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Danish Capitalism in the 20th Century

A Business History of an Innovistic Mixed Economy

Stefan Kirkegaard Sløk-Madsen



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*Dedicated to my three amazing sons, Ludwig, Conrad, and Ditlev
—Ideas matter, trade matters, so never stop either and always give equal
liberty and dignity to all humans.*

FOREWORD

Denmark is, like the other Scandinavian countries increasingly seen as an exemplar nation. The country scores highly on democracy, is very low in corruption and very high in generalized trust, and has remarkably, been able to combine high levels of wealth creation and economic freedom with a very large government sector and levels of taxation in the top worldwide.

What is the cause, or causes, of all this? Are the causes perhaps intertwined? If so, what does the web of causes look like? A traditional answer is “factor endowments”; however, Denmark doesn’t have obvious natural resources. An updated answer is a “highly educated workforce” and while this is true for Denmark, it is also true for many other countries.

Increasingly, social scientists have been looking to institutional and, broadly, ideological determinants of why countries perform differently. Institutions are the formal and informal rules of the game (including trust), and, as Deirdre McCloskey’s work reminds us of, they are strongly intertwined with the generally held beliefs that are manifest in political ideology and also religion. Institutions and ideology tend to evolve slowly over time in cultural evolutionary processes that are still relatively ill-understood. As Nobel Prize laureate Friedrich von Hayek stressed, we follow successful “rules”, often without necessarily understanding why they are successful.

However, things like institutions, ideology, rules, and so on are “macro” categories. They shape history to the extent that they influence

people's actions (and are themselves changed over time by actions). Also, while institutions and shared beliefs are necessary to the functioning of societies, they may of course also be stifling. The institutions of what Hayek called the "Great Society" (much of the West) with its emphasis on freedom in a number of dimensions, are obviously very different from the institutions that guided the evolution of most other historical societies.

Thus, as Dr. Stefan Sløk-Madsen explains in this book, we need to look beyond factor endowments and institutions, and look at the actual actions of people in the production of wealth, high levels of trust, and so on. Moreover, to understand the current situation, we need to understand how that situation came about from a historical perspective, not the least how entrepreneurs and business people and the companies they founded combined available factors of production to create wealth.

To this end, Dr. Sløk-Madsen very skillfully combines an investigation of Denmark's national and international historical past on the macro level with an inquiry into the business history of the nation. This is a work that is at the same time multidisciplinary, enlisting the disciplines of economics, management research, economics and political science, and multi-level, featuring discussions of individuals, firms, institutions, and societies. It is bold, informative, and enlightening—and highly recommended.

Nicolai J. Foss
Professor
Copenhagen Business School
Frederiksberg, Denmark

PREFACE

This book is a work of love, but also of necessity. As a Danish social scientist, one is often stuck with wonder when reading about Danish social structures and institutional arrangements and outcomes in international outlets—both academic and popular. Like all countries, Denmark is unique, with a unique historical outcome shaped by the multitude of choices made by the millions of humans who have either directly inhabited the country or have influenced it from outside its borders. What makes Denmark more unique than most is the universal welfare state model, which also earns immense political interest from the right¹ to the left. Danish institutions, or some idealized non-factual version of them, have even been an argument in US Presidential elections.² However, it is reasonably challenging for non-Danish speakers to truly understand why Denmark got its present economic shape. Therefore, this book is necessary, as it aims to use mainly Danish language sources to give an accessible yet comprehensive and academic account of a much talked about, yet poorly understood, example of a mixed economy and a prime example of

¹ Most famous recent example is likely the Trish Regan Fox News segment: “Everyone in Denmark is working for the Government”. *YouTube* (2018), <https://www.youtube.com/watch?v=pSFfTG42Jl8>, Accessed Oct 12, 2021.

² Jim Tankersley, “Why Bernie Sanders Loves Denmark and Hillary Doesn’t”, *Washington Post* (2015), <https://www.washingtonpost.com/news/wonk/wp/2015/10/13/why-bernie-sanders-loves-denmark-but-hillary-clinton-doesnt/>, Accessed Oct 12, 2021.

a universal welfare state. The book relies mostly on academic sources or reports from respected organizations, but includes other sources where necessary. Other sources can be autobiographies, books by journalists, or even debate-oriented works by policymakers and would-be policymakers. That said, the primary works referenced are the growing Danish research literature on the relevant topics. I am, as such, genuinely indebted to many better scholars than me.

