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Channeling the Capital of Others: How Luxembourg Came to Be Asset Managers' "Plumber" of Choice

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"Channeling the Capital of Others: How Luxembourg Came to Be Asset Managers' 'Plumber' of Choice"

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Channeling the Capital of Others:
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Abstract

This article analyzes the development and growth of the administrative practices and structures necessary for leading asset-management companies and other firms to create and sell their "product" of choice: investment funds. To investigate this problematic, I turn to the Grand Duchy of Luxembourg, which currently serves as the domicile for over $5 trillion in fund assets. Indeed, since the 1980s, Luxembourg's "offshore" financial center has become a leader in providing the "plumbing," to quote an interviewee of mine, for worldwide asset-manager capitalism. On offer in Luxembourg to asset managers are the routine-but-essential tasks such as domiciliation, compliance, calculation of net-asset values, and distributions. After a brief history of the rise of asset-manager capitalism and Luxembourg's role in it, I detail the strategies by which the Grand Duchy's financial-center professionals collaborate to devise ways to service the ever-increasing varieties of investment funds for sale today. Having used the Luxembourg financial center as a case study, I conclude the article by arguing that, in order to understand contemporary asset-manager capitalism, researchers should pay as much attention to its "collaborating administrators" in locales like Luxembourg as they currently do to its "competing titans of industry" on Wall Street or in the City of London.

Keywords

Investment Funds, Asset Manager Capitalism, Luxembourg, Advanced Producer Services, Offshore Finance

"In the realm of investment funds, Luxembourg is a world-class *plumber*," an interviewee of mine announced as we enjoyed a beer on a cold winter afternoon in Luxembourg City, the capital of Europe's last remaining grand duchy (interview, February 2016). It was the metaphor that jumped out at me – as my interlocutor, with decades of experience in the investment-funds industry, seemed to be equating finance capital to piping and heating systems. Prompted by me to proceed further with this curious "plumbing" metaphor, he focused on the administrative services that accompany an investment fund throughout its life. As my interviewee mentioned, the administration of an investment fund – from creating its fiscal domicile, to calculating its net asset values, to distributing any capital gains, among other tasks – constitutes the "plumbing" of this very profitable and still-growing area of the overall financial-services industry (cf. Norman, 2007: 4).

Extending the metaphor even further, my interviewee described how "plumbers" in the offshore Luxembourg financial center (*place financière*) mind an elaborate series of digital and legal "pipes," which are connected to "storage tanks" representing the accounts of clients. While these funds typically originate in locales of higher finance – Wall Street, the City of London, Paris, Frankfurt, Tokyo, and others – it is through ultra-low-tax jurisdictions such as Luxembourg that the trillions of U.S. dollars housed in the world's investment funds are "canalized." These assets, my interviewee concluded, rarely sit in the "tanks" on offer in Luxembourg, but rather are channeled into the many capital flows that course the globe apace (cf. Garcia-Bernardo et al., 2017: 1).

As befits the implications of the above metaphor, the "plumbing" akin to that found in Luxembourg amounts to an unglamorous and overlooked area of financial services – that is, until those crises that periodically engulf the world's securities markets. This existential importance begets the question: how is it that the "plumbers" of Luxembourg (and elsewhere) have become so essential to the functioning of global finance capitalism? While my interviewee's metaphor sentimentally alludes to unsung work being done in the houses of appreciative clients, what Luxembourg's "plumbers" are in fact servicing is the more than $100 trillion currently housed in investment funds worldwide (Weeks, 2020a) – a figure so alarmingly large that Braun (2021a; 2021b) and others have come to call the politico-economic regime surrounding these funds "asset-manager capitalism" (henceforth "AMC").

In this article, I examine the rise of AMC from the vantage point of the Luxembourg financial center, which at present houses a startling $5 trillion-plus in fund assets under administration (Luxembourg for Finance, 2022). In doing so, I tie Luxembourg's importance within the worldwide scope of AMC to two additional developments that have also taken place within global finance capitalism during the last 50 years. The first of these points to the expansion of Advanced Producer Services firms, as is seen in the current size and influence of the "Big Four" accountancies/management consultancies: Pricewaterhouse Coopers, Deloitte, KPMG, and Ernst & Young. The second development behind the rise of AMC in Luxembourg concerns the growth of "tax havens" throughout the world, complete with the "capture" of these jurisdictions by entities specializing in offshore financial activities.

Having contextualized the case of Luxembourg within the attendant scholarship on the above three phenomena, I proceed to outline my objectives for this study and methods for data collection and analysis. In the findings sections of this article, I detail four "practices of consensus" that define the activities of those working for asset-management and other finance companies in Luxembourg. In doing so, I expound on the nature of these practices, their structure, and contribution to the overall financial-services industry in the country. The article's discussion and conclusion sections speak to the implications of my analysis for the growing bodies of scholarship on AMC, Advanced Producer Services, and the role of offshore-finance firms in abetting "state capture."

The Rise of Asset Manager Capitalism

What is this behemoth known as AMC? At first glance, it resembles the older and staid world of mutual funds, whose basis has long been the pooling of savings via collective investment vehicles. What distinguishes asset management from analogous activity premised on mutual or pension funds, however, is an unprecedented tendency to concentrate *and* diversify its equity stakes. Thus, while mutual and pension funds typically also retain the governance rights that derive from their clients' shareholdings, today's large asset-management companies wield an amount of power over corporations not seen in the Global North since the early twentieth century (see Hilferding, 1910).

Braun (2021a; 2021b) and his collaborators (Braun and Buller, 2021; Christophers and Braun, this issue) have detailed two characteristics that differentiate AMC from its predecessor regimes of corporate governance. The first regards the question of "exit" – that is, the long-held power of financiers (to threaten) to pull their funding from firms, sectors, or countries if certain conditions are not met. In a conjuncture, however, in which the likes of U.S. firms BlackRock and State Street have come to own large stakes *in every corporation* listed on, for example, the S&P 500 or the DAX 40, (the threat of) "exit" can no longer account for the entirety of the power exercised by large asset-management companies.

