Paper to the EBHA conference in Frankfurt 2005
“Creating Scandinavian Capitalism”
– a new international business history course

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Introduction
In March 2005 the H-Business internet web forum for business historians hosted an interesting and intensive on-line debate. The debate concerned the position of business history courses on business schools and the problem of integrating the field in to more traditional business schools programmes. It was the H-net editor David A. Kirsch who made the first reference to an article by David Van Fleet and Daniel Wren entitled “Teaching History in Business Schools, 1982-2003” published in the journal Academy of Management Learning and Education.¹ Kirsch referred to some of Van Fleets and Wrens conclusions, and they were indeed not edifying news for the business historical researchers on H-business:²

- the teaching of history in domestic business schools has dropped (from 79% to 51%).
- among those that say history is now part of their programs, in 2003 most feel that it should not be, whereas in 1982 most felt that it should be.
- respondents from accredited institutions felt that less history of management thought should be taught

In order to underscore the point David A. Kirsch also mentioned a few survey responses which Van Fleets and Wrens had received from American business schools:³

¹ Van Fleet and Wren (2005)
² Ibid., p. 47.
³ Ibid. P. 51.
- we have eliminated teaching history in favour of courses that better prepare our students for scholarly research...it is less important than other topics and we had to make trade-offs given the limited number courses students take while in the program.
- the history of various disciplines [is] not considered important by faculty for PhD work.

Vam Fleet’s and Wren’s article and the following debate illustrated that it is – and probably will continue to be – difficult and challenging for business historians to gather a strong position on the curriculum of business schools. In one of the interesting comments on H-business Christopher McKenna, Said Business School, University of Oxford, stated that business historians simply “missed the party” when both American and international business schools in the last couple of years rapidly expanded their faculty number “adding institutional sociologists, social psychologists, financial economists and even political scientists, moral philosophers, and corporate lawyers”. The explanation was, according to McKenna, that business historians lack an institutional voice in business schools and the efforts thus continues to be very fragmented.

How can business historians in the future “join the party” and create a strong platform for their research and teaching on American and European business schools? This question might prove to be one of the most important and essential challenges to the business history environment in the forthcoming years. To gain a firm footing on the institutional systems of the business schools is a difficult and longwinded process.

This purpose of this paper is to follow the spirit of Greg Patmore, Director of the Business and Labour History Group, the Business School at the University of Sydney, Australia. At H-Business Patmore explains that the new research group in Sidney, which recently received funding from Citibank, is eager to exchange experiences and hear from others “who have business history courses that have been successful in attracting students.”

This paper is about a new teaching project initiated by Assistant Professor Martin Jes Iversen, Copenhagen Business School in co-operation with Professor Lars Thue, BI Oslo, Professor Hans Sjögren, Stockholm School of Economics and Associate Professor Susanna Fellman, Helsinki University and supported by the Nordic Council. The teaching Project is entitled “Creating Scandinavian Capitalism”.

The paper is divided in two sections. Firstly a general description of the teaching project and finally the first example of a teaching case from this work namely the development of Carlsberg which should illustrate some characteristics of Danish capitalism namely self control of the market forces in the early part of the 20th century. Perhaps this course can inspire to cooperation between colleagues in other parts of the world – one could for instance imagine new international business history courses entitled “Creating Mediterranean Capitalism” or “Creating Central European Capitalism”.

**General description of the teaching project Creating Scandinavian Capitalism**

**Aims**

The purpose of Creating Scandinavian Capitalism (CSC) is twofold: Firstly to throw light on the development and characteristics of the capitalist systems in Denmark, Norway, Sweden and Finland and secondly to discuss the possible existence of a particular Scandinavian type of capitalism. The course is a co-operation between the business history units at BI Oslo, Copenhagen Business School, Stockholm School of Economics and Helsinki University. CSC is thought as a textbook and as an optional business school course either on BA- or MA-level. The course aims primarily at international business students and exchange students and the first teaching will take place in the fall of 2007. The basic idea is that from 2005 to 2007 the Scandinavian researchers involved in the project will edit and write a textbook in English. From 2007 on the authors and their colleagues will teach the course. When for instance students at BI Oslo learn about the historical development of the Swedish capitalism is the idea that the Swedish author of that particular chapter will come to Oslo and hold a guest lecture about his own country’s capitalism. In that sense “Creating Scandinavian Capitalism” is thought as a real international course.

**Motivation for the course**

In World Economic Forum’s Global Competitiveness Report of 2003 five Nordic countries - Finland (1), Sweden (3), Denmark (4), Iceland (8) and Norway (9) - ranked in the top ten of the world’s most growth oriented competitive economies.\(^5\) In other words half of the world’s ten most competitive nations were Nordic countries in 2003. A remarkable share as the Nordic countries traditionally are characterized by large public sectors and high pressures of taxation - in other words by the "Scandinavian Welfare Model". The aim of this course is to focus on the business systems in

Denmark, Norway, Sweden and Finland and try to illuminate how and why the economies of these small North European countries became so competitive and relatively strong during the 20th century. Was it in spite of - or as a result of - strong public sectors, was it due to mentality and capacity for work, internationalisation or perhaps access to raw materials or large export markets? And perhaps most important can we identify convergence or heterogeneity between the Scandinavian economies. If a convergence movement exists what is then the content of such a "Scandinavian capitalist model"?

