

Making Sense of Financial Crisis and Scandal: A Danish Bank Failure in the First Era of Finance Capitalism

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In this paper I discuss a dramatic financial collapse and scandal in Denmark in the interwar period. I analyze the asset price bubble from 1914 to 1920 and the subsequent failure in 1922 of Scandinavia's largest bank, the Danish Landmandsbanken, as well as the downfall of its CEO Emil Glückstadt. I discuss the sense-making process, first during the bubble and then following Landmandsbanken's collapse and Glückstadt's fall from power in 1922, and finally until the introduction of a new bank act in 1930. I further argue that such crises and scandals force contemporaries to make sense of the dramatic fall from the top of society of these icons and of their role in the collapse of their banks. I view the sense-making process as centered on the construction of narratives that explain the crisis and enable or constrain institutional response to the crisis. To conclude, I argue that the process of sense-making in the case of Landmandsbanken can be generalized as the way in which society enforces norms and values in cases of dramatic financial crisis and scandal.

In July 1922 in the midst of an economic and financial crisis, Scandinavia's largest bank, the Danish Landmandsbanken, encountered serious trouble when the Office of the Bank Inspector found that the bank had lost most of its capital. After hectic meetings and some arm twisting, an ambiguous press communiqué was released that managed to calm the public for a while. However, in mid-September it became clear that a more thorough rescue operation was needed if the bank were to survive. Landmandsbanken was considered too big to fail,

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and on September 21 the Danish Parliament hastily voted to guarantee all its liabilities and inject new capital, along with a few private companies and the central bank.¹ The big question arising from this traumatic experience was: How was it possible that the pride of the country's economy, Scandinavia's largest bank, was suddenly bankrupt?

While the media and experts speculated, Parliament established a Banking Committee with the task of identifying the causes of Landmandsbanken's failure. At the same time legal proceedings were initiated against the CEO Emil Glückstadt and other managers and board members. Glückstadt was clearly considered the main culprit, for during the trial his defense acknowledged that a leader who until the crash had been "surrounded by praise, admiration and envy," was now in a different position: "despite the fact that most of his actions have been public for everyone to see, most of the good things this man has done are now forgotten. All that is left is the impression of the calamity he is believed to have caused."²

More than any other Danish business leader in the twentieth century, Emil Glückstadt came to symbolize the old saying—flying high, falling far. On March 9, 1923, he was arrested and taken to prison in a regular perp walk.³ On June 14, the High Court case against him began, but only nine days into the case, Glückstadt died from intestinal volvulus. Even though the court indicated that he was guilty of fraud and of violating the bank act of 1919 and other regulations, the trial could not be brought to an end.⁴ With no official verdict, observers, regulators, politicians, and Danish society at large were on their own when making sense of what had happened, why it had happened, and how to prevent a recurrence.

In a sense, there was nothing peculiar about Landmandsbanken's and Glückstadt's crash. The rise and fall of financiers and bankers has always accompanied the booms and busts of the economic and financial system. When bubbles are inflated and asset prices soar, society makes sense of events by emphasizing the rise of successful bankers and speculators who become the heroes of the bubble economy. But when the bubble bursts, asset prices drop, and banks fail, an urgent need arises to explain the loss of fortunes. In this process, heroes may be turned into villains and decisions and strategies considered wise during the boom years are seen in a completely new light and deemed too risky, unwise, and even greedy.

1. Hansen, *På Glidebanen Til Den Bitre Ende*.

2. Said by Defensor David at the trial against Glückstadt in February 1923, see *Stenografisk Referat Af Domsforhandlingen ved Østre Landsret*, 3.