The second unique characteristic speaks to the relationship between asset managers and their investor clients – which include pension and sovereign-wealth funds, insurers, university endowments, and family offices, each of which have their own fiduciary duties "to the individual savers who are the ultimate beneficiaries of this investment chain" (Braun, 2021b: 23). While such a dynamic mirrors that of "plain vanilla" mutual funds, there is an important difference: asset managers, via exchange-traded funds, have largely shouldered the responsibility to generate capital gains for their clients onto indices such as the S&P 500. What matters to asset managers then, as a result, is the performance of asset prices *in general* as opposed to the price of any individual corporation's shares.

How did AMC as a distinct political economy, with all its formidability and contradictions, come into being? The nadir of finance capitalism in the Global North was the post-World War II era, when capital stocks had been decimated and shareholdings dispersed – yet high levels of productivity and trade-union membership among industrial workers, sound macro-economic management on Keynesian grounds, and sustained social-welfare provision combined to catalyze the decades-long growth regime known as "Fordism" (or *Les Trente Glorieuses* in French). By the late 1970s, however, the "Great Reconcentration" of finance capital had begun (Braun, 2021b: 16); the elections of Reagan and Thatcher signaled a retreat of the welfare state in advanced economies, the individualization of societal risks, and a steady re-accumulation of wealth and power by financial interests.

By the 1980s, as their equity stakes approached one percent in corporations across a number of sectors, large pension funds became more active within a more shareholder-friendly system of corporate governance that was emerging. From this time onwards, as Braun writes, corporations had to be "closely watched... and so far as possible controlled by [banks and investment funds] in order to make the [latter actors'] profitable financial transactions secure" (2021b: 12). By the 2010s, the equity stakes of BlackRock, State Street, and other asset managers *in every company* listed on indices such as the S&P 500 or the DAX 40 routinely topped five percent, going so high as 20 in some instances.

Even as four out of the five largest asset-management companies in the world are currently U.S. firms, the consequences of AMC have been similarly far reaching in the EU27 and United Kingdom. Wójcik et al. detail the spatial division of labor of Europe's investment-fund nexus: "U.S. asset management firms [create] and [manage] funds in ultra-low tax Luxembourg and Ireland, and [invest] money through London"; these authors add, "the rise of European investment funds can be seen as an example of European financial integration through Americanisation" (2022: 514).

Here we see a unique element of the project of AMC in Europe: its relationship to the financial integration of the EU27 and, more specifically, to the creation of the bloc's Capital Markets Union – which was initiated in 2014 by the then-European Commission president Jean-Claude Juncker, Luxembourg's longtime premier *and* finance minister (see Mulder, 2019). To realize his pan-EU version of AMC, Juncker initiated a lobbying-*cum*-technocratic effort on an unprecedented scale; Vauchez counts "more than 150 working committees advising the European Council, nearly 800 'expert groups' orbiting in the spheres of the different directorates-general, 268 'consultative committees' composed of national experts seconded by the States to the Commission, 188 EU-dedicated 'think tanks,' etc." (2016: 45; cited in Braun et al., 2018: 106). Such staggering numbers aside, how exactly is AMC carried out?

Advanced Producer Services and Asset Manager Capitalism

Regardless of whether it occurs in North America or Europe, AMC requires professionals spanning the fields of accountancy, finance, management consultancy, auditing, law, information technology, among others. In the words of Bassens and van Meeteren, it necessitates "the right combination of people and information [that] can be converted into knowledge about potential surplus generation" (2015: 759), as well as "pools of knowledge, expertise, business services, and concentrations of potential investors" (2015: 765). Due to these factors, it should not be a surprise that AMC has developed in the Global Cities famously described by Sassen (2001 [1991]): New York, London, Paris, and Tokyo, among others. It is in these cities where the "command and control" of AMC takes place, activities whose "path-dependent pull" leads to "advanced accumulation [and thus] deepening global core-periphery structures" (Bassens et al., 2021: 1288–1289).

Furthermore, the labor on which AMC is based comes under the rubric of "advanced-producer services" (henceforth "APS"). Building on Friedman (1986), Sassen implies a linkage between Global Cities and the APS that take place in them:

> [Advanced] producer services, unlike other types of services, are mostly not as dependent on vicinity to the buyers as consumer services. Hence, concentration of production in suitable locations and export, both domestically and abroad, are feasible. Production of these services benefits from proximity to other services, particularly when there is a wide array of specialized firms (2001[1991]: 104–105).

The implications of the services that underlie AMC – that is, the more structured links between its producers, as well as their less-formal interactions in club-like settings – mean that its production processes are difficult to replicate in non-Global City locations.

From their bases in Global Cities, actors working in APS firms provide two specialized services that are indispensable to AMC. The first is the ability to develop "tailor-made [investment funds] that require 'decoding'" vis-à-vis those purchasing them (Bassens et al., 2021: 1290) – for "solutions are 'bricolaged' from recombinations of previous experiences [had] by investment bankers, lawyers, brokers, analysts, [and] management consultants" (Bassens and van Meeteren, 2015: 763). The second service in high demand by asset-management companies is what are euphemistically known as "tax optimization strategies," whereby APS actors "set up off-balance sheet special-purpose vehicles in offshore centers and other tax havens through which to optimize profits" (Bassens and van Meeteren, 2015: 762). Indeed, collaboration among multiple APS actors – lawyers, accountants, domiciliaries, and others – is essential in helping asset-management companies and other clients access the secrecy and artificially low tax rates found in offshore financial centers such as Luxembourg's.

Offshore Financial Centers and Asset Manager Capitalism

The structural role that offshore financial centers (henceforth "OFCs") currently play within the global capitalist system traces its roots to a series of legal innovations that took place in Western Europe and the United States during the *fin-de-siècle* period. The crux of these innovations enabled wealthy companies and individuals to incorporate themselves in other, more advantageous jurisdictions without having to physically relocate their economic activities. Also awaiting these clients were artificially low tax rates, few regulations, and high levels of secrecy, which – when combined with incorporation – amounted to a set of fictional, but very lucrative bookkeeping tools for non-resident firms and persons (Weeks, 2020c). In these early years, jurisdictions such as Luxembourg, the U.S. state of Delaware, and certain Swiss cantons jockeyed for primacy in this emerging offshore economy, in which "ease of incorporation and loose regulation emerged first as a competitive state strategy" (Palan et al., 2010: 110).