Structure of the textbook
As the title indicates the course and the attendant textbook is inspired by Thomas K. McCraw’s book Creating Modern Capitalism from 1995 and the following course at Harvard Business School. Creating Modern Capitalism is a textbook developed for the MBA Business History course at Harvard Business School and the book consists of a very logic and thought-through structure: Firstly an introductive chapter which presents capitalism in general and provides some guide-lines for the reader. Then four country chapters - Great Britain, Germany, USA and Japan. Each country chapter consists of a section about the general development and two 30-50 pages cases which mirrors particular characteristics of the national capitalism. Finally the general conclusion draws a broad picture of the differences of the capitalistic systems and hints at the importance of history for scholars who are engaged in economy. The structure of Creating Scandinavian Capitalism should follow the basic ideas behind McCraws work, which consists of a well-defined purpose and a combination between country chapters and illustrative cases.

The Introduction
The Introduction to CSC will be started by a motivation followed by definitions of important concepts, chronology and finally the structure of the book.

Motivation: In several international measurements of competitiveness the Scandinavian countries range among the worlds most competitive nations. Also concerning spread of technology, BNP per capita, life quality in world top. At the same time the Scandinavian countries have some of the largest public sectors – is it a paradox or? What is the historical background for the Scandinavian Capitalist development – does there exist a historic “Scandinavian way” towards high growth and

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McCraw (1995)
living standards and thus does there exist a particular “Scandinavian capitalism” – and if so what is it??

**Definitions:** This book concerns the historic development of Scandinavian Capitalism. But what do we mean by:

- development – what does it mean to think or analyze historically?
- capitalism – and why is the concept relevant?
- “Scandinavian capitalism” – what does it imply to look at capitalism in several countries – capitalistic systems…

**Business/capitalist systems:** The existing concepts of business systems – Whitley, capitalist systems, Sejersted – co-ordinated / democratic capitalism, Lazonick, Chandler

**Chronology:** Analyzing capitalistic systems development over time implies a focus on chronology. How does this book deal with chronology? Mention three industrial revolutions – strengths and weaknesses – also a more explanatory chronology: Kondratievs waves – and the general pattern of economic development provided by Freeman & Louca.

**Structure of the book:** A guide for the reader.

**Country chapters**

The Introduction is followed by the first country chapter. The country chapters will obviously have some differences. But it is also important that we identify some basic characteristics that corresponds for all country chapters.

First of all the chronology. Concerning chronology we will work with two levels:

1) the world/background development. This level provides an understanding of the macro historical forces behind the capitalist development in all countries.

2) the individual country development. This level mirrors that each country has been through its own particular phases in the development.

When we deal with chronology we also deal with change and the dynamics of the historical process. In that respect we talk about formative periods – how for instance technological paradigms are impetus for change and then establish a new stable period. The idea is to identify the possible “formative” phases in which situations have been open for new opportunities. From stable periods to instable transitions for instance in the national economies. What constituted the stable periods? Particular decisions, actors or macro structures?
Despite chronology we will also try to define some important themes that should be included in each phase in every country chapter. In that respects we will be inspired by the Business Systems approach. As the text book and the future course after all concerns business history it is important that we include the company. We should be aware of the importance of an international dimension to these different aspects of the national business systems. But in order to make some coherence between the country chapters will be structures in particular chronological phases:

Phases: Phase I (app. 1860-1930) Phase II… Phase III …

Capitalistic systems:

Swedish Capitalism  Text  Text  Text

Danish Capitalism  Text  Text  Text

Norwegian Capitalism  Text  Text  Text

Finnish Capitalism  Text  Text  Text

Company case chapters

The role of the company-case-chapters is to mirror some particular characteristics of the national capitalism. One example is the Danish capitalism in the early part of the 20th century which was very much marked by self-regulation of competition in the industries. Cartels and market agreements were made in several sectors such as light electrical equipment, building materials and the food and beverage industries. A business case which can mirror that both industrial owners, the state and the workers had sudden interests in this protected national system is the beer industry. The following case is about Carlsberg and it can show some aspects of how cases might can tell a lot about the capitalistic systems and not just about the single event of the individual company and its industry.

Case example from Creating Scandinavian Capitalism:

Carlsberg and the Self-Regulation of the Danish Beer Market
By Martin Jes Iversen, Centre for Business History, Copenhagen Business School

Introduction

Competition regulation is a controversial subject. Authorities in the world's most powerful economic unions - the US and the EU - regard free competition as the fundamental principle in their economic policy and front pages stories about substantial penalties to companies such as SAS and A.P. Møller-Maersk mirrors the gravity of the matter. A similar Norwegian project served as model and the outcome was several books and articles, which described and analysed the nature and transformation of power in Denmark.7 "The Market should be king - at least within economy" states the Danish professor Per Boje in a book about the Danish competition laws.8 But, continues Boje, unregulated free competition is a self-contradiction. The history of the late 19th century showed that without any state regulation private economic interests tend to counteract the destructive consequences of free competition by establishing monopolies, trust or cartels.9 In this perspective state regulation of competition could be regarded as the public protection of well-functioning free markets against private attempts to establish monopolies and cartels. But already in the 1960s and 1970s several researchers questioned this public versus private interests approach arguing that companies and/or industries often took advantage of public regulation for instance as a justification of high prices or as market-stabilising mechanism.10 Public regulation is consequently often influenced by private interests, which lobby the policy-making process and keep close contact to the policymakers and thus "capture" the public decision-taking process.11