Therefore, this book is mainly written for an international audience interested in understanding the Danish economy per se or a case of a mixed economy more generally. That is the main contribution. The second contribution is, as described above, the usage of sources that is hard even to locate, let alone read, for non-Danes. Thirdly, the book is not written by a historian but by an economist, be it one with a deep interest in history and knowledge of historical methods. I am too humble to present new historical evidence in this work—others more skilled than I are better at that. However, I will present historical changes and explanations from a slightly different light using my economics training than some historians might; For instance, I present the conditions that created the Danish welfare state, in a novel way: the Danish welfare state creation as a failed state outcome driven by special interest groups.

As an economist, it is natural to tell Danish Capitalism's history as a business history. It is also an attempt to tell a bottom-up history to as far a degree as possible. As interesting as redistribution and state production might be to some readers, the fact remains that there would be nothing to redistribute without firms and markets generating wealth. Even a casual look at Danish businesses will reveal that longevity is a shared variable and that many firms predate the modern welfare state. There are, therefore, four fundamental and interrelated assumptions behind this book, which help to constitute the underlying research design:

- Firstly, the most internationalized and export-oriented Danish companies tend to be the largest companies founded 50 plus years ago—many before 1945.
- Secondly, a number of the largest Danish companies have been extraordinarily successful in exploiting global niches in particular since the early 1990s.
- Thirdly, these large companies have been marked by peculiar types of ownership, including foundations and cooperatives.

- Fourthly, these successful large companies were engaged in very different industries from a variety of sectors, including food and beverages, shipping, medical industries, fashion, energy, and manufacturing.

The fact that old and large Danish corporations were successful after 1990 across different industries and ownership types lead to a twofold hypothesis of the book: being old and Danish mattered to the globalized companies. This hypothesis leads to the three overall and related research questions:

1. Why did Danish Capitalism foster so different companies that proved globally competitive?
2. How were these companies impacted by—and did they impact—Danish Capitalism?
3. To what degree does the case of Denmark give evidence to innovism—the notion that free development and testing of ideas as opposed to capital access and accumulation or institutional arrangements and stability—is the main explanation for prosperity as observed in modern times?

This book will provide evidence and discuss matters related to these overall research questions in 7 independent chapters and finally revisited, summarized, and answered in the concluding remarks toward the end of this book.

Frederiksberg, Denmark

Stefan Kirkegaard Sløk-Madsen

ACKNOWLEDGEMENTS

When I took social sciences classes in high school, it was a nerdy dream to sometime in the future write a book on Danish society from a historical perspective. As I much—much—later wrote my Ph.D. and was lucky to talk to many international people more skilled, knowledgeable, and intelligent, then I, the realization dawned that while there was a surprisingly high interest in Danish society and modern history, but there was very little knowledge about it internationally. I therefore count myself immensely privileged and lucky that I have been given a chance with this book to both satisfy my old dream, and potentially make an important contribution to international social science. To try to convey such a vast topic as this to an academic audience has been humbling and fun. All mistakes and omissions are—needless to say—mine alone. Yet, I need to thank a number of people, without who this friendly support, this book would not have happened.

This book has been way too long in the making. It was born when my old master thesis supervisor, esteemed business historian and vice dean at Copenhagen Business School Martin Iversen, asked if I wanted to co-write it. Martin unfortunately had to abandon the project, but I am extremely grateful for the opportunity he has given me here. Martin is a wonderful scholar, he, Steen Andersen (my former bachelor thesis supervisor, now at Rigsarkivet), and the amazing Ole Lange have all gone above and beyond as teachers and showed me the amazing power of business history to explain society. I sat out to draft an outline while being a

visiting scholar at Sauder School of Business at UBC in 2016. However, it took me a long time to actually write it. I will not bore the reader with the excuses, or even try to sell you on the fact that time matured the project. I will simply say, that I cannot stress how lucky I am to have Ruth Jenner, Uma Vinesh, Srishti Gupta, Ellie Duncan, and the team at Palgrave be so patient. Thank you!

Alfred Marshall was right when he said that all modern economists stand on the shoulders of giants. So do I, in a very real way. This work is in many ways a review of the immense body of research in Danish—I have often found myself in awe at the works cited here. I further simply would never have finished this book without the giant help of my assistant Henrik M. Nielsen. He has been an insightful workhorse who tirelessly supply research and stood for hour-long qualified discussions on the topics of the book. Several ideas in this book owe much to him, and I know he will be an amazing academic historian should he choose to be one. But as with much talent, the choice is his. He should likely excel in almost any venture he will set his sights on.

