High income taxes in Denmark worsen a labor shortage
By Carter Dougherty         International Herald-Tribune      December 5, 2007

COPENHAGEN: As a self-employed software engineer, Thomas Sorensen broadcasts his qualifications to potential employers across Europe and the Middle East. But to the ones in his native Denmark, he is simply unavailable.

Settled in Frankfurt, where he handles computer security for a major Swiss corporation, Sorensen, 34, has no plans to return to the days of paying sky-high Danish taxes. Still, an unknowing headhunter does occasionally pass his name to Danish companies.

"When I get an e-mail from them, I either respond negatively but politely," Sorensen said. "Or I don't respond at all."

Born and trained at Denmark's expense, but working - and paying lower taxes - elsewhere in Europe, Sorensen is the stuff of nightmares for Danish companies and politicians searching for solutions to an increasingly desperate labor shortage.

People like Sorensen, and there are many, epitomize the challenges facing the small Nordic country, long viewed across Europe as an example of how to keep an economy thriving and a society equal.

Young Danes, often schooled abroad and inevitably fluent in English, are primed to quit Denmark for greener pastures. One reason is the income tax rate, which can reach 63 percent.

"Our young people are by nature international," said Poul Arne Jensen, chief executive of Dantherm, a maker of climate-control technology. "They are used to traveling and have studied abroad."

"They are no longer 'Danes' in that sense - they are global people who have possibilities around the world," he said.

Denmark is the home of "flexicurity," the catchy name given to a system that pays ample unemployment and welfare benefits but, unusually in Europe, imposes almost no restrictions on hiring and firing by employers. The mixture has served Denmark well, and its economy barreled ahead in 2006 by 3.5 percent, one of the best performances in western Europe. The country is effectively at full employment.

But success has given rise to an anxious search for talent among Danish companies, and focused attention on émigrés like Sorensen. The Organization for Economic Cooperation and Development, which is based in Paris, projects that Denmark's growth rate will fall to an annual rate of slightly more than 1 percent for the five years beginning in 2009, reflecting a dwindling supply of a vital input for any economy: labor.

The problem, employers and economists believe, has a lot to do with the 63 percent marginal tax rate paid by top earners in Denmark - a level that hits anyone making more than 360,000 Danish kroner, or about $70,000. That same tax rate underpins such effective income redistribution that Denmark is the most nearly equal society in the world, in that wealth is more evenly spread than anywhere else.

The movement toward lower taxes passed Denmark by, even as it took root in much of Europe.

Small East European countries, notably Estonia and Slovakia, started the trend by imposing low, flax taxes on income and corporate profits about five years ago. Those moves helped prod Austria, and eventually, Germany, to slash high marginal rates as well.

Danish taxes also contrast sharply with those in nearby London, often jokingly referred to among Danes as a Danish town, because so many of them live there. Lower taxes on high earners have been a centerpiece of the policy mix that has fed the rise of London as a global financial center since the 1980s.

But today young Danes can easily choose not to pay for the system's upkeep, once they have siphoned off what they need. For starters, as citizens of the European Union they are entitled to work in any of the 27 EU countries.

Sorensen, who graduated from business school in Copenhagen, found himself earning the equivalent of more than $100,000 before he was 30 - and paying 63 percent of it in taxes. His work as a computer consultant for Deloitte also took him to Brussels, where he met the Spanish woman he would eventually marry.

But the high taxes, mixed with his wife's discomfort in Denmark, meant that a job offer in Qatar three years ago was all it took to pry him away from Copenhagen. Now, he is ensconced in Frankfurt, setting up a new business on the side and planning to pay no more than 25 percent of his income to the German state.

"When you are at 63 percent tax, you don't look forward to the evaluation with the boss to get a raise," Sorensen said. "You look for more vacation or a training course in the tropics - something that you get the full benefit of."

There are many more Sorensens out there in a work force that is culled from a country of just 5.5 million people.

The Confederation of Danish Industries estimated in August that the Danish labor force had shrunk by about 19,000 people through the end of 2005, because Danes and others had moved elsewhere. Other studies suggest that about 1,000 people leave the country each year, a figure that masks an outflow of qualified Danes and an inflow of less skilled foreign workers who help, at least partially, to offset the losses.
Danish business normally keeps its distance from politics, but in parliamentary elections this year, a few companies jumped into the fray.

Lars Christensen is co-chief executive of Saxo Bank, a Copenhagen financial services firm specializing in currency trading and retail brokerage services. New employees at Saxo Bank get a copy of "Winning," the playbook of Jack Welch, the brass-knuckled former chief executive of General Electric, and "Atlas Shrugged," the libertarian manifesto by Ayn Rand, suggesting that the boss has little time for solutions that beat around the bush.

"The high tax rate is the No. 1 problem we have," Christensen said. "It's that simple."

Christensen said about 150 positions at Saxo Bank had been created outside Denmark because filling them at the home office would have been either prohibitively expensive or simply impossible. Finding people at its offices in Britain, Switzerland and Singapore, where tax rates range from 19 to 40 percent, proved easier. But it forced the bank to break up teams of people that it wanted to be concentrated in Copenhagen.

This year, Saxo Bank gave a million Danish kroner, or $197,000, to an upstart political party, New Alliance, whose centerpiece was a flat income tax of 40 percent. The party is run by a Syrian-born Danish citizen named Naser Khader who has also touted more open immigration as the solution to Denmark's troubles. The party squeaked into Parliament with enough seats to give it a role in the new center-right government of Prime Minister Anders Fogh Rasmussen.

Acknowledging the need to reduce the tax burden, Rasmussen's previous government approved slight reductions in taxes for lower earners, but he has avoided promises of quick fixes. In 1998, Rasmussen's party narrowly lost a national election focusing on a message of business-friendly reform, an experience that colors the current message of incremental change.

"Denmark is a country of consensus," Rasmussen said recently. "Occasionally that fact tends to lower the speed of reforms, but in exchange we are efficient in our implementation."

But young Danes may simply move faster.

Sorensen is settling into life in Frankfurt. He recently passed through Copenhagen to discuss a business proposition with a potential partner, but anything they do will be based outside Denmark, he said.

His wife recently gave birth to their second daughter, and barely a word of Danish passes Sorensen's lips when he speaks with his children.

They are growing up with English, an amalgam of the British and American idioms, as their first language, and the world as their horizon.

"If I could," he said, "I'd have a European passport, not a Danish one."