3. Hansen and Mørch, *Den Danske Bank*, 315–20, and *Stenografisk Referat Af Domsforhandlingen ved Østre Landsret*, 5.

4. Vestberg, "Emil Glückstadt," in *Dansk Biografisk Leksikon*, 178.

In this article, I use the case of Landmandsbanken and Glückstadt to argue that both bubbles and the response to financial crises can be analyzed in a sense making and narrative perspective. Such an approach can add to our understanding of the underlying dynamics of boom and bust and of societal responses to crises. This case has been chosen because—variations in the concrete details notwithstanding—it can be considered typical of a large, unanticipated bank failure, which calls for sense making and explanation. As such, I would argue that the case is representative in exemplifying how societies react when dramatic business failures and financial crises occur, if not representative in a statistical sense. The case makes it possible to analyze and understand how societies make sense of crises. Moreover, at the time Denmark was a liberal economy with a universal banking system integrated into a global system, which further suggests that the results from this analysis are of direct relevance for later financial crises as well.⁵

Based on the case of Landmandsbanken, I argue that bubbles and the responses to crisis are driven by narratives that compete about assigning meaning to the events. Thus, sense making and the narrative construction of the bubble and the crisis are important elements in understanding behavior during and after such episodes. Over time, one narrative will become dominant, some consensus or dominance will be formed about what meanings to ascribe to the crisis, and the sense making process will stabilize. In the following, I first briefly present my interpretive framework concerning sense-making and narratives. Next, I provide some basic information on the context in which the bubble and Landmandsbanken's failure took place. I then proceed to discuss the rise and fall of Landmandsbanken and Emil Glückstadt and the struggle over meaning during and after the bubble. In closing, I discuss my results and put them into perspective by briefly considering parallels to other cases, including the second era of financial capitalism and “our crisis” of 2008.⁶

Sense Making and Narratives

Dramatic events such as financial and economic bubbles and crises upset the order of things and urge society to reconsider its cultural, social, and economic values and principles. These processes can be

5. On Danish capitalism, see Iversen and Andersen, “Co-Operative Liberalism” in *Creating Nordic Capitalism*, and Hansen, “From Growth to Crisis.”

6. The term “our crisis” is used by Kobrak and Wilkins, “The ‘2008 Crisis’ in an Economic History Perspective,” 176.

viewed as cultural, sense-making, and narrative processes where new meanings come to challenge old ones. Karl Weick has argued that “because the essence of storytelling is sequencing, it is not surprising that stories are powerful standalone contents for sensemaking.”⁷ For instance, during and after financial crises actors try to give meaning to and rationalize events by constructing a narrative that explains what went wrong, who is to blame and how to avoid a repetition. Thus, Colin Hay argues that “the causal chain is incomplete until such time as the crisis has been successfully narrated.”⁸ It is a basic assumption here that people and societies are constantly engaged in making sense of the world through signification, and that this process is largely mediated by narratives that establish causality and order, a plot and moral.⁹

For this reason narratives play an important role in the way we perceive events. In more recent years this insight has spilled over to economics and finance, where, for instance, George Akerlof and Robert Shiller ask: “what if . . . stories themselves move markets? What if these stories of over-explanation have real effects? What if they themselves are a real part of how the economy functions? Then economists have gone overboard. The stories no longer merely explain the facts; they are the facts.”¹⁰ The implication is, in Helga Drummond’s words, that “all meaning, all understanding come from looking backwards . . . Yet what we see when we look backwards may be highly subjective, because we tend to reconstruct the past in a manner that enables us to make sense of the present.”¹¹ In addition, Douglas North argues that actors’ “perceptions are derived from the mental constructs of the players.” These belief systems are path dependent and affect the “way we perceive the world and construct our explanations about that world.”¹² Indeed, by framing the way we see the world, narratives are important elements in influencing actors’ perception and mental constructs, and, like North’s

7. Weick, *Sensemaking in Organizations*, 129.

8. Hay, “Constructivist Institutionalism,” in *The Oxford Handbook of Political Institutions*, 68.

9. The concept and process of sense making is usually related to Karl Weick’s work on organizational sense making; see, for instance, Weick, *Sensemaking in Organizations*. However, in this article I am taking a broader approach to sense making as a semiotic activity aiming at making sense of and assigning meaning to events. This sense making activity, I suggest, is to a high degree carried out through narratives. For a semiotic understanding of culture, see Geertz, “Thick Description,” in *The Interpretation of Cultures*, ed. Geertz.