This case focuses on the dominating private player on the Danish beer market - Carlsberg/Tuborg12 - which succeeded in sustaining a national market-share above 75 percent from the 1880s to the 1980s. Carlsberg's market-share was thus extremely stable while the competition conditions on the other hand were fundamentally different at the ends of the covered period: In the late 19th century the competition on the Danish beer market was firmly self-regulated while at the end of the 20th century international public authorities defined the rules as competition regulators. In this article I will try to unveil how Carlsberg regulated competition on the Danish beer market and to identify a possible pressure on this

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7 A similar Norwegian project served as model and the outcome was several books and articles, which described and analysed the nature and transformation of power in Denmark.
8 Boje (2004)
9 These two options are defined inside the framework of a capitalistic market economy built on private property rights. A third variant is a socialist system in which the state owns and control production facilities
10 McCraw (1990)
11 This situation is often referred to as the "capture-theory"
12 The two Carlsberg breweries (Gamle Carlsberg and Ny Carlsberg) and De forenede Bryggerier (Tuborg and several small breweries) became partners in 1903 and are thus referred to as “Carlsberg” in the article.
self-regulation by the Danish - or international - authorities. The basic question is why Carlsberg’s self-regulation came to an end: was it due to pressure from the Danish (or international) authorities or rather the result of structural changes on the Danish and international beer market?

Setting the stage

The regulation of the Danish market has developed in different stages between highly regulated non-competitive markets and more competitive periods. These different stages provide an essential background for Carlsberg’s self-regulation of the Danish beer market in the 20th century.

- App. 1500-1850 the medieval pre-capitalistic uncompetitive “guilt” system
- App. 1850-1900 the early unregulated competitive market economy
- 1900-1990 the nationally regulated market with less competition
- 1990- the internationally regulated and competitive market competition

In the medieval pre-capitalistic Danish society trade and commerce was regulated by the state through geographical and functional privileges. Besides this centralised regulation the economy was characterised by the local so-called guilds, which protected craftsmen’s competences and markets. In the late 18th century royal civil servants focused on the disadvantage of the guild system, which due to the strict geographical limits prevented economic growth and in some cases even encouraged low
quality. Some guilds were therefore prohibited in the early 19th century and gradually a new, more liberal policy was initiated in order to support competition particular within commerce.

The democratic constitution from 1849 foreshadowed a full freedom of trade. The promise was kept in 1857 but only in function after 1862 when all guilds and geographical privileges were abandoned. The young democracy was weakened by the defeat to Prussia in 1864 when Denmark lost 2/5 of its land and the following decades were marked by weak public regulation. Already in the 1870s private companies and industrialists reacted on the so-called “unhealthy” competition by establishing trusts and market agreements. One of the most important individuals in this phase was C.F. Tietgen who initiated several mergers in order to regulate and control the national market economy. Tietgen was eager to built up a strong Danish business environment after the disastrous defeat in 1864 and Tietgen companies such as De forenede Dampskibsselskaber (DFDS), De forenede Sukkerfabrikker and The Great Northern Telegraph Company continued to play an important role in the Danish business environment throughout the 20th century.

The early Danish industrialization went on during a liberal period with weak public regulation and growing international commerce. But World War I represented an exceptional period when public interests overshadowed the private self-regulation and after 1918 particularly the workers and the small businessmen demanded a new public regulation of private trusts and market agreements. Competition regulation was indeed a very important battlefield between the liberal and socialist ideologies – on one hand the extreme liberalistic politicians and industrialists argued and fought for a market free of public interventions (which not necessarily means a free market) while the socialists argued and fought for a regulated market in which the state controlled the most important sectors of the economy. Perhaps due to this tense ideological conflict the political negotiations continued during the 1920s and Denmark only got a real competition law in 1937 more than ten years later than the neighbouring countries Sweden and Norway. The 1937 monopoly act built on the control principle rather than the “forbidden” principle. Price agreements were consequently allowed as long as they did not cause “unnatural” high prices and disadvantages for the customers. It was the public register “Monopoltilsynet”, which supervised the industries and all price agreements were registered by the authorities. In 1949 a large public investigations in private trusts was initiated but the basic principles behind the competition law was kept unaltered until 1993 when OECD critized the Danish legal system for its inability to control private trusts and price regulation.

