cheat the system…if we want people to think it's okay to pay taxes, they will want assurances that everyone else is also paying their taxes" (Hyltoft 2021b). It is unclear whether Denmark can provide the necessary assurances, because while new funding and staff are being pumped into the tax administration, many of the reforms called for by Lisbeth Rømer and her colleagues remain unrealized.

Perhaps most ominously, the Tax Ministry continues to tolerate the concealment of foreign investors' identity through collective investment vehicles and nominee accounts, leaving the door open to further fraud (Tynell Ep 6). This is consistent with reports from elsewhere in Europe, suggesting that "losses continue" from dividend tax scams, using "variants" of the original scheme to evade detection (*Dagens Industri* 2018; ESMA 2020). These conditions point to a question of long-standard scholarly interest: does financialization go hand in hand with fraud? Historian of capitalism Fernand Braudel (1992: 309) suggested as much, and recent empirical research (e.g., Harrington 2016a, 2018) indicates that financialization creates both new opportunities and enhanced rewards for malfeasance. The resulting

"criminogenic environment" (Tillman and Indergaard 2007: 482) is inimical to the egalitarian and collectivist ideals of the welfare state, particularly as they have been implemented in Scandinavia.

Discussion

This article uses the case of Denmark's tax fraud scandal to illustrate how global financialization poses a threat to the Nordic welfare state. It uses previously unexamined data sources to trace the origins of the largest financial crime in Danish history, which robbed the welfare state of 12.7 billion kroner (€1.7 billion). The evidence points to a stark conclusion: key segments of the Danish government (including Parliament, the Ministry of Taxation, and SKAT) were aware for over a decade of fraud committed by foreign investors; but the Ministers empowered to address the problem repeatedly refused to do so, under pressure from the Danish financial services industry. Drawing on the logic of the competition state, the financial industry lobby successfully persuaded several top government officials to abdicate their duties to protect the Danish treasury; instead, the Ministers aligned themselves with the financial institutions, on the premise that government's primary mission was to attract foreign capital, and avoid at all costs scaring away transnational rentiers. This led the Danish state to undermine its own regulatory authority and curtail its own powers of oversight (Hansen and Triantafillou 2020), opening the door to the theft of billions from the nation's treasury—a sum unlikely ever to be recovered (Fastrup and Svaneborg 2019).

The case exemplifies the global spread of financialization in three respects. First, it was driven by an Anglo-American approach to capitalism, in the literal sense that the fraud scheme was invented by a pair of financiers from Britain and New Zealand, while they worked in the London office of a New York investment bank. Second, it involved the financial services industry overcoming the traditional commitments of the Danish welfare state to provide social and economic protections to citizens, by pressuring members of government to prioritize the interests of transnational rentier capital over those of domestic constituents. Third, the results facilitated the autonomy of finance capital from state control, facilitating unchecked criminality.

The analysis provided in this paper extends the horizons of financialization theory in three directions. First, in answering calls for closer specification of the impact of financialization on welfare states, this study repeatedly finds analogies to the political economies of offshore financial centers. In particular, it illustrates how aspects of the "finance curse"—a phenomenon historically associated with developing economies and weak democratic institutions (Harrington 2016a, 2016b)—can impact a highly advanced Scandinavian welfare state. The decision made long before the tax fraud scandal to govern Denmark as a competition state appears to have been decisive in leading to this outcome (Hansen and Triantafillou 2020). Competition state strategies can be compatible with welfare state regimes, in that competition may entail repressing contenders by protecting the domestic economy and labor market. But in 21st century Denmark, competition was interpreted to mean exposing the safety net, the tax system and the rule of law to extreme risk: actions more characteristic of offshore financial centers than developed democracies. Over more than a decade, successive Danish governments reduced regulatory oversight and organized their fiscal regime around the interests of transnational finance capital and its owners. Although this was presented as necessary for the continued fiscal sustainability of the welfare state, it instead opened the door to rampant tax fraud whose full scope has still not been estimated.

Second, the paper extends theory by detailing how financialization as a global phenomenon is produced in part by the local practices and institutions of welfare state regulation. Denmark was unique among Scandinavian welfare states in its vulnerability to the dividend tax fraud scheme. While Sweden and Finland were untouched, and Norway barely affected, Denmark intentionally left open known pathways for financial fraud. As in Germany and France, what happened in Denmark was not the result of state capture but rather of state retreat: the voluntary relinquishing of oversight and control in an attempt to shore up the finances of welfare regimes. This forms part of a larger pattern of welfare state efforts "to instrumentalize finance for specific goals that then have unintended and uncontrollable consequences" (Schelkle and Bohle 2020: 8).