10. Akerlof and Shiller, *Animal Spirits*, 54.

11. Drummond, “Living in a Fool’s Paradise,” 236.

12. North, “Institutions,” in *Handbook of New Institutional Economics*, ed. Menard and Shirley, 22 and 25–26.

formal and informal institutions, they both enable and constrain our choice set.¹³

The implications for our understanding of financial crises are important. A sense-making and narrative approach to bubbles and financial crises suggests what many historical observers of bubbles have known for a very long time, namely that they are related to over-confidence and the idea of a “new era” that supposedly transcends the “normal” rules of economic behavior and constraints.¹⁴ During a boom, attention focuses on rationalizing the perceived opportunities for further gain, which drives up expectations and therefore asset prices. Recently, Robert Shiller has called this process a social epidemic where more and more investors begin to see the world in the same way.¹⁵ The result is group thinking and herding behavior, which then works in reverse when financial distress sets in.

When the bubble bursts, attention is aimed at figuring out what happened to all the wealth that suddenly evaporated, and at identifying the causes of and culprits for the disaster. Here, again, the purpose is to make sense of events, to rationalize and explain the crisis, and to determine who can be blamed. Arguably, financial crises and scandals put under intense pressure the dominant narrative and “new era” ideas, through which bankers and entrepreneurs are constructed as heroes. In more extreme cases, basic assumptions about the role of markets and the state may be challenged.

In the sense-making aftermath of financial crises and scandals, different narratives will compete to explain what went wrong, why, and what to do now. I hypothesize that the outcome of this semantic struggle has the potential to influence active responses. Many other factors will influence this outcome, but it also matters which narrative comes to dominate and thereby explains the crisis.¹⁶ If the narrative that prevails differs little from the understanding of things before the crisis, fundamental regulatory change is not very likely to happen. On the other hand, if hitherto less influential counter-narratives

13. See Hansen, “Organizational Culture,” Hansen, “Networks,” and Linde, *Working the Past*. Also, the behavioral finance literature touches on the same topic, see, for instance, Kahneman, *Thinking, Fast and Slow*, de Bondt, “Bubble Psychology,” in *Asset Price Bubbles*, ed. Hunter, Kaufman, and Pomerleano, Shiller, *The New Financial Order*. See also Lakoff, *The Political Mind*.

14. See, for instance, Fisher, “The Debt-Deflation Theory,” Minsky, “A Theory,” in *Financial Crises*, ed. Altman and Sametz, Kindleberger and Aliber, *Manias, Panics and Crashes*.

15. Shiller, “The Sickness beneath the Slump,” *New York Times*.

16. See also, Elliott and Baily, “Telling the Narrative,” and Wallison, “Three Narratives.”

gain momentum, or a new and contrasting narrative emerges to challenge the dominant narrative and assign new and different meanings to events, it may contribute to paving the road for institutional and perhaps even systemic change.¹⁷ For fundamental changes to be implemented, the dominant narrative of the crisis would have to stress systemic failure, rather than, for instance, erroneous control systems or individual cases of greed and breach of trust.¹⁸ This is what happened during the Great Depression, when mainstream economics failed, and again in the 1970s, when stagflation and structural problems demonstrated the inadequacy of the Keynesian narrative. Needless to say, which narrative comes to dominate when the sense-making process stabilizes will also be closely linked to interests and power.¹⁹

This process is also related to the issue of social control. Historian Thomas Max Safley argues that crises and scandals are important because they “communicate social identity, focus social opinion and reinforce social values. . . . [Crisis] focuses the community’s attention on a certain form of behavior, allows that community to express its outrage, imposes at the very least an informal, social sanction, and, so, marks that behavior as deviant and unacceptable.”²⁰ Along the same lines, but perhaps with a hint of populism, Michel Vilette and Catherine Vuillermot argue that “when it is public knowledge that a businessman has violated the law or ordinary morality, the usual reactions of politicians, judges, and journalists is to condemn him in order to ‘clean up’ the business world and restore the traditional criteria for the justification of the wealth of the rich.”²¹ Safley and Vilette/Vuillermot are probably right that the outcome is more or less given when “one bad apple” cases of fraud or bad business behavior are at issue. However, when more wide-ranging and complex business problems such as financial crises occur, the sense-making process becomes more complicated and opposing narratives will likely compete about giving meaning to the events. This was exactly the context in which the failure of Landmandsbanken took place.