14 The first trust law was decided in 1931 but according to Boje it did not have any consequences for the business life.
Carlsberg and the "anarchistic competition", 1847-1903

Carlsberg was founded in 1847 when brewer J.C. Jacobsen moved his family’s traditional small city-brewery in Brolæggerstræde to a site in Valby 5 km west of Copenhagen. Along the first Danish railroad from Copenhagen to Roskilde also established in 1847 Jacobsen found space for further expansion; access to fresh water and facilities for the important beer storage. Jacobsen’s new lager beer had some strong advantages towards the contemporary competitors - the beer was stronger and of higher quality. As one could expect the new industrialized lager-beer production process was imitated by a number of local competitors - firstly in 1852 the brewery Svanholm, then in 1860 Aldersro and in 1871 Jacobsen caused himself competition has he provided his son Carl Jacobsen the so-called Annex-brewery next to Carlsberg (from 1882 Ny Carlsberg) - and finally in 1873 Tuborgs fabrikker was established.15

In one of the biographies it has been stated that Jacobsen personalized the conflict between the old craftsman-epoch and the modern industrialization process.16 In the mid-19th Century most Danish breweries were still marked by the old manufacturing traditions, which worked within the tight limits of the medieval guilds. But this system and the small breweries were under pressure. Already in 1806 the Danish king Christian VII prohibited the beer guilds due to the poor quality and low efficiency. The royal civil servants were particularly astounded by the far more efficient production methods in the industrialized British society. While a typical brewer in Copenhagen produced approximately 3,900 hectolitre beer annually then an average brewery in London produced approximately 50,000 hectolitre.17

In 1857 the general freedom of trade was introduced by the politicians in the emerging Danish democracy. The consequence of these liberating acts was severe competition on the beer market, but according to the economic historian Kristoff Glamann it was not an open competition on prices and quality:18

The competition in the 1880s was not an open competition on price, but an indirect competition in terms of overmeasure, discounts, cash loans - in reality free gifts to the middlemen, lending of equipment ... After foreign model the competition threatened to develop further into acquisitions of restaurants and shops.

15 Glamann (1976), p. 35.
16 Glamann (1976)
18 Glamann (1976), p. 49-50: "Konkurrencen i 1880erne var ingen åben konkurrence på prisen, men en indirekte i form af overmål, rabatter, kontante lån, som i virkeligheden var gaver til mellemhandlerne, udlån inventar og service, ... Efter udenlandsk forbillede truede konkurrencen med at udvikle sig til også at omfatte opkøb af restauranter og forretninger."
The first official Carlsberg biographer - A. Frankel - described in 1892 the Danish lager beer market as "Manchester-like" and anarchistic market. It might have sounded promising for a liberalistic person but to Fraenkel it was utmost important to avoid this destructive competition and establish an efficient cartel.\(^{19}\) In 1881, 1883 and 1890 attempts were made to establish a self-regulation of the market but all in vain. But the prospects of beer taxes in 1891 seemed to have had a decisive impact on the negotiation. The tax caused a stagnation in the demand for lager beer and consequently the breweries felt a strong motivation for regulating the expensive indirect competition. In the early 1890s the incentives for self-regulation were particularly strong for the largest Danish Breweries - Old and New Carlsberg. Back in 1881 Tuborg had introduced the pilsner beer. The new beer was bottled at the brewery and Tuborg established an alternative distribution network outside the traditional local distributors. The pilsner was a quality product, which in the 1890s completely changed the market - in 1893 the traditional lager still amounted for 95 percent of the beer production but in 1912 the market share was reduced to 36 percent while the pilsner became the most important beer type. Carlsbergs incentive to regulate the competition was further strengthened in 1891 when C.F. Tietgen succeeded in uniting 11 small lager and "hvidtøl" (a Danish type of household beer) breweries in Copenhagen to the new company De forenede Bryggerier (DfB). In September 1894 Tuborg joined the new Tietgen company and the chairman Harald Fritsche left no doubt about the intention of the merger: "DfB will posses a completely different position than the one we have now, and this position will cause a more equal co-operation with the two large lager-beer breweries [Old and New Carlsberg, MJI], which perhaps can contribute to homogenous rules for sale and credit."\(^{20}\)

The result of Fritsches invitation to further corporation with Carlsberg was already present in February 1895 when De forenede Bryggerier and Carlsberg signed a ten years market agreement. The two Carlsberg breweries abstained from producing "hvidtøl" and the three breweries production was fixed on basis of the production in previous four years. The beer market in Copenhagen was thus regulated but all the provincials towns were still open for the "anarchistic" competition. In the fall of 1898 several meetings were held between the brewers in the different regions of Denmark and a country-wide price and competition agreement was signed in September 1899.\(^ {21}\) The three large Copenhagen breweries committed themselves to take higher prices outside Copenhagen and it was prohibited to loan money to customers and to use other types of alternative competition methods. At the end of the negotiations

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\(^{19}\) Boje (2004), p. 29.
\(^{20}\) Glamann ( 1976), p. 50, "De forenede vil få en helt anden position end den, vi nu er i besiddelse af, og som vil muliggøre en mere ligevældig samarbejde med de to store kjøbenhavnske bajerskolbyggerier, hvilket måske kan bidrage til, at der sluttelig for bajersk øl opnås ensartede regler for salg og kredit."
\(^{21}\) Dahlberg, Iversen, Linden (1999), p. 41-42.
Tuborg's manager Benny Dessau mentioned the possible future of the 1895 agreement. Carlsberg's manager, van der Kühle, replied that in 1904 - when the agreement exceeded - it would be impossible to get a cartel agreement unless the profit was shared. The next step after cartel was a real trust.22