Even as the complexity of financial activity has grown exponentially over the years (perhaps best seen in the example of contemporary AMC), the basic approach followed by Luxembourg and other offshore jurisdictions remains more or less the same. To quote Fernandez and Hendrikse: "OFCs essentially leverage their sovereign capacity to devise and enact laws, providing 'extraterritorial' spaces for non-resident capital, and offering legal tools and accounting devices to optimally structure capital stocks and flows, following a process of regulatory arbitrage" (2020: 232). From this guiding premise, Luxembourg and other OFCs then typically pursue niche strategies – opting to specialize in providing services for asset management, banking, investment funds, insurance, trusts and family offices, or a combination of these activities.

Helping OFCs to realize their niche strategies are a variety of APS actors. Citing Yeung (2016: 54), Hendrikse et al. notes a "strategic coupling" between the elites from offshore jurisdictions and those from APS firms: a "mutually dependent and constitutive process involving particular ties, shared interests and cooperation between… economic actors who otherwise might not act in tandem to achieve a common strategic objective" (2019: 1520). In contrast to Yeung's "strategic coupling," Wójcik sees instead the powerful and internationalized APS firms simply "capturing" certain functions of the states that host OFCs. He writes, "[this state capture] is based on the soft power of consent, persuasion and intellectual leadership rather than corruption or coercion" (2012: 341).

Regardless of whether it is due to the strategic coupling of APS firms and states with OFCs, or even the capture of the latter by the former, the interconnectedness of large banks and asset managers, regulators and tax authorities in offshore jurisdictions, and APS firms has undoubtedly altered the substance and geographic makeup of AMC, and modern capitalism more generally. Such a nexus is patently visible in Luxembourg, whose OFC has developed over decades a formative base of APS for asset-management and other firms. I argue, furthermore, that this convergence of interests is the result of four practices of consensus among APS actors and state elites in Luxembourg, a set of distinctive relations that I will detail in what follows.

My Study Within the Literature

In this section, I sketch out some related lines of analysis from the above literatures as well as distill a set of three main questions that my empirical findings seek to address. Since 2000, there have been a number of excellent qualitative studies on the globalized nature of APS found in the fields of law, advertising, high finance, and lobbying (for example, Grabher, 2001; Faulconbridge, 2007; Lépinay, 2011; Laurens, 2015). While rich and successful in their own right, these studies are generally sectoral in scope – meaning that few systematic analyses of "complexes" of APS actors beyond their respective "silos" have been undertaken. In this light, the "clustering" of APS actors found in sectors like asset management remain largely unexamined (see Wójcik [2012] for a counter-example). Because they tend to possess focused knowledge – and, for this reason, often lack essential information outside of their domain – then how, I ask, do APS actors' formal and informal interactions with their peers eventually result in services of such high added-value? Moreover, the relative lack of synthesis between the economic-geography literatures on AMC, APS, and OFCs is lamentable – given that asset management is currently a *sine qua non* mode of accumulation, for which APS actors play a leading role in developing and administering these transfers of wealth via Global Cities and OFCs.

As such, this article seeks to address the following three questions about the APS that underpin asset management (and other financial services) in Luxembourg's OFC. What is the nature of the work-related interactions among those based in different sectors of the OFC? Likewise, what roles do the formal and informal structures linking these professionals play in the development of new niches, products, and legislation? Lastly, do the OFC's various actors make up "an industrial complex, marked by stable formal trading links driving location behaviour, or [do] clusters rely on more informal club-like structures where access depends on experience, routine interaction, personal relations and trust" (Bassens et al., 2021: 1291)?

Methodology of the Study

As regards methods, my fieldwork lasted from September 2015 to July 2016[1] and focused on APS actors working in Luxembourg in asset management and other sectors. Given that the data presented herein were collected as part of a larger study on the uses of secrecy in Luxembourg's OFC ([redacted]), I ended up conducting some 80 interviews with 60 individuals in senior positions throughout the financial center, including those in the fields of lobbying, accountancy, law, management consultancy, banking, regulation, civil service, insurance, and – of course – asset management. Interviewees were selected via a method that I call "networking ethnography," which is akin to snowball sampling that is initiated via multiple personal, institutional, and technologically meditated "points of entry" (see [redacted]).

Interviews and participant-observation took place in three neighborhoods of Luxembourg City – Cloche d'or, Kirchberg, and City Center (*Ville-Haute*) – as well as nearby the country's international airport (Findel). Semi-structured interviews were the primary means of data collection and were conducted in either English, French, or Portuguese in a variety of settings: office buildings, cafés, restaurants, private residences, and members-only clubs. A secondary method was participant-observation – which I periodically undertook at industry events, press conferences, academic colloquia, and public forums. As for recording data, I jotted copious notes during all interviews and instances of participant-observation, which I usually transcribed into digital form later that same night.

I should also mention that the four practices of consensus detailed in the following sections came about, in large part, due to *the frequency* with which they appeared in my data. More specifically, I determined whether findings like these were recursive (or not) via coding, during which the practices detailed herein came to my attention. Even as this process took place in a systematic fashion, it was an interpretative endeavor above all – meaning that there that there may be some empirical overlap between elements found in the four featured practices of consensus. While I do believe that there still is analytical value in differentiating between the four practices, they should ultimately be considered as all sharing the concept of *consensus* – although what I have in mind might be more accurately rendered by the French word *connivence*.

Additionally, I corroborated most of my data from interviews and participant-observation via primary and secondary sources found in archives at the Commission de surveillance du secteur financier and the Bibliothèque nationale du Luxembourg. Additionally, my findings from interviews, participant-observation, and archival research in Luxembourg were further contextualized via analyses of other OFCs (such as those of Switzerland, Malta, and Jersey) – hence my inclination to call this a "case study." In sum, the above methods point to a multimodal approach with respect to data collection, which subsequently allowed me to triangulate my findings, find points of overlap, and thus maximize the study's overall validity.