17. See, for instance, Abolafia, “Narrative Construction,” 360–61, and Abolafia, “Making Sense of Recession,” in *The Economic Sociology*, ed. Nee and Swedberg, 205–9.

18. See, for instance, Abolafia, “Narrative Construction,” 363, who argues that “the structure of meaning are likely to be stable in the absence of a relatively extreme external shock.”

19. On the question of power and narratives, see Trouillot, *Silencing the Past*. See also Lipartito, “Culture,” 11 and 14.

20. Safley, “Business Failure,” 43. Safley’s ideas are based on Emile Durkheim.

21. Vilette and Vuillermot, *From Predators to Icons*.

The Bubble and the Crisis: Context²²

During the late nineteenth and early twentieth centuries, the Danish economy enjoyed stable growth, with real annual GDP increases averaging 2.7 percent between 1870 and 1913. Denmark exported primarily agricultural products while it gradually industrialized with assistance from a universal banking system concentrated around the country's three largest banks, Privatbanken (1857), Landmandsbanken (1871), and Handelsbanken (1873). As with other small open economies, Denmark went through the occasional boom and bust in harmony with the international economy. Particularly in the late 1870s and in the 1907–08 financial crises, banks suffered relatively big losses, and in 1908, the state stepped in with support in order to stabilize the financial system.

Nevertheless, Denmark at the time was one of the most liberal countries in which to do business. Ever since the general liberalization of the economy in 1857, discussions developed about regulating corporations and banks; but apart from a savings bank act in 1880, nothing came of it until the first Joint Stock Company Act of 1917 and the first Bank Act of 1919. Apart from the general stipulations that banks and corporations were required to keep accounts and that the central bank, Nationalbanken, enjoyed a monopoly on note issue, the banks were quite free to carry out their business in any way competition and their strategies and judgment led them to. As a result banks expanded their activities while reducing their equity and liquidity ratios over time. In particular after the outbreak of World War I, when Denmark remained neutral and traded with both sides, bank loans and profits rose dramatically along with a huge increase in the supply of high-powered money. At the outbreak of the war, the central bank's obligation to convert banknotes into gold was suspended, resulting in price increases. Inflation accelerated due to the fact that most parts of the economy were subject to rationing, and as "idle money" was transferred into financial assets, not least through the stock exchange where speculation became rampant.

The banks, and especially the largest banks, took active part in this speculation. With high liquidity and increasing asset prices on the stock exchange, many new joint stock companies were established and old ones increased their equity. The large banks underwrote and guaranteed most issues of shares and debentures; they

22. This section is based on Hansen, *På Glidebanen Til Den Bitre Ende*, Hansen, "Banking Crises," in *The Evolution*, ed. Feldman, Olsson and Cassis, Hansen, "From Growth to Crisis," Iversen and Andersen, "Co-Operative Liberalism," and Pedersen, *Danmarks Økonomiske*.

also retained shareholdings on their balance sheets.²³ In the case of Landmandsbanken, at least, the bank lent money on shares to speculators, including its own managers.²⁴ In addition, being universal banks, many Danish banks had close relations with the companies they were financing, and many engagements were rather concentrated. This became clear after the deflationary crisis set in from late 1920 and the banks started to fail. About a third of the troubled banks had lent more than 50 percent of their equity to one customer.²⁵

During the war the Danish state took up a much more interventionist role in the economy than ever, since 1857. This intervention paved the way for the corporate and banking laws implemented by the end of the war. The Bank Act of 1919 established requirements for capital and liquidity and also instituted the Bank Inspector's Office, but none of this could prevent the bubble that had inflated since the outbreak of the war from bursting. In January 1915 the stock price index of industrial shares stood at 135 (1914 = 100), and in September 1918 it reached 325. The fact that real economic growth had been negative in most of the war years mattered little. While the savings banks in general managed to stay away from speculative activities, many banks were not so cautious. Banks financed and also held considerable positions in public companies. Domestic bills of exchange grew from 216 million kroner in 1914 to 781 in 1920 and in the same period loans increased from 615 to 2,702 million kroner. Landmandsbanken anchored this development (figure 1)²⁶.