The persistent 1903-agreement

Carlsberg willingness to enter such a trust was enhanced in 1902 when Ny Carlsberg in line with Gamle Carlsberg became the property of the scientific Carlsberg Foundation. And simultaneously both Carlsberg breweries faced substantial investment in bottleries for the new Carlsberg Pilsner beer introduced in 1904. The cautious owners in the Carlsberg foundation - led by scientists without specific knowledge of the brewery industry - were thus eager to continue the 1895 cooperation in some form and on the initiative of Carlsberg's manager, van der Kühle, Carlsberg and Tuborg initiated negotiations in the fall of 1902 concerning a new agreement. The agreement was signed in May 1903. The basic principle in the 1903-agreement was 1:1 equality: The partners were equally represented in the common-management, the profit was equally shared every year and new investments were equally financed by the partners. The 1903-trust has been labelled the most peculiar agreement in Danish business history. It had an exceptional long time scope namely 97 years until September 30, 2000 but even more remarkable it operated with one unity - common profitability and shared investment - simultaneously with two independent companies in terms of production and sale.23 This odd dualism proved to be problematic from the very beginning. Due to its success with the bottled pilsner beer Tuborg had already in 1909 paid DKK 3.35 million directly to Carlsberg - and Tuborg therefore demanded a new agreement for the sharing of profit.24 By the end of 1909 a compromise was agreed upon - and in the following six years Carlsberg paid DKK 900,000 extra to Tuborg. But this compromise endangered the whole idea of profit sharing. In 1916 and 1921 attempts were made to merger the companies but in the first attempt Vagn Jacobsen (grandson of J.C. Jacobsen) prevented the merger by raising a public debate about the future of the Carlsberg foundation. In 1921 Tuborgs dynamic manager Benny Dessau planned a new countrywide trust including all large Danish breweries - but this far-reaching plan was opposed by the chairman of the Carlsberg Foundation professor Kr. Erslev. The end-result was an accepted - but not passionate - partnership between Carlsberg and Tuborg from 1921 to 1970.25

23 Nüchel Thomsen (1973), 61.
25 Ibid., p. 52-53.
The national 1899-cartel on the Danish beer market

Besides the sharing of all investments and profits Carlsberg and Tuborg had the right to appoint the chairman of the national Bryggeriforening, which hosted the national price and market agreement from 1899. This agreement existed until 1988 and besides price-regulation it also limited the marketing methods and defined the rules for distribution. In 1899 Bryggeriforeningen consisted of 31 breweries, but the market conditions were difficult. In 1911 a new political proposal for higher beer taxes were made, but Bryggeriforeningen warned about the consequences particularly for the small breweries:

In the last 12-15 years most of the breweries in this country have fought hard for their life. Of the countries’ 37 lager beer breweries five have gone bankrupt, attempts have once more been done to reconstruct these, but it has one succeeded for one of them.

The beer production fell from 917.000 hectolitre in 1899 to 905.000 hectolitre in 1914 and particularly the small breweries faced the pressure of a declining market, higher prices on raw materials and more efficient large competitors. In the 1920s Tuborgs share of the Danish market was app. 30-33 percent and Carlsbergs was around 42-44 percent or in together more than 73 percent. Particularly in the early 1920s the market share rose for both companies on the expense of the small provincial breweries. The two large breweries in Copenhagen further strengthened their position after the second world war and in 1950 they possessed app. 81 percent of the total market. Perhaps even more important the Danish beer market grew dramatically from app. 1,5 million hectolitre in 1945 to 2,8 million hectolitre in 1959.

Table 1. Members of Bryggeriforening / production 1.000.000 hectolitre (lager beer) / numbers of employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Breweries</th>
<th>Production</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1899</td>
<td>31</td>
<td>0.9</td>
<td>5.000</td>
</tr>
<tr>
<td>1930</td>
<td>26</td>
<td>1.2</td>
<td>5.500</td>
</tr>
<tr>
<td>1945</td>
<td>25</td>
<td>1.5</td>
<td>6.800</td>
</tr>
<tr>
<td>1959</td>
<td>24</td>
<td>2.8</td>
<td>9.500</td>
</tr>
<tr>
<td>1980</td>
<td>19</td>
<td>3.8</td>
<td>4.400</td>
</tr>
<tr>
<td>1990</td>
<td>12</td>
<td>3.8</td>
<td></td>
</tr>
</tbody>
</table>

Pressure on Carlsberg-Tuborgs 1903-agreement

This continuous progress both in market shares and total production combined with stable profits probably suppressed eventual conflicts between the Carlsberg and Tuborg, which still operated and regarded themselves as two independent companies. But gradually in the 1950s and 1960s the 1903-

26 Glamann (1976), p. 86.
agreement came under severe pressure from three sides: the unreasonable profit-sharing, the growing export and the authorities’ growing interests in price agreements