Practice of Consensus #1 – State-Finance Proximity

"It is difficult to sanction your close friends." – A senior regulator (interview, March 2016)

Up to the 1950s, financial services did not play a particularly important role within Luxembourg's political economy, a place that was reserved for the then-mighty steel industry. Financial services were something of an afterthought until the mid-1960s; instead,

> the [foreign] banks used their branches in Luxembourg to take advantage of situations created by laws passed elsewhere, abroad.[2] [The Grand Duchy's] politicians were not actively involved in the financial center. There was no need to tailor the regulatory framework of Luxembourg's financial market, with the exception of a few minor details. It was essentially *a collaboration between the public and private sectors*,

as a senior technocrat explained to Moyse et al. (2014: 64; emphasis added). The last observation here – "a collaboration between the public and private sectors" – is telling and will be the focus of this section.

In our current historical moment, in which asset management and other financial services hold immense sway over the economy (see Braun, 2021b), that "APS power is closely related to the functions of the state" should not come as a surprise (Wójcik, 2012: 341). Luxembourg is nonetheless unique in just *how much* access APS actors from the financial center have to the country's politicians, government officials, and policymakers. In the words of Thomas, in an article tellingly entitled "The Bank State": "Luxembourg's banks benefit from privileged access to the political spheres. Foreign bankers questioned by Moyse [2014] mentioned often their stupor with regards to this proximity. Some days after their arrival, the directors of [foreign] bank subsidiaries would find themselves in front of the prime minister" (2014b).

How do those within Luxembourg's OFC explain this proximity? As I heard (and read) on countless occasions, the country's financial center is a relatively enclosed world where "everyone knows everyone" – in particular, key politicians, civil servants in the Ministries of Finance and Economy, and lobbyists from the various industry associations (cf. Weeks, 2020b: 7). Occupying a central role in this process, however, is undoubtedly the Luxembourgish state, whose officials coordinate the many processes that determine financial-center activity in the country. As was recalled by a senior foreign banker to Walther and Schultz: "I see all these chairmen of the private banks... they have a lot of experience and if you really have a problem, also on the government side, pick up the phone and call him [*sic*]. So, it's the most important thing: informal contact and networking" (2012: 89–90).

Often paired alongside "everyone knows everyone" as a boon to asset-management and other firms is the fact that Luxembourg is a *tiny* jurisdiction, verging on a microstate. Reitel asserts, "[Luxembourg's] small size has more advantages than disadvantages. This makes it more likely that private and public actors who know each other will be *in close proximity* and establish informal relationships, which encourages rapid decision-making and allows rapid reactions to change" (2012: 281; emphasis added). "Small is beautiful," a foreign trade representative asserted to me, in referring to the size of Luxembourg's territory and population of only 650,000; "often decisions are made at cocktail parties, thus avoiding the bureaucracy entirely" (interview, April 2016).

That Luxembourg is a tiny country *and* has an OFC should perhaps not be unexpected. Indeed, the country's diminutive size may even increase its attractiveness to asset-management and other firms: "that so many offshore financial centres are small and insular is no simple coincidence. Insularity increases the potential for internal confidentiality and the endogenous control of information in a setting resembling a 'self-contained universe'" (Fabri and Baldacchino, 1999: 142). This connection between the size of a country and its amenability to foreign finance capital is also noted in the educational materials of the UK-based Society for Trust and Estate Professionals: "Being small and tightly focused on finance allows jurisdictions [such as Luxembourg] to amend laws and rules quickly, taking advantage of changes in the financial industry. Large diversified economies must consider and negotiate with many varied interests in order to make any changes" (cited in Harrington, 2016: 263).

The proximity that exists in Luxembourg also points to the importance of having informal contacts, due to the *administrative personalization* that no doubt occurs within the financial center. Shaxson writes, "Luxembourg is a place where... one can get a fiscal ruling after a nice dinner with the tax collector: the informal networks of trust are at once inseparable from this famous 'flexibility' [*souplesse*] that characterizes tax havens [*paradis fiscaux*] when it comes to the rule of law" (2012: 377). A senior civil servant (*haut fonctionnaire*) detailed for me the "private circles," receptions, soirées, and parties where informal discussions take place:

"these are not officially part of a government job and thus are not public... yet they create an important culture of *consensus* with regards to decision-making" (interview, July 2016; emphasis added). Bassens et al. found a similar process at work among the APS actors they studied in Brussels: "some 15% of [the APS actors'] interactions are categorised as informal networking, indicating that a significant amount of professional time is dedicated to activities that support social networks" (2021: 1295).

While it appears that the situation has changed somewhat in this regard – many of my interviewees lament a perceived decline in importance of these informal contacts, due to the 2008-09 financial crisis and heightened EU regulation – there was a time in the 1980s and 90s when good contacts in the state apparatus and government constituted a comparative advantage for a firm doing business in Luxembourg's OFC. In this regard, my interviewees were often keen to boast about the ease and level of their access to important figures in the state apparatus; the head of a lobbying organization acknowledged speaking with the country's Minister of Finance at a meeting or party at least once a week (interview, April 2016).

Two telling examples along these lines come to mind. First, a senior regulator described hosting weekly cocktail parties with other APS actors in order to "keep abreast of industry developments." Over the course of attending multiple decades of these events, this person inevitably became close friends with a number of people working for the companies under regulation. While strenuously trying to avoid any conflicts of interest, the regulator told me frankly: "it is difficult to sanction your close friends" (interview, March 2016).

One of the country's few heterodox politicians provided me with a second example of when state-finance proximity can become a liability. This person recalled attending an event at a APS firm as an "ethnographer" in order to document some of the "social pathologies" that offshore finance engenders in Luxembourg. At this conference, my interviewee watched with amusement as a local politician – who not only works for an APS firm specializing in investment funds, but is also a scion of Luxembourg's *haute bourgeoisie financière* – took flak about a new piece of legislation pertaining to investments funds that this interviewee believed to be "very accommodating," yet was nevertheless judged to not go far enough in its support for the industry (interview, July 2016).

Practice of Consensus #2 – The Decision-Making Apparatus

"Mir sin eng Nueselängt viraus." – A Luxembourgish saying

Translation: "We have our nose ahead of the others."