Together, the three so-called main banks had a market share of between 50 and 60 percent. In 1920 there were 208 banks in Denmark, but Landmandsbanken's assets alone constituted about one third of all commercial bank assets.

Although share prices had begun sliding in September 1918, things changed in the second part of 1920, when Denmark was hit by the deflationary crisis. Wholesale prices dropped from index 503 in 1920 to 288 in 1921 and to 220 by 1922. Given this, the Danish banking system began to disintegrate. In 1920 two banks were liquidated, in 1921 five were taken over by a stronger bank, one was reconstructed with new capital and five others were liquidated. In 1922 a total of 23 banks had to be acquired, reconstructed, or liquidated—Denmark's most serious banking crisis ever. Most failures happened among small and medium sized banks, but the large banks were not exempted.

23. Hansen, "From Growth to Crisis," 32–35, Hansen, *På Glidebanen*, 87–112.

24. Bankkommissionen, *Beretning*.

25. Hansen, *På Glidebanen*, 156–61.

26. Financial statements of Landmandsbanken, Privatbanken, and Handelsbanken, 1875–1935. Johansen, *Dansk Økonomisk*, 268–9.

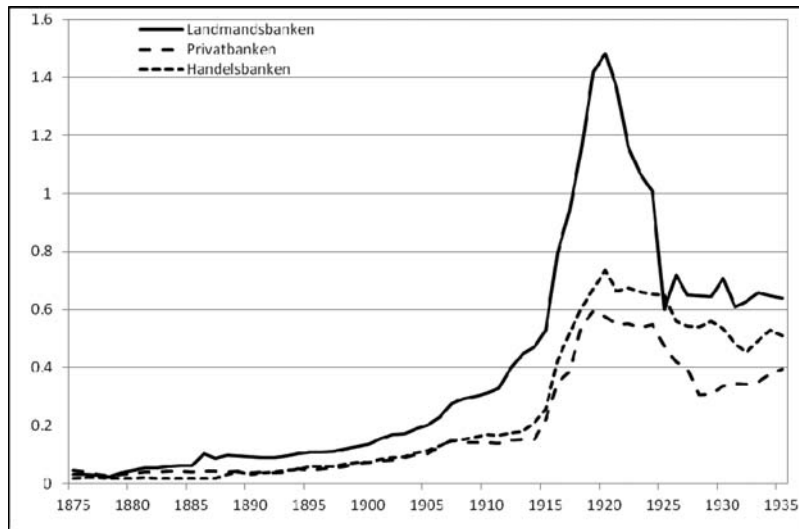


Figure 1 Landmandsbanken, Privatbanken and Handelsbanken, total assets in billion DKK, 1875–1935.

Attention very quickly zoomed in on the CEO of Landmandsbanken, Emil Glückstadt. Even though Landmandsbanken was the most spectacular failure, the fourth and fifth largest banks failed in 1924 and 1925, respectively, and in 1928 the third largest, Privatbanken, had to be rescued by private investors.

Emil Glückstadt

Emil Glückstadt was the last great Danish banker in the sense described by Ron Chernow.²⁷ Emil and his father, Isak—the first CEO of Landmandsbanken—were the closest Denmark ever came to having a banking dynasty such as the Swedish Wallenberg family or the American Morgans. The third generation was actually being put into line right before the crisis when a nephew, Erik, was appointed deputy director in late 1921. *Berlingske Tidende*, a newspaper, wrote enthusiastically that the appointment “once again marked the Glückstadt family’s name in the history of Landmandsbanken.” Born in 1875, Emil had learned the banking craft abroad in National City Bank in New York, Deutsche Bank’s London office, and in Banque de Paris et de Pays Bas. Returning to Denmark, he started working at Landmandsbanken, and in 1901 married “one of Copenhagen’s most beautiful young ladies, Miss Laura Rée,” the daughter of one of his