Third and finally, the case analysis provided here suggests the significance of theorizing agency at the micro-level in scholarly accounts of financialization. Denmark's dividend tax fraud

was the work of a very small group of transnational attorneys, accountants and bankers who had an outsized impact on the political economy of a major world region (Fastrup and Svaneborg 2019), yet financialization theory still offers few models to understand these micro-macro links. For example, it is noteworthy that the *gender* of the professionals appears to play an important role in positioning them relative to financialization processes: men seem to occupy a disproportionately large role in financial misconduct, while women more often act as whistleblowers, not only in the Danish tax fraud case but in many others (Harrington 2016c). But more research is needed to investigate the impact of individuals' demographic characteristics, organizational positions, and professional specialties on their capacities for and modes of agency, and to incorporate those insights into broader theoretical frameworks for understanding financialization. Overall, this study echoes findings from other work on offshore by identifying elite transnational professionals as key agents in financialization along with some important mechanisms—such as international mobility, complexity and anonymity—they employ to leverage their impact to the global level (Harrington 2016a; Harrington and Seabrooke 2020). Although the case study analysis presented here is limited by the scarcity of information available, this paper can serve as a starting point for fruitful cross-disciplinary work on micro-macro linkages at the intersection of welfare states with the dynamics of transnational finance.

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Notes

[1] The most "attractive business locations" are ranked by the *Economist Intelligence Unit*: http://country.eiu.com/article.aspx?articleid=389430222&Country=Denmark&topic=Business&subtopic=Business+environment&subsubtopic=Rankings+overview

The OECD's ranks member countries by regulatory restrictiveness here: https://data.oecd.org/fdi/fdi-restrictiveness.htm

[2] While the Swedish tax agency seems to have had more time and information to verify dividend tax refund claims, and ultimately to reject the fraudulent ones (*SVT Nyheter* 2018a), Finnish law solved the problem "upstream" of their tax agency in two ways: first, the country banned certain stock transactions known to be associated with dividend tax fraud; and second, Finland has domestic corporations deduct tax—net of any international agreements—when paying out dividends to foreign shareholders (Sokala 2018b). The latter meant that Finland did not have a refund process for dividend tax, eliminating the opportunity for the fraud committed in Denmark and elsewhere in Europe.

[3] The exact figure is .4%, based on OECD data. The calculation involves dividing the estimated dividend tax losses due to fraud in the years 2012, 2013 and 2014 (DKK 12.7 billion) by the total national tax revenues collected in those year, net of taxes Denmark pays to the EU (kr 863 billion, 898 billion, and 976 billion, respectively).
https://stats.oecd.org/Index.aspx?DataSetCode=REVDNK

[4] See World Bank data here: https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?end=2019&locations=DK&start=2001

[5] See *Economist Intelligence Unit* country description, note 1 above.

[6] Measured as a percentage of GDP; not all countries measure a tax gap. Norway and Iceland do not.

Table 1: Data sources

	Source	Public?	Language	Content
Danish impact of dividend fraud scandal	"Secret Shareholders" podcast transcript	N	EN	Translation into English of 50,000-word Danish transcript of 6-episode podcast, based on investigative journalist Jesper Tynell's interviews with key figures in Denmark's tax administration and his review of 100s of internal documents; text shared exclusively with the author, with translation by a native Danish speaker and checked by Tynell for accuracy.
	Articles on scandal from Danish media	Y	DK	5 articles: 2 summaries of the podcast by Tynell; 1 article on origins of cuts in tax administration; 2 follow-up articles on public trust in tax authorities.
Broader Scandinavian impact of dividend tax fraud	All publications in Scandinavian media by *Correctiv* consortium of investigative journalists	Y	SE, FI, DK	The *Correctiv* consortium, an association of journalists from 12 countries who had exclusive access to whistleblowers inside the dividend fraud operation, as well as to 180,000 secret documents collected by the whistleblowers, published 11 articles on the scandal in the Swedish press, 3 in the Finnish press, and 6 in the Danish press, all contextualizing the data to Scandinavia. All these articles were consulted for this paper, but not all are cited in the text.
	MA thesis from Norwegian School of Economics	Y	EN	This 2019 research by MA students in economics and finance provides insight not available from other sources on the Norwegian impact of the dividend tax fraud.
Global impact of dividend tax fraud	Report by the European Securities and Market Authority (ESMA)	Y	EN	This 2020 report by the EU financial regulatory agency is a 71-page postmortem on the dividend fraud scandal's impact on Europe, as well as its sources.
	Book by Danish journalists	Y	DK	This 2019 book, *Det store skatterøveri*, by Danish investigative journalists Fastrup and Svaneborg, traces the international networks through which the dividend tax fraud was perpetrated.
	News articles	Y	EN	2 articles that summed up the whole story of the dividend tax fraud scandal: 1 in the *New York Times*, the other from the investigative journalism consortium, the Organized Crime and Corruption Reporting Project.