As stated earlier the 1:1 sharing of all profit was a mainspring of tension between the two partners already from 1909 on. A compromise was reached in 1912 and until 1938-39 the difference was not remarkable. But it did grow incessantly after 1932 due to Carlsberg’s growing sales. From 1902 to 1914 Tuborg paid DKK 5,5 million extra to Carlsberg while Carlsberg from 1915 to 1948 paid DKK 29,8 million to Tuborg.\textsuperscript{27} By the end of the 1940s both partners agreed that the situation was not durable. Tuborg argued that the partners should rise their marketing budget as Carlsberg had a strong advantages being an national institution which supported scientific and cultural purposes. Carlsberg on the other hand pointed at the need for an investigation of the courses for the higher production expenses at the Tuborg brewery in Hellerup compared the Carlsberg brewery in Valby. Tuborg rejected such an investigation at demanded the matter referred to arbitration. It was then confirmed that the 1903-agreement did not include any guarantee for balance in the profitability. The issue was about to become a real crisis for the partners when Carlsberg suddenly was hidden by unexpected "wild beer" production problems. From 1950 to 1955 Carlsberg’s market share fell from 55,2 percent to 34,3 percent while Tuborg’s market share rose from 25 to 46,8 percent.\textsuperscript{28} Tuborg again supported Carlsberg and the above described conflict evaporated. In 1955 Carlsberg’s engineers found the cause for the problems with so-called wild beer and at the same time a new and strong manager - A.W. Nielsen - was appointed. Carlsberg’s market share rose again from 48,7 percent in 1957 to 64,4 percent in 1969.\textsuperscript{29} In other words the situation was like in the late 1940s - and it was still not durable. The agreement of 1903 was based on the assumption that the partners profit would contribute approximately equally and in included no regulating mechanisms in case of unequal profitability.

Perhaps even more aggravating the 1903 agreement included no statements about the export. Tuborg’s export ten-doubled from app. 25,000 hectolitre in 1945/46 to 250,000 hectolitre in 1956/57 and Carlsberg grew from 83,000 hectolitre in 1946/47 to app. 341,000 hectolitre in 1956/57 and it then expanded further to 845,000 hectolitre in 1968/69.\textsuperscript{30} In the 1960s some of the large international breweries went through structural changes, which were followed by investments in foreign facilities. On the other hand the Dutch competitor Heineken invested in its own brewery in England and Carlsberg

\textsuperscript{27} Glamann (1976), p. 87, in the single year 1918/1919 Tuborg also paid to Carlsberg.
\textsuperscript{28} Glamann (1976), p. 89.
\textsuperscript{29} Glamann (1976), p. 97.
\textsuperscript{30} Hjejle (1982), p. 87.
wished to make a similar investment but Tuborg opposed the idea arguing that it would hamper the important export to England and thus weaken the Danish breweries. According to the former chairman of De Forenede Bryggerier, Bernt Hjejle, Carlsberg lost app. ten important years on the British market due to the limiting 1903 agreement.\textsuperscript{31}

In the 1950s and 1960s also the public authorities investigated the 1903 agreement, in order to unveil whether the agreement caused any unreasonable disadvantages to the customers. The authorities was particularly interested in the way Carlsberg and Tuborg shared production expenses and profit. The question was whether the fixed market prices built upon Tuborgs high production costs or Carlsberg lower production expenses. The so-called Trust commission was appointed in March 1949 by the Danish government in order to investigate to what extent the Danish business environment was marked by regulation of the free competition and in order to asses whether a new competition law was needed.\textsuperscript{32} The investigation of the breweries was initiated already in 1950 along with a few other industries, which were regarded as very much regulated by the private companies. After several years of work the authorities in November 1956 submitted a draft of its conclusions to Carlsberg, Tuborg and Bryggeriforening. The conclusions were very critical towards the 1903 agreement and its consequences for the brewery industry as a whole. In an illustrative reply to the authorities the partners defended the 53-years old agreement eagerly.\textsuperscript{33} According to this reply the partnership was - and always had been - marked by strong internal competition both in terms production and sale. According to the letter the time limit of agreement (September 2000, MJ1) was probably an essential explanation for this competition - in other words each of the partners were aware of the need for strong position 44 years later. The unique feature in the 1903-agreement was - according the 1956 letter - that it had retained a specific kind of competition, which illuminated the usual disadvantageous of competition namely unreasonable high sales-and marketing costs.\textsuperscript{34} The final report about competition on the Danish beer