27. Chernow, *The Death of the Banker*.

bank's wealthy customers.²⁸ The same year Emil Glückstadt became his father's private secretary. "If one went to visit the old titular Privy Councillor in those years, one always found his son sitting with him in his office."²⁹ In short, Emil Glückstadt was apprenticing as a banker. Appointed vice-director in 1904 and a director three years later, he became managing director of Landmandsbanken in 1910, upon his father's death. He was 34 years old and well prepared for the task.

For over a dozen years, Emil Glückstadt was unrivalled chief executive, the leader who took the bank to its preeminent position. This made him a very powerful and wealthy person in a small nation. In 1920 a skilled worker made about 6,000 kroner a year. From 1914 to 1920 Landmandsbanken paid Glückstadt a total of 2,063,609 kroner in salary and bonuses—almost 300,000 kroner a year on average.³⁰ Glückstadt also had other earnings from investments and from board positions, and according to his defense, after 1916 made a total of "about or above, some years substantially above, one million kroner a year." His taxable assets were reported to be five million kroner.³¹ *Politiken*, a newspaper, estimated his earnings between 1918 and 1922 at 22 million kroner and his assets at eight million, whereas the committee appointed to investigate the failure estimated his assets at 7.3 million kroner.³² In other words, by any standard Glückstadt was a very rich man. Measured in real terms, Glückstadt's assets correspond to 1.8 billion kroner (ca. \$300 million) and annual earnings of one million correspond to about 250 million kroner (ca. \$42 million).³³

While Glückstadt's income and assets could not have been known to outsiders, he did exemplify conspicuous consumption, and the public was well aware of his wealth.³⁴ He owned several properties including two town houses in Copenhagen, a historic mansion in the countryside to the north, a town house in Paris, an island in the Kattegat, and a yacht. An eager collector of art and industrial arts, he also donated land for the construction of a nursery home and gave a property in central Copenhagen to the Museum of Industrial Arts. Nevertheless, as one of his defenders acknowledged during the trial

28. *Stenografisk Referat*, 9.

29. n/a, "Etatsraad Glückstadt," *Politiken* 24. juni 1924.

30. Bankkommissionen, *Beretning*, 48–9.

31. *Stenografisk Referat*, 9.

32. n/a, "Etatsraad Glückstadt."

33. Note that the present values are very uncertain. They are calculated on the basis of how big a percentage Glückstadt's assets and earnings were of the GDP in 1919. These percentages, respectively, 0.125 and 0.017 percent, were then used to calculate the present value of GDP in 2009. For a discussion of measuring value over time, see Officer and Williamson, "Measures of Worth."

34. Mørch, *Det Store Bankkrak*, 388–9.

in 1923, “a man of high finance will never become popular. To the world he is just an institution in the great power of money.”³⁵ In the media and beyond, Emil Glückstadt was represented as possessing many of the qualities that are usually assumed to make a good business leader: decisive, enterprising with excellent negotiating skills and the ability to think across categories. People encountering him never doubted that he was in control—some even found him vain.³⁶

The Glückstadt System

As an influential and powerful bank CEO Emil Glückstadt simultaneously acted according to (while shaping and re-circulating) the broader narrative of Denmark’s industrial development. Not simply a person, he was also a symbol and one of the heroes of the time; and as such he was embedded in and co-produced capitalism in Denmark and the Western world. As CEO Glückstadt operated in a time of dramatic upheaval politically, culturally, and economically, the outbreak of World War I dramatically changed the conditions for running a bank; six years later conditions shifted again when the peace crisis broke out in fall 1920. During this period the dominant discourse was a grand narrative of economic liberalism, even as certain counter narratives circulated in Danish society, especially a socialist narrative and a narrative that questioned the dominant role of finance and financiers, echoing Rudolph Hilferding’s contemporary critique of finance capitalism in Germany.³⁷

Since the late nineteenth century the socialist narrative had very slowly gained momentum throughout the western world, and in many countries liberal economic ideas were increasingly being challenged after World War I. Still, the liberal narrative with an emphasis on free economic and financial agents remained dominant. In 1911 Joseph Schumpeter called the banker the “ephor” or overseer of the market economy, the capitalist par excellence who made entrepreneurship possible through financing innovation and carrying the related risk. Thus the financier was established as a hero and helper along with the entrepreneur who drove economic development.