As financial-center activity began to fill state coffers and have a significant impact in the workforce, the *laissez-fare* attitude that marked the period 1960-70 gave way to the creation of an active and organized "state-finance complex" (Weeks, 2018: 76–83). From this moment, contacts between state officials and APS actors from the OFC became more frequent. A senior technocrat described this trajectory to Moyse et al.: "These contacts, which had been in place since the 1970s, shifted to become a *structural dialogue*. It was also in the latter half of the decade that a *targeted policy* was conducted" (2014: 64–65; emphasis added).

By the 1980s, the "structural dialogue" referenced above morphed into a series of advisory committees at the financial regulatory authority, which "allowed for the development of an astute legislative arsenal and thus fertile ground for the development of business activities" (Moyse et al., 2014: 170). Hendrikse et al. note a similar process at work in their study of recent attempts to develop a "fintech" (financial technology) sector in Brussels; among those responsible for this effort, there was a realization that forums were needed to structure the "roles and positions of APS actors in the field… [as] structural positions may impede or encourage those [interpersonal] relations" deemed essential to developing the desired fintech "ecosystem" (Hendrikse et al., 2019: 1528).

In emic terms, the ensuing "close collaboration" between the Luxembourg financial center's various "stakeholders" was central to it maintaining "competitiveness" (*compétitivité*) and a "comparative advantage" (*avantage comparatif*). Keeping attuned to the whims and trends of asset managers and other APS actors required an entire apparatus of vigilance – which came to fill an important regulatory void, "seeing as the complexity of financial products had increased so much," in the words of a senior foreign banker (interview, February 2016). Haag writes, "there was a constant need to adopt new developments designed to encourage the successful evolution of the financial center. The government's key financial and fiscal advisors had to remain continuously alert to the ever-changing conditions" (2015: 230).

This tendency toward a "state-finance complex" has increased still further in recent years, especially since the global economic crisis of 2008-09. A senior securities attorney boasted that because "the [asset-management] industry accounts for some 20 percent of Luxembourg's GDP; there is a lot of interest on the part of the state. The 'funds machine' has the state's attention. *We get a piece of the pie*" (interview, March 2016; emphasis added). Two new institutions have been key in this process. The first is Luxembourg for Finance, a public-private partnership that seeks to "develop and diversify Luxembourg's financial-services industry, position the financial centre abroad and identify new business opportunities," as states its website (2021).

The second post-2008 institution of particular importance is a consultative body, the High Committee for the Financial Center (*Haut comité de la place financière*), whose objective is to coordinate the various efforts undertaken to govern and promote the OFC. Chaired by the Minister of Finance, the High Committee is a veritable "who's who" of the Luxembourg financial center: senior civil servants responsible for financial policy, representatives from the regulatory bodies and Central Bank, lobbyists from the banking and funds-industry associations, APS actors from asset-management and other firms, and the attorneys and accountants from the large law firms and the Big Four.[3]

What are the institutional and administrative mechanisms that make up the "decision-making apparatus" (cf. Issac Mwita, 2000) of Luxembourg's OFC? I see this as a five-step process, consisting of "both vertical and horizontal connections" (Wójcik, 2012: 343; see Figure 1 below). First, ideas for legislation usually originate in the "working groups" (*groupes de travail*) of the trade and lobbying organizations ABBL (Association des banques et banquiers, Luxembourg), ALFI (Association luxembourgeoise des fonds d'investissement), Luxembourg for Finance, and others. ABBL alone counts 80 of these under its purview. The task of these working groups is twofold: to encourage collaboration between financial-center APS actors who would otherwise be competitors and to come to a consensus position regarding a product or regulation *before* it is brought to the attention of regulators and government officials. According to a senior industry representative, these working groups are easier to join in Luxembourg than in other countries (interview, December 2015). The lobbying organizations listed above also commonly undertake international marketing "missions" in the lands of High Finance and Big Capital (for example, the City of London, Switzerland, Hong Kong, and countries in the Arab Gulf), often with the hereditary Grand Duke and Duchess of Luxembourg in tow, to order to give the country's OFC a royal luster.

Second, legislative proposals are brought before the regulators CSSF (Commission de surveillance du secteur financier) and CAA (Commissariat aux assurances), and the legislation is drafted in their "working groups." A senior foreign banker described this process as the following, and I paraphrase: there are at least 20 committees at the CSSF, each with 15 participants. Everyone gathers around a big table. Committee members [from the financial center] who are invited are *never absent*. When the consultations end, the CSSF thanks everyone and then makes its decision (interview, February 2016; emphasis added).

The third step occurs when state officials, regulators, and representatives from the OFC present their proposals to the Ministry of Finance as part of the High Committee for the Financial Center (described above). At meetings of this consultative body, per a senior industry representative, "informative conversations between experts" take place about "best practices." The details of impending legislation or regulation are gone over and debated. "The regulator learns a lot," this person asserted (interview, January 2016). It is at this level, that of the High Committee, where the Ministry of Finance assumes political responsibility for the proposed legislation and presents it to Chamber of Deputies and the public: "[the High Committee] is the venue where the Ministry of Finance determines what needs political attention, such as new legislation or initiatives," emphasized a senior regulator (interview, March 2016).

Fourth, with Ministry of Finance support, the State Council (*Conseil d'Etat*) and the Chamber of Deputies usually pass finance-related legislation with little debate. This process hardly represents the "age-old culture of social dialogue," per the formulation of a senior industry official (interview, January 2016), but is more akin to a "rubber stamping" of financial center's legislative priorities. Partaking of this "culture of consensus" – or might we say "non-debate" – are the local news media (Weeks, 2021: 333), which often fail to report on the possible consequences of potential legislation to the greater public. The fifth step involves implementation of the new law, in which industry-friendly civil servants and regulations are usually as accommodating as possible to the concerns of asset-management and other firms in the OFC.

Insert Figure 1 – The Luxembourg financial center's "decision-making apparatus"

In collecting data on the "decision-making apparatus" of Luxembourg's OFC, I was struck by the contradictory ways in which my study participants described this process. Two interviewees, both senior regulators, swore to me that "it is the regulator who holds the pen" (interviews, March 2016), meaning that financial-center APS actors can propose ideas, yet it is regulator who ultimately decides. However, another senior regulator offhandedly quipped that "it is the law firms that write the laws" (interview, April 2016). Whom should we believe? A median stance might be the most plausible case, which was voiced to me by another senior civil servant, while noting the tension that exists between those decisions made via informal contacts and those taken in an institutional capacity (interview, April 2016).