\textsuperscript{31} Hjejle (1982), p. 87-88.
\textsuperscript{32} Konkurrencebegrænsningen i dansk erhvervsliv, trustkommissionens betænkninger nr. 8 1960.
\textsuperscript{33} Hjejle (1982), p. 81.
\textsuperscript{34} Hjejle (1982), p. 81. Citation of the letter from the partners to the Danish authorities, November 6, 1956: "Den, der erhver blot noget kendskab til bryggeriernes praktiske virke, vil ikke længe kunne forblive i uvidenhed om, at en skarp indbyrdes konkurrence i driften af virksomhederne, produktion som salg, går som en rød tråd igennem arbejdet. ... I kontraktsens tidsbegrænsning ligger nok en væsentlig del af forklaringen på den skarpe konkurrence, der under hele overenskomstperioden har fundet sted mellem kontrahenterne .... Der er imidlertid det særlige ved dette overenskomstforløb, at overenskomsten samtidig med bibeholdelsen af en konkurrence, der i praksis ikke giver konkurrencen mellem helt uafhængige virksomheder noget efter, har formået at afbalancere forholdet mellem kontrahenterne således, at konkurrencens uheldige følger, de urimeligt store slags- og reklameomkostninger, elimineres."
market the trust commission loyally referred to Carlsberg/DfB’s objections but the final conclusion left no doubt about the consequences of the private self-regulation.\textsuperscript{35}

According to the information which the commission has received from the breweries the stable mutual market shares is not caused by any allocation of the customers or any other similar transfer of businesses from one partner to the other, and the commission has no reasons to doubt the Breweries’ utterance concerning a sharp competition in the daily sales promotion ... On the other hand it should also be emphasised, that the competition has been limited due the 1903-agreement, additional clauses, the shared managements decisions, and the two breweries participation in Bryggeriforeningens agreements (the 1899 agreement, MJI). Price competition has been abolished, advertising expenses have been jointly decided upon, and ... the different competitive devices have been restricted.

Due to the equilibrated conclusions the trust-report had no immediate consequences for the 1903-agreement. But the problem caused by Tuborgs efficiency and the unequal shared profit was still present. In a book about the merger in 1970 the chairman of De forenede Bryggerier Bernt Hjejle writes that regarded that the monopoly-authorities was a volcanic bomb under the 1903-agreement, which included a number of agreements "quite inconsistent with the lines that the Monopoly authorities gradually draw out as principle viewpoints for their work".\textsuperscript{36}

\textit{The national "beer wedding" in 1970}

In August 1969 Bryggeriforeningen applied to the Danish Monopoly Council for permission for raising the beer prices. The authorities rejected the application due the fact that the breweries calculations showed that Tuborg had substantial higher production costs than Carlsberg. The former chairman of the Carlsberg foundation has described the succeeding events by following words.\textsuperscript{37}

\begin{footnotesize}
\begin{itemize}
\item[35]Trustkommissionen, (1960), p. 91-92: "Efter bryggeriernes oplysninger til kommissionen skyldes den omtalte stabilitet i de indbyrdes markedsandele ikke, at der er foretaget nogen fordeling af kunderne eller er foregået nogen anden overførsel af forretnings fra den ene virksomhed til den anden, og kommissionen har ingen grund til at betvivle bryggerienes udtalelser om, at der i det daglige salgsarbejde foregår en skarp konkurrence ... På den anden side må det også fremhæves, at der har gjort sig en række konkurrencebegrænsninger gældende som følge af overenskomsten af 1903, tillægsaftaler dertil, fællesledelsens beslutninger samt de to bryggeriers deltagelse i Bryggeriforeningens aftaler. Priskonkurrencen har været ophevet, reklameudgifter er blevet bestemt i fællesskab, og der er desuden ... blevet lagt hånd på brugen af forskellige andre konkurrencemidler."
\item[36]Hjejle (1982), p. 87, Hjejle thought that the bomb would explode if Tuborg practically no profit provided to the partnership and the entire profit came from Carlsberg. "Det var min bestemte opfattelse, at der lå en tikkende bombe under overenskomsten, der jo indeholdt en række aftaler, der var ganske uforenelige med de linier, som Monopolrådet og Monopoltilsynet efterhånden trak op som pricipielle synspunkter for deres praksis.".
\end{itemize}
\end{footnotesize}
On this background the Monopoly Council, found that the 1903-agreement had developed into a pretext for doing nothing, and that the time had come for a structural change within the brewery industry. The most efficient company’s results should lay the ground for decisions concerning higher prices, and not an average cost accounting which blur the picture. The refusal got negotiations between partners going.

Already three months earlier - May 28, 1969 - the council of the Carlsberg/Tuborg trust held a meeting with three items on the agenda, which mirrored the acute problems of the 1903 agreement:

1) Discussion about the Monopoly authorities attitude towards the trust
2) Carlsberg and Tuborgs need for capital in the following years
3) Carlsberg and Tuborg activities abroad

Chairman of the Carlsberg foundation Stig Iluul (who had written the answer to Monopoly authorities in 1956) opened the meeting with a long and important speech in which he stated that the European cooperation and the following economic integration plus the unequal profitability caused an urgent need to merger Carlsberg and Tuborg. The negotiations began and the most difficult issues proved to be the question whether the head of the new company should take detailed decisions about the both companies - and whether the new company should be managed by Carlsbergs manager, A.W. Nielsen, or Tuborgs manager, Viggo Rasmussen. After several months of secret negotiations and a temporary interruption in the turn of 1969/1970 the merger was signed May 25, 1970. Carlsberg and Tuborg continued as independent production facilities but under the frame of one private limited company with a share capital of DKK 171 million of which the Carlsberg foundation received the largest block of shares - DKK 85.5 million - as payment for the brewery.

