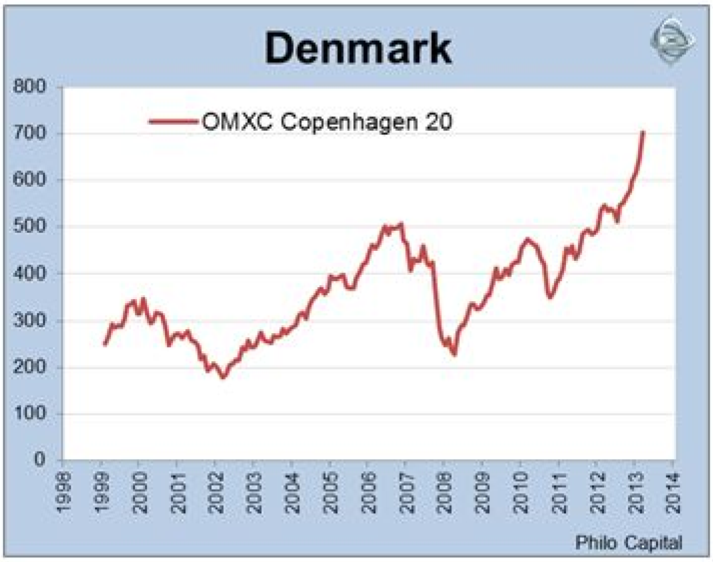
Australia can learn from gold medal winner, Denmark

By **Ashley Owen** on March 7, 2014

In the global **Stock Market Olympic awards** last week, the race to beat their pre-GFC stock market highs was won by Denmark – the home of Lego, King Canute, Soren Kierkegaard, Hans Christian Andersen, Hamlet, Jørn Utzon, Helena Christensen, Danish pastries, and a long line of Vikings called Erik.

In January 2013 Denmark became the first of the 'developed' country stock markets to beat its pre-GFC high. It had peaked on 11 October 2007 at the top of the global credit bubble right before the global financial crisis hit.



The Danish stock market had a similar experience to most other markets over the course of the past decade. After surging in the late 1990s dot-com boom it collapsed in the 2001-2002 tech-wreck, rose strongly from early 2003 to October 2007, plunged 50+% in the GFC, rebounded strongly in 2009, fell back in the 2011 sovereign debt crisis and then surged during 2012-2013.

Citizens of Denmark and Australia enjoy among the highest average living standards in the world (USD60,000 GDP per person), ranking behind only Luxembourg, Norway, Switzerland, Monaco and Qatar. There are some similarities between Denmark and Australia, but also many differences.

Unfavourable business environment

On paper, Denmark should not be a good place to do business. It is the model European welfare state, with a gigantic public sector (the government employs more than one third of all workers), and the highest tax rates (top marginal tax rates above 60%) plus 25% VAT. The enormous welfare budget results in the lowest level of income inequality in the world, and ranks 2nd in the world on having the lowest poverty rates (Australia ranks 27th, almost at the bottom of the OECD table). Denmark also has the world's highest minimum and average wage levels, and the highest pensions in the world (as a percentage of pre-retired incomes).

Social expenditure takes up a mammoth 30% of GDP (nearly double Australia's level), which makes Denmark second only to France, where social spending consumes a third of GDP.

Denmark has an older population (with a median age of more than 3 years older than in Australia, putting 30 countries between them). Denmark also has a more dependent population (16.6% of its population over 65, compared to Australia's 13.2%).

Manufacturing giant

Despite Denmark's aging population, high wages, high taxes, high social security costs, huge government sector, heavy unionisation and mountains of stifling European regulations, it still manages to be a world class manufacturer and exporter.

Not low-tech manufacturing of undifferentiated basic cars, something Australia has wasted billions of dollars in tax-payer subsidies trying to cling onto. When the Danes do make cars they make highest quality super-cars like the Zenvo without endless government hand-outs and subsidies.

Without being blessed (or cursed) with abundant natural resources, Denmark has built a high-tech knowledge economy. Perhaps one key reason is education. Denmark has the highest level of public spending on education in the OECD at 7.5% of GDP, compared to Australia's 4.5%, which is one of the lowest (Australia ranks a lowly 27th out of 32 OECD countries on that score).

No natural resources

Denmark has very little land and virtually no natural resources or space (contiguous Denmark is less than two thirds of the size of Tasmania), but it has a highly paid and highly skilled workforce. Denmark epitomises the industrious, protestant north of Europe. This is reflected in some key economic statistics:

Current Account: average over 2000s as % of GDP:

- Denmark: +5.8% pa surplus. Only one current account deficit year since 1990
- Australia: -3.0% pa deficit, despite the so-called mining export boom. Australia hasn't achieved a current account surplus since 1973 (which was a one-off freak surplus year).

Government net budget balance, average of past 5 years during GFC as a % of GDP:

- Denmark: -0.3% deficit (has an enormous government sector, but also extremely high taxes)
- Australia: -3.1% deficit

Inflation:

- Denmark: +2.2% pa average over the 2000s. Currently +1.0%
- Australia: +3.1% pa average over the 2000s. Currently +2.7%

Unemployment:

- Denmark: averaged 5.0% over 2000s. Currently 5.6%
- Australia: averaged 5.4% over 2000s. Currently 6.0%

Exports: as a % of GDP:

- Denmark: over 50% of GDP (and has been for many years)
- Australia: 21% of GDP (averaged 20% of GDP in the 2000s China boom but post Federation average has been 18%)

Relative to Australia over the past decade and currently, Denmark has had lower inflation, lower unemployment, a much larger government sector, yet balances its budget far more often than Australia, and runs current account surpluses, not deficits like Australia.

Exports

One of the key differences is export performance. Contrary to perceptions generated by government and in the media, Australia is one of the smallest exporters in the world. And that's during our so-called 'mining export boom' (plus tourism, agriculture and the so-called 'boom' in services exports like education). Not even in the 1850s gold rush did exports reach 50% of Australia's GDP. Out of 200+ countries in the world only six major countries export LESS than Australia as a share of their national income – Brazil, the US, Japan, Pakistan, Afghanistan and Colombia. (There are also a few tiny countries that Australia beats as an exporter – including Tonga, Ethiopia and Rwanda).

Denmark, in contrast, is one of the great exporting nations where exports routinely generate more than half of their national income – a long list that includes Germany, Belgium, Austria, Switzerland, Sweden, Netherlands, Belgium, Ireland, Korea, Singapore, Malaysia, Thailand and dozens of others.

Denmark may be a great exporter, but it has not been blessed with proximity to great export markets. Most of Denmark's exports go to Europe which has suffered the slowest growth and highest unemployment rates in the world (and therefore worst demand growth), not only since the GFC but also over the past couple of decades. In contrast, only 10% of Australia's exports go to Europe, but 70% of our exports go to Asia, the fastest growing region with the lowest unemployment levels and greatest demand growth in the world.

Fixed exchange rate

Denmark kept its currency, the kroner, pegged to the Euro all through the GFC and did not devalue it to stimulate exports (Denmark is a member of the EU but not the Eurozone). In contrast the Australian dollar fell 38% in the GFC making our exports 38% cheaper for foreign buyers.

Danish companies

The Danish stock market consists of several major companies that operate on a global scale. The market is dominated by global healthcare and biotech stocks (Novo Nordisk, Coloplast, Demant, Lundbeck, Novozymes), high-tech food technology (Hansen), and high-tech machinery manufacturing (FL Smith, Westas). There are also some large banks (Dankse, Nordea, Jyske) that operate across Europe, and insurance stocks (Tryg, Topdanmark). The largest company is Moller-Maersk, the largest container shipping operator in the world. In addition there are global luxury goods makers like Pandora and of course the global beer giant Carlsberg.

CEO pay

Another difference between Australian companies and Danish companies is CEO pay for listed companies. CEOs of Danish listed companies are paid half what Australian listed company CEOs are paid. For example one study shows average total remuneration of Danish CEOs in 2012 was $2.2m, or 48 times the pay of average workers, compared to Australian CEO average of $4.2m or 93 times the pay of average workers. (http://www.aflcio.org/Corporate-Watch/CEO-Pay-and-You/CEO-to-Worker-Pay-Gap-in-the-United-States/Pay-Gaps-in-the-World).

The Danes are not perfect of course. Their protestant work ethic doesn't extend to thrift. Denmark is one of the few countries in the world that has had lower household savings rates over the past decade and higher household debt levels than Australia. Their house prices are also over-inflated but not as much as in Australia.

Some conclusions

A country like Demark can overcome seemingly insurmountable obstacles that include an aging population, high wages, high taxes, high social security costs, a huge government sector, heavy unionisation, stifling European regulations, a fixed currency, lack of natural resources, and being stuck on the edge of a decaying Europe in cyclical and structural decline and still manage to be a world class high-tech manufacturer and exporter with the best performing stock market in the developed world.

There are surely some lessons for Australia in this. Australia's over-paid company CEOs should stop bleating about the so-called high dollar, high wages, high costs, high taxes and all the other lame excuses they offer. They should instead show some real leadership and build world class businesses that compete and win on a world stage. Companies in other countries with none of our advantages and many of our supposed disadvantages (like high wages, high taxes, larger governments, fixed currencies, etc), and less expensive CEOs, manage to prosper.

The so-called 'tyranny of distance' from export markets is only a problem if we export dumb rocks and other bulky goods (which are just partially processed dumb rocks). Other countries aren't blessed with our rocks that foreigners turn into useful things, or our thousands of miles of pristine beaches that foreigners like to visit, or our host of funny-looking animals that foreigners like to photograph, so they have to use their brains instead. In the post-industrial knowledge economy, knowledge and ideas can be transmitted around the world in fractions of a second and so physical distance from markets is irrelevant.

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