Practice of Consensus #3 – Legislative Outsourcing

Via its main industry organizations – ABBL, ALFI, and Luxembourg for Finance – senior APS actors from the country's OFC are heavily engaged in lobbying efforts, both at the national and EU levels. Dörry writes, "the changing conditions of globalization have brought a new type of elite to the fore, in particular the organized power of large banks, which continue to reshape Luxembourg's institutional environment" (2016: 21). "Lobbying," however, in its traditional sense does not seem to be the most accurate term for describing certain actions of the financial center, especially with regards to the development of finance-specific legislation. "Lobbying" implies that its practitioners make their case among legislators, who are then left to write and vote on the law in question. Finance-specific lobbying in Luxembourg, in contrast, is frequently more direct than this, taking the shape of what has been called "legislative outsourcing" (see Streb and Tepe, 2012).

In this regard, the Luxembourg financial center operates in ways akin to other offshore jurisdictions and tax havens: "a political economy in which sophisticated legal and tax accounting professionals are able to persuade the key players within the state to introduce a variety of devices which serve their special interests" (Christensen and Hampton, 1999: 168). Quoting Culpepper (2002: 775), Braun et al. assert, "because technocrats will always lack some practically relevant information, the politics of expertise opens the door to 'private associations [delivering] information and problem-solving strategies that enable the crafting of the policy reform itself'" (2018: 106). Yet it is not just certain APS actors who convince the government to pass offshore legislation. Because jurisdictions such as Luxembourg, the British Virgin Islands, and the Cayman Islands have become so adept in developing their various arbitrage niches, it is often state officials *themselves* who approach particular lawyers, accountants, or consultants to collaborate in creating new offshore legislation (Harrington, 2016: 222).

In Luxembourg, employing this strategy – empowering particular APS actors to devise and write offshore legislation themselves – has been a common occurrence since the rapid growth of the OFC began in the 1970s. Indeed, what connects the various components of the fund-administration industry in Luxembourg is that they were all devised by enterprising APS actors from the legal and accountancy fields who were able to persuade state authorities and legislators to enact the necessary provisions. Thomas notes, "the laws concerning the financial center are regularly co-authored by local interests; it was a [local] law firm... that has contributed notoriously to the elaboration of legislation [pertaining to funds]" (2016). A senior fund administrator was equally blunt: “[these law firms] see an opportunity and they take advantage of it” (interview, October 2015).

This “legislative outsourcing” is as common in Luxembourg as it is non-problematic. Among my 60 study participants, only a few mentioned that such a process could lead to influence peddling, corruption, or insider deals – even fewer uttered that it might not always be advantageous for a state to immediately do the bidding of foreign asset-management and other firms: “the ethics are sometimes tricky,” muttered a senior civil servant after some prodding on my part (interview, April 2016).

With regards to investment funds and asset management, we have seen “legislative outsourcing” at work on numerous occasions. A group of local securities lawyers (*avocats d’affaires*) starting in the late 1950s was responsible for formulating a new legal structure for investment funds, whose basis was the country’s notorious 1929 holding-company law (H29). From the late 1980s until the present, it has always been a gold-plated commission of APS actors who assist the Luxembourgish state in implementing the latest EU directives pertaining to EU-specific mutual funds, known as UCITS (Weeks, 2020a: 95–97).[4] A 2016 example of “legislative outsourcing” concerns the new fund structure RAIF: the reserve alternative investment fund. It was no secret among my study participants that partners at a local law firm wrote this legislation. A politician candidly told me that very few MPs (*députés*) “actually understood what the law mandates, but they voted on it nonetheless” (interview, July 2016). This should come as no surprise, however; none other than a senior regulator let it slip that the Luxembourgish MPs who usher through any financial-center legislation are the “[law firms’] guys in parliament” (interview, April 2016).

Practice of Consensus #4 – The Revolving Door

The "revolving door" – that is, the movement of legislators or regulators into the industries affected by the very same legislation or regulation (and vice versa) – is by no means a phenomenon distinct to contemporary Luxembourg. Wójcik notes a "growing inseparability of [state] elites and the APS sector," which can lead to "regulatory and cognitive capture" of state functions (2012: 341). Examples of this peculiar characteristic of late-capitalist governance abound in many jurisdictions; as U.S. Treasury Secretary during the Obama administration, Timothy Geithner boasted that he had "never actually been in banking. I have only been in public service" (Sorkin, 2014) – yet upon resigning, he did not continue to be a public servant, but rather became head of a New York-based firm specializing in private equity and asset management. Former Governor of the Bank of England Mervyn King's criticism of bankers as "incompetent and greedy" did not stop him from subsequently taking a position as a "senior advisor" with the behemoth U.S. bank Citigroup (Jenkins and Massoudi, 2016).

Akin to the United States and United Kingdom, Luxembourg too has its own "revolving door" (*pantouflage*). Critics often portray the Washington-Wall Street and the Westminster-City of London axes as insular and secretive, yet the state-OFC axis in tiny Luxembourg seems even *more* close and unified. The reach of the financial center is staggering; MPs from five of the seven political parties currently represented in the Chamber of Deputies concurrently work in some way or another as APS actors within the OFC, for being an MP in Luxembourg represents a part-time position.

What are the characteristics of the "revolving door" between the state apparatus and financial entities in Luxembourg? For starters, it is a network consisting of "senior civil servants, tax attorneys, bankers, expert economists [*économistes à la langue experte*], the heads of businesses, and a part of the press" (Pinçon and Pinçon-Charlot, 2016), in which the members of one group move with ease to take up positions in another of these elite factions. Mbembe refers to similar formations as

> a process in which international networks of... middlemen and businessmen are linking with, and becoming entwined with, local businessmen [and] "technocrats"... causing whole areas of... international economic relations to be swept underground, making it possible to consolidate methods of government that rest on indiscriminate and high-level [consensus] (2001: 86).

In this regard, we note a parallel with the Swiss case, whose "revolving door" between the state and that country's OFC guarantees campaign support, even employment, to any neophyte MPs, "provided [they are] elected on a bourgeois ticket and [evince] enough docility combined with discretion and efficiency" (Ziegler, 1979: 109). It is uncommon for Luxembourgish MPs to abuse their powers so brazenly so as to benefit the asset managers or other financial institutions that will employ them full time after their political career has ended. Instead, and following Ziegler, we note a "natural reflex" among those moving through the "revolving door": "such promotions merely illustrate the profound logic inherent to it, the ontological harmony between the interests of the state and the strategy of accumulating private capital" (1979: 111; cf. Weeks, 2020c).

Examples exposing the "revolving door" within the Luxembourg financial center are almost too numerous to cite in a thorough manner, so I will limit myself to three. First, a corporate lawyer who acted as the ghostwriter for the recent legislation on family offices and who made an appearance in the Panama Papers as a shareholder in a British Virgin Islands shell company (*coquille vide*) also sits on the administrative council of the Central Bank of Luxembourg. Second, the current director general of the CSSF, Luxembourg's financial regulator, also graced the Panama Papers, due to a previous role creating offshore companies and family offices for clients of a large foreign bank. Third, a senior partner at a Big Four accountancy did not hesitate, in 2013, to “change hats to become the consultant to the Ministry of Finance and represent Luxembourg at the OECD. A year into the negotiations, Luxembourg sent to Paris a former representative of the Big Four charged with discussing how to contain aggressive tax optimization... organized by the Big Four” (Thomas, 2014a).

Discussion

Having spelled out my findings on the aforementioned practices of consensus at work in Luxembourg’s OFC, I return to the three guiding questions posed previously in the Methodology and Objectives section. The first question points to the nature of the interactions among those working in different sectors of the financial center. As shown, strong interdependencies between APS actors and state elites are paramount when it comes to developing new financial niches, products, and legislation, above all in the investment-fund and asset-management sectors. Also apparent is how tightly APS firms are intertwined within state processes – as well as how as the Luxembourgish state serves as the focal point for bringing together all those actors with a stake in the OFC (cf. Lai, 2018: 285). As I have demonstrated, the work-related connections between APS actors and state elites often have a basis in transnational social networks, yet are proximate and localized within Luxembourg’s OFC as well – a dynamic that is “instrumental to knowledge transfer through professional interactions beyond the firm” (Bassens et al., 2021: 1288).

My second question asks how professionals cooperate to develop new financial niches, products, and legislation in the context of the OFC. As is revealed, circulation and collaboration among elites across the Luxembourgish state, APS firms, asset-management companies, and other entities undoubtedly encourage the development of niches, products, and legislation – again, most prominently in the investment-fund and and asset-management sectors (Dörry, 2016;

Weeks, 2020a). At countless occasions over the decades, subsequent governments in Luxembourg have passed "light touch" laws that are almost always written in collaboration with representatives from the OFC, a process that many critics bemoan as "regulatory capture" (Wójcik et al., 2022: 526). Moreover, to examine the boards of directors (*conseils d'administration*) or advisory "working groups" operating within Luxembourg's OFC is to see "structures of governing elites consisting of former politicians, civil servants, and regulators circulating between state institutions and governing bodies of [financial institutions]" (Lai, 2018: 287).

My final guiding question probes the roles that formal and informal structures play in this process: do the OFC's various actors make up "an industrial complex, marked by stable formal trading links driving location behaviour, or [do] clusters rely on more informal club-like structures where access depends on experience, routine interaction, personal relations and trust" (Bassens et al., 2021: 1291)? As documented, the relations among professionals in Luxembourg's OFC reflect both an "industrial complex" with stable formal ties as well as a series of social networks based on informal exchanges, which take place at industry events, cocktail parties, or in members-only clubs. Bassens et al. calls this "a para-financial services complex" (2021: 1287), one characterized by stable and formalized decision-making bodies in addition to informal venues where rapport is built via interpersonal interactions.

In sum, it would seem as if this mixture of formal and informal mechanisms via which APS actors and state elites can collaborate has largely been responsible for making Luxembourg's OFC so amenable to large foreign asset-management companies over the years. Given the synthesis between the formal and informal realms within Luxembourg's OFC, and that they span multiple areas of expertise, my analysis supports Sassen's claim that asset management and related APS represent “the mother of all intermediate sectors” (2016: 98; cited in Bassens et al., 2021: 1290).

Conclusion

I end this article by returning to my interviewee’s curious “plumbing” metaphor described in the Introduction. Every celebrated asset-management company, such as BlackRock or State Street, no doubt requires a dexterous “plumber” – or preferably thousands of them, working in tandem – so that the capital of others can continue to be channeled into the steady and sizeable rents expected under AMC. In light of this requisite, I conclude by reflecting on some current and future implications for Luxembourg’s vast “plumbing infrastructure” for financial services and its associated practices of consensus.

Even as it is the basis behind the Grand Duchy having the highest GNP per capita in Europe, an economy that grows over 4 percent annually, and a robust labor market in an otherwise-economically peripheral part of the continent, Luxembourg’s OFC has nonetheless resulted in a series of contradictions that are increasingly palpable at the local and national levels. In the eyes of Sorlut (2022), Thomas (2022), and other observers, widening income and wealth inequality in the Grand Duchy have placed significant pressure on its social fabric, welfare state, democratic institutions, and relations with neighboring countries.

Such tensions are particularly acute in the capital Luxembourg City and environs, an area “cursed – or blessed, depending on your vantage point – with housing and commercial real-estate prices that are on par with those in prime areas of London” (Weeks, 2020a: 100). While the processes of consensus described herein have served the OFC so well over the decades, such collaboration remains far more elusive in Luxembourg’s notoriously expensive and sclerotic property markets. Paccoud describes this problem as one of "double concentration": there is "on the one hand, a concentration of private owners owning significant amounts of land – and on the other, the fact that land, when for sale, is usually purchased by one of the few large developers in the country" (cited in Berndt 2021). Without their own practices of consensus, as a result, Luxembourg's developers and housing and planning officials are currently finding themselves with no land reserve (*réserve foncière*) and forced to confront stratospheric real-estate prices as well as the machinations of a small-yet-influential property-owning oligopoly.