I am also very thankful toward Professor Nicolai J. Foss, who has been an essential intellectual inspiration for me since I, by chance, found a copy of his 1994 book “The Austrian School and Modern Economics” in my second year of undergrad. As a phenomenal teacher on my master’s program—I still remember the toaster slide. All the way to his 2012 book (with Peter Klein) “Organizing Entrepreneurial Judgment: A New Approach to the Firm”, which became the intellectual anchor of my Ph.D., as did many of his papers. Those books and many of his papers are classics, in my view, and he is one of the best and most crucial modern management scholars. To have him grace my work with a foreword is a big honor.

Further, I need to thank the scholars who has been kind enough to endorse my work. I am humbled and blessed that such people took the time and showed the patience to read early drafts. It is very inspiring for further work to have such intellectual towers encourage you. Thank you Siri Terjesen Art Carden, Bruce Caldwell, Zoltan Acs, David Iglesias, and Christian Bjørnskov. They are all role models for both their work and the service they do.

Likewise, a big thank you to CEPOS, particularly, the donors and the president Martin Ågerup who have allowed me and supported me in writing this book. CEPOS is such an important and needed organization in Denmark; it is truly amazing to work there. I am especially indebted to

a former colleague, Henrik Christoffersen whose initial guidance in this book project has been very important.

Besides my wonderful colleagues at CEPOS who have all helped me immensely to discuss issues and locate references, I also like to thank David Crowther of the History of England Podcast. That podcast is truly an astonishing feat which has given me a lot of joy—it is from him I owe the Alfonsi quote in the Concluding Remarks. I also like to extend a huge thank you to Kamilla Holmgaard from Det Økonomiske Råd for helping supply data. I am very grateful to all the insightful who have taken time to talk to me and who have recommended the project to others. Also, a big thank you to Andelsforeningernes Humanitære og Kulturelle Fond who kindly offered to support expenses for the book. I am very grateful, but just like all others, they have had no say in the content. I am also indebted to Balder Asmussen who is a challenging discussant partner on the formative years of the welfare state and the surrounding economic policy and conditions—his comments has been very helpful indeed. Also, while I did try to track down the ownership rights to the Stjernen ad, I simply was not able. I hope the right owner and artists will forgive my use of their fine work.

Lastly, but most importantly, I must thank my darling patient wife Katja. Without her immense patience and support, this could never have happened. I am sorry I spend so many words on works as these and have so few left for the important matters. Love you!

PRAISE FOR *DANISH CAPITALISM IN THE 20TH CENTURY*

“Sløk-Madsen’s rich historical narrative is a significant addition to our understanding of the many varieties of capitalism, and a true case study of ‘innovism’. The account of Danish firm-based capitalism explores four key and “uncontested” pillars of Denmark’s success: freedom of speech, free markets generate wealth, small nation, and socialist compromise. The extensive references, including many Danish language-only sources, dispel the misguided notion held by many non-Danes that Denmark’s remarkable success is somehow due to a socialist welfare state. This text is a must-read for any student of Danish economic history, as well as for practitioners and policymakers who will need to understand the historical context and many experiments in order to develop and implement change.”

—Siri Terjesen, *Professor of Entrepreneurship & Associate Dean for Research and External Relations at Florida Atlantic University College of Business*

“How does a small country of only six million compete in the global economy? Stefan K. Sløk-Madsen expertly answers that question in his compelling new book, *Danish Capitalism in the 20th Century, A Business History of an Innovistic Mixed Economy*. Many incorrectly believe Denmark is a socialist state. After reading this book, they will understand that Denmark’s economy is clearly capitalistic but implements a high tax rate with comprehensive welfare benefits.

Sløk-Madsen masterfully provides an economic history of Denmark and explains how a small country with no large natural resources was able to create such large globally diverse companies as Maersk, Lego, Bang & Olufsen, and Carlsberg. The Danish penchant for citizen trust in each other, in institutions, property rights and the rule of law coupled with minimal corruption make ideal grounds for an “innovistic” economy or one that focuses on the interaction of traditional institutions and the consensus driven freedom to try novel approaches. While there are many types of capitalism the Danish variant has flourished by using the country’s location, size and demographics to its full economic benefit.”

—David Iglesias, J. D. Jean and E. Floyd Kvamme, *Associate Professor of Politics and Law and Director of Wheaton Center for Faith, Politics and Economics at Wheaton College*

“Sløk-Madsen traces the institutional changes that accompanied the transition of Denmark from a liberal market economy to a full-blown welfare state. For readers who, like myself, know little about this story, this is the book for you.”