35. *Stenografisk Referat*, 10.

36. See, for instance, the following articles and obituaries: n/a, “Etatsraad Emil Glückstadt Død,” *Berlingske Tidende Aften* 23. June 1923, n/a, “Etatsråd Glückstadts Død Og Følgerne Deraf,” *Social-Demokraten* 24. June 1923, n/a, “Emil Glückstadt,” *Berlingske Tidende* 23. June 1923, n/a, “Etatsraad Glückstadt Døde I Formiddags,” *Nationaltidende* 23. June 1923, n/a, “Etatsraad Glückstadt Afgik I Gaar Ved Døden.” See also *Stenografisk Referat*, 1, and Mørch, *Det Store Bankkrak*.

37. Hilferding, *Das Finanzkapital*.

Landmandsbanken's and Emil Glückstadt's role in the Danish economy could be, and was, interpreted in the light of Schumpeter's theory, and the dominant narrative about Glückstadt as one of society's heroes, assisted Danish economic development, corresponded to this grand narrative of liberalism. In 1911 Glückstadt was appointed titular Councillor of State, and in the following years was highly decorated by the King. During and after the war he was asked by the Danish Government to represent it as an important envoy on several occasions. In 1921, Glückstadt also accepted an invitation from the League of Nations to participate in the reform of the Austrian finances. The *New York Times* commented that Glückstadt had participated in the Brussels financial conference "where the entente evidently saw and appreciated his ability."³⁸ As late as in the first half of 1922 Glückstadt attended conferences in London, Geneva, and Cannes on behalf of the Danish Government, meaning that he was absent from the bank for longer periods.

Clearly at the zenith of his career, Glückstadt was admired as a banker as well. Most fitting with Schumpeter's characteristic of a banker, a Danish newspaper wrote that Emil Glückstadt,

"Landmandsbanken's young, brilliant CEO is indisputably one of the men who have taken the lead in the development of the financial, economic and mercantile areas. There are only few new corporations, who do not to a larger or lesser degree, rely on his insightful assistance."³⁹

In 1920, a biographical encyclopedia entry argued that Glückstadt had taken Landmandsbanken "a huge step forward; new tasks have been added, new branches have been set up or acquired and many new, important companies have been established with the bank's support . . . G[lückstadt] connect a seldom shrewdness with a rare capacity for work, which has also benefited the considerable number of companies of which he is a board member. During the World War his influence abroad has been of great value to Denmark, and on a number of occasions he has been a delegate at trade negotiations."⁴⁰

Emil Glückstadt was without any reservation one of the stalwarts—or ephors—of the liberal narrative and of the Danish establishment. Yet there were counternarratives as well—even before the failure. One, the socialist counternarrative, was based on a fundamental criticism of the liberal narrative and ideology. Although it was gaining momentum during and after World War I, it did not yet represent a

38. "To Recast Austrian Finance," *New York Times*, April 5, 1921.