Notwithstanding the fact that the twin stresses of inequality and unaffordability were created in large part due to dynamics in the OFC, they nevertheless pose a risk for the future viability of the country's OFC and its attendant "plumbing infrastructure" and practices of consensus. As Dörry reminds us, "Luxembourg is a fund domicile centre, where the functional logic of fund-administration activities essentially follows [that of] cost-driven scale economies" (2015: 801). Thus, it seems not out of the realm of possibility that Luxembourg's OFC could itself become a target of the incessant cost-cutting strategies of APS firms and large asset-management companies. As such, it could very well be in lower-cost EU locales like Poland, or even "third countries" (*pays tiers*) like India, where asset managers go looking for their "plumbers" in the future, bypassing those in the Grand Duchy entirely.

[1] Worth mentioning is how this timeline was flanked by two surprising and unwelcome developments in the eyes of most of my interviewees: the releases of the "LuxLeaks" in November 2014 and the Panama Papers in April 2016. Via these leaks, certain of the activities that occur in the Luxembourg financial center attracted a great deal of international scrutiny and criticism. Thus, it was scientifically rich to hear my interviewees' reactions to this damning pair of scandals in near real-time.

[2] The development of "offshore" niches has long been undertaken by a variety of APS actors working in Luxembourg's OFC. The country's H29 holding-company structure, banking-secrecy laws, tax rulings, and even flag-of-convenience maritime legislation (*pavillon maritime*) are just a few examples of this process. For a further discussion of the "commercialization of sovereignty," whereby a nation-state like Luxembourg uses its right to pass laws in order to gain a commercial advantage (usually of an arbitrage nature), see Palan (2006: 148–149).

[3] The Big Four are frequently criticized for their role in being the chief architects of tax-avoidance schemes for individuals and corporations that cost governments and taxpayers worldwide billions of U.S. dollars each year (see Rostain and Regan, Jr., 2014). All the Big Four firms have a significant presence in Luxembourg, occupying architecturally conspicuous buildings and employing thousands of people, including numerous MPs in the the country's 60-person Chamber of Deputies.

[4] EU circulars, directives passed by the European Commission, control the legal and regulatory framework for the UCITS market. Until recently, these could be implemented in as flexible a manner as possible by the governments of individual member states. As might be expected, the Luxembourgish state "took advantage" (*profiter*) of this process of implementing EU circulars at the national level, as quipped a senior fund administrator – as if to say that such a tactic were commonsensical and totally justified (interview, October 2015).

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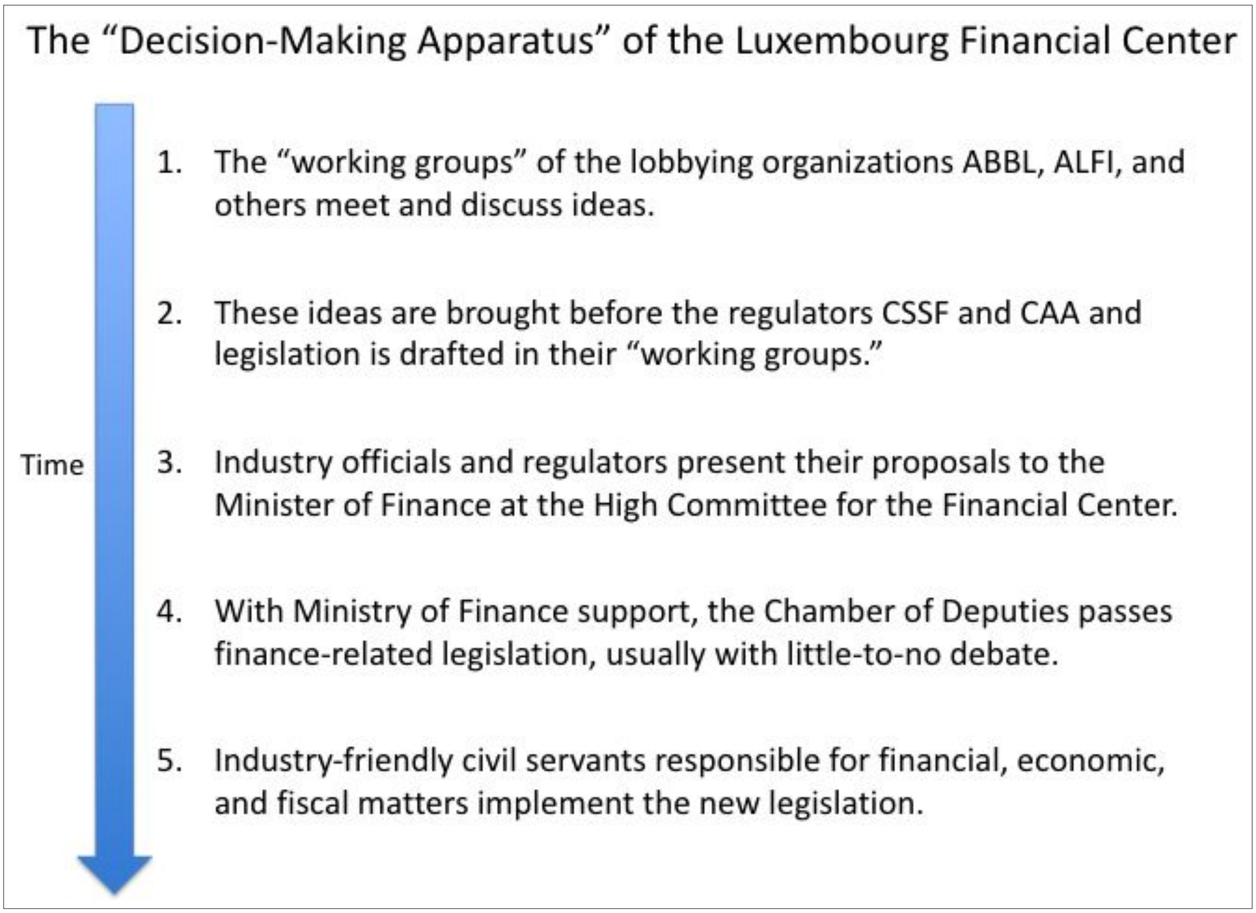

Figure 1 – The Luxembourg financial center's "decision-making apparatus"