—Bruce J. Caldwell, *Research Professor of Economics and Director of Center for the History of Political Economy, Duke University*

“This book is a tour-de-force in the history of Danish capitalism, and the author possess the courage to provide a liberalistic argument. The author promotes the importance of private innovation in contrast to the well-known understanding of Danish capitalism as a state-driven development of a welfare society. The importance of public institutions and welfare is recognized by the author but the point is that economic progress is to be understood in a market economic context driven by individual private entrepreneurs rather than in a welfare context driven by a large public sector. It is a thought-provoking and recommendable read for the domestic as well as the international audience. “Danish Capitalism in the 20th Century – a Business History of an Innovistic Mixed Economy” is based on a solid theoretic understanding of the concept of capitalism and an in-depth analysis of the historical development.”

—Martin Jes Iversen, *Associate Professor of Business History and Vice Dean of International Education, Copenhagen Business School*

“This book is a very timely and insightful corrective to the stories often told by media and politicians about Denmark. Stefan K. Sløk-Madsen not only documents how Denmark grew rich before the welfare state, but also how the current welfare state rests on a highly capitalist private sector, and how that sector developed. His book is a must-read to anyone with an interest in the quirks and special features of the Scandinavian societies and their thoroughly individualist market institutions.”

—Christian Bjørnskov, *Professor of Economics at Aarhus University*

“American critics of socialism frequently hear people say ‘well, socialism works in Denmark!’ *Danish Capitalism in the 20th Century: A Business History of an Innovistic Mixed Economy* is an important corrective to a simplistic narrative. By adopting a business history approach, Stefan K. Sløk-Madsen explains the real source of Danish economic success: economic growth driven by innovism, not redistribution. If you’re looking for a brief but comprehensive introduction to Danish economic history, this is the book to read.”

—Art Carden *is a professor of economics at Samford University’s Brock School of Business*

CONTENTS

1	Defining the Twentieth Century and Danish Capitalism	1
	<i>Individualist Methodology as a Historical Method</i>	2
	<i>Telling a Grand National Narrative as an Individualist Methodologist</i>	3
	<i>Boundary Conditions and Social Change</i>	4
	<i>When Was the Twentieth Century in Denmark?</i>	4
	<i>What Is Danish Capitalism?</i>	10
	<i>Danish Capitalism as a Case for Innovism</i>	21
	<i>The Mixed Economy: Balancing of a Regulatory State and the Free Market</i>	22
2	Antecedents to Danish Capitalism in the Twentieth Century	25
	<i>The Ancient Danish Folk</i>	26
	<i>Danish Downfall in the Nineteenth Century</i>	29
	<i>The Collective State Model</i>	30
	<i>The First Constitution</i>	32
	<i>The Freedom of Trade Act and Impacts of the Danish Freedom Reforms</i>	35
	<i>The Conservative Counter-Movement</i>	42
	<i>Conclusion</i>	43

3	Danish Economic Policy and Institutions in the Twentieth Century: From Laissez Fair to a Mixed Economy?	45
	<i>Towards a New Dominant Institutional Logic</i>	45
	<i>The Important Scandals and Life Before the Welfare State</i>	47
	<i>Banking Crisis and Shift of Sentiments</i>	51
	<i>The English Inspiration</i>	52
	<i>The Constitutional Change and the Emergence of Redistribution as the Raison D'être of the State</i>	55
	<i>The Failed State and the Welfare State</i>	57
	<i>The Final Breakthrough: The National Pension</i>	59
	<i>The Good Times That Changed Everything</i>	61
	<i>The Ungovernable Welfare Sector</i>	63
	<i>The Too Late and Too Incomplete Reforms</i>	66
	<i>The Dream of the Planned Welfare State</i>	67
	<i>The Wall</i>	68
	<i>New Public Management: The Introduction of Misunderstood Business Thinking</i>	70
	<i>Reforms and Labor Supply</i>	71
	<i>Conclusion</i>	73
4	Competing Explanations for Danish Prosperity	75
	<i>The Consensus Explanation</i>	77
	<i>The Common People Hypothesis</i>	79
	<i>The Lost Opportunity Paradigm</i>	81
	<i>Trust and Danish Capitalism</i>	82
	<i>The Role of a Homogeneous Population</i>	85
	<i>The Role of Religion</i>	87
	<i>The Romerian Explanation</i>	92
	<i>Conclusion</i>	93
5	The Industrial Denmark in the Twentieth Century	95
	<i>War and Competition—Prelude to the Twentieth Century</i>	95
	<i>States Within the State</i>	98
	<i>Innovation and the New Schools of Thought</i>	106
	<i>The New Origins and Conclusion</i>	112