39. Mørch, *Det Store Bankkrak*, 88.

40. O.T., "Glückstadt, Emil," in *Dansk Biografisk Haandleksikon*, ed. Dahl and Engelstoft.

real alternative to the established political powers in the economic sphere. The second, the finance capitalism narrative, was more specifically directed against the financial system. The most high-profile exponent of that narrative was one of Glückstadt's harshest critics, L.V. Birck, an economics professor at the University of Copenhagen. The fact that Glückstadt was a Jew and Birck an anti-Semite added to the animosity when he attacked Landmandsbanken and Glückstadt, whom he saw as the main force behind finance capitalism.⁴¹ Birck was a conservative, twice a Member of Parliament (1903–10 and 1918–20), and a long-time critic of Landmandsbanken and what *Jyllands-Posten*, a newspaper, called "the Glückstadt system."⁴²

In a 1919 Parliamentary speech Birck echoed Hilferding and argued that "banks are coming to dominate the business life to a degree that they should not." This "makes the banks much too powerful," Birck said, adding that the country's most powerful bank was Landmandsbanken.⁴³ The universal bank system of interlocking directorates only added to this problem, according to Birck.⁴⁴ Before the crash Glückstadt was chairman of the board of at least ten joint stock companies and board member of at least another eleven.⁴⁵ On June 10, 1922, one month before Landmandsbanken failed, matters came to a head when Birck confronted Glückstadt at the general assembly of the Transatlantic Company, whose board Glückstadt chaired. Transatlantic Company was also Landmandsbanken's largest borrower, and most of the bank's later losses derived from this credit engagement. Birck accused Glückstadt and his "finance system" of being a parasite on Danish business life despite his power and connections and the admiration of the Copenhagen press community.⁴⁶ Birck's dramatic criticism of the financial system and Glückstadt removed the financiers from the hero position. Who the nation's heroes were was a little unclear but this narrative had clear international parallels in the Austro-German Marxist, Rudolph Hilferding's account of Finance Capitalism and the American Pujo Committee's 1912–1913 investigation of the so-called money trust, in which J.P. Morgan played an important role.⁴⁷ Such criticism was central to the

41. Birck, *Under Højkapitalismen*, 124.

42. Birck, *Verdenskrisen*, 17, 26 and 49–50. See also Birck, *Under Højkapitalismen*, 115–24. Bankkommissionen, *Beretning*, 60, n/a, "Landmandsbankens Sammenbrud," *Jyllands-Posten*, 19 September 1922.

43. Birck, *Verdenskrisen*, 49–50.

44. *Ibid.*, 49–50.

45. Nyegaard, "Forbundne Bestyrelser," n/a, "Etatsraad Emil Glückstadt Død," *Berlingske Tidende Aften* 23 June 1923.

46. Koed, "I Samfundets Tjeneste," in *Bogen Om Birck*, ed. Nielsen, 68–9.

47. Hilferding, *Das Finanzkapital*, Brandeis, *Other People's Money*, Chernow, *The House of Morgan*.

counter narrative about Glückstadt, representing him as the symbol of finance capitalism, a villain. Birck's narrative also depicted Glückstadt as a figure and preeminent symbol of the Jewish financier who exploited society.

Another critical voice was stockbroker Alfred Horwitz. He likewise claimed that financial thinking had become too dominant, with harmful consequences for society. Albeit not aiming his criticism directly at Glückstadt, Horwitz warned vehemently against the widespread bubble behavior during World War I, when stock buying was not "stock exchange investment but gambling."⁴⁸ According to Horwitz, the speculation caused social and cultural problems such as "high costs of living, suffering and want of the greater part of the population, increased inequality between those who made fortunes and those who suffered immensely, and not least, a disinclination to ordinary, hard work."⁴⁹ In his view, the Stock Exchange had developed into a casino and its original function as a "the center of commercial life, the heart chamber of the money market" had more or less vanished because of the bubble and speculation.⁵⁰

Horwitz's observations document how the stories of profit and wealth opportunities translated into expectations of continued stock increases. The speculators' numbers grew dramatically, and the banks responded by increasing their lending and proprietary trading. This is how manias and bubbles are created; by stories being told and circulated; and over time they feed on Shiller's "social epidemic" of group thinking and herd behavior.⁵¹ A satirical cartoon by Sven Brasch from 1916 also illustrated how Danish society was more engaged in the ups and downs of the Stock Exchange than the war being fought right next to it (figure 2).⁵²

While expectations of easy profits rose, and therefore the incentive to gamble on the Stock Exchange and take economic risks, controlling the surge proved implausible. The ideology of economic liberalism was still too strong for that. The