Already in November 1974 Carlsberg opened the first brewery in Northampton and the sales abroad rose from 1,6 million hectolitre in 1970 to 16,1 million hectolitre in 1990 while the sale in Denmark only grew from 4,1 million hectolitre in 1969 to 5,3 million hectolitre in 1990. Carlsbergs future expansion proved definitely to be abroad - and indeed outside the restrictive 1903-agreement. But the 1970 merger did not cause an end to the self-regulation of the Danish beer market. Bryggeriforeningen was continuously dominated by Carlsberg and the national price and marketing agreement continued until 1988. According to the contemporary Danish competition law it was legal to have arranged fixed prices as long as they were reported to the authorities, justified by the actual production expenses and did not cause limits to competition. In May 1987 the monopoly authorities published a detailed

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investigation of the brewery industry concluding that the price agreements and the distribution system limited the competition and caused a high degree of concentration on the market. Negotiations with the breweries went on during the fall of 1987 and the cartel-partners decided to dissolve the market agreements per February 15, 1988. Already several years before the dissolution some small Danish breweries had left the price-agreement (and thus Bryggeriforeningen) in order to serve the new and expanding discount beer-market. At the General Assembly of Bryggeriforeningen in 1988 the chairman of Bryggeriforeningen, and managing director of Carlsberg, Poul Svanholm, stated that it was the authorities, which forced the dissolution of the market-agreements but "it shall not be forgotten that more than ten years with discount-brands and cheap beer made the competition situation indefensible".39

Conclusion

The history of Carlsberg and the cartel agreements on the Danish beverage market beautifully follows the general patterns of Danish competition regulation. Firstly we found the highly regulated local beer market, which built upon guilds until app. 1800. Then followed a gradually liberalisation and stronger competition. The breweries reacted on these "anarchistic" conditions by a self-regulation in terms of national price and marketing agreements plus a odd partnership between the market’s two most important players - Carlsberg and Tuborg. Then followed some interference from the public authorities which supervised and investigated the private regulation after 1949 and finally by the end of the 20th century the national competition regulation was dissolved.

The core of this story is obviously the self-regulation from around 1900 to the end of the 1980s. And in the case of Carlsberg the continuity and validity of the private self-regulation is extremely important. The 1903 trust agreement lasted until 1970 when it was opposed by the Danish authorities’ regulation of a justice price-setting. At this stage the 1903-agreement was also a dangerous drag on Carlsbergs international expansion. A drag which, according to a former chairman of De forenede Bryggerier Bernt Hjejle, caused Carlsberg approximately 10 years delay on the British market.40 Bryggeriforeningen national marketing and price agreement, lasted from 1899 to 1988. Again the authorities rejected the fundamental parts of the cartel agreement but it survived until the breweries no longer could continue the cartel due to new structures on the market in terms of the expanding discount-beers. According to the Danish historian Per Boje, Denmark has fundamentally been marked by a capitalistic liberal market economy and the private sector had to accept a competition law, which it was strongly

opposed to. The lesson from the beverage industry is that the self-regulation could continue right until it no longer made sense for the private participants - either because of international competition or because of new market conditions. Carlsberg’s managers probably disliked the public investigations of the private competition regulation - but the trusts and cartels could still continue for decades - the remarkable aspect of the odd 1903-agreement between Carlsberg and Tuborg is not that it was cancelled in 1970 but rather that it could survive for 67 years. In this case public counterbalance to private self-regulation seemed limited - if not harmless.

Creating Scandinavian Capitalism - Conclusion

The teaching project Creating Scandinavian Capitalism is fundamentally about two aspects which might be important for the role of business history on business schools in the future:

The teaching project concerns the difference between various types of capitalism and it concerns the dynamic development of capitalism over time. Particular these two aspects: Capitalistic – or business – systems on the one hand and the question of conceptualizing change or development might be two issues that business historians can use further in order to develop meaningful teaching that can attract students. Also those students that are concerned by the relevance of business history courses. Future courses on the differences between national and regional business systems and the fundamental issue of understanding economic change will indeed provide for instance BA International Business students with some very concrete business competences that are easy to explain and understand. And at the same time business historians would then gain from a very dynamic and important research environment within both the business system approach and the new institutionalism represented by scholars such as Whitley, Hall and Soskice, Hull-Kristensen. By combining business system theories with business history perhaps business historians can even contribute with to important aspects namely the importance of the company-level and the importance of understanding economic change and chronological dynamics. Concerning economic dynamics Nobel-price winning economist Douglass C. North, have published a new book entitled “Understanding the Process of Economic Change.” As North states in the introduction to his new book the historical dimension is essential to understand change of economies and societies.

But just how do humans come to understand their environment? The explanations that they develop are mental constructions derived from experiences, contemporary and historical. Human learning is more that the accumulation of

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42 North (2005), p. viii.
the experiences of an individual over a lifetime. It is also the cumulative experiences of past generations. The cumulative learning of a society embodied in language, human memory, and symbol storage includes beliefs, myths, ways of doing things that make up the culture of a society.

History and the understanding of economic, cultural and political development in the past should suddenly continue to be an important part of Economics – and thus the Syllabuses of international business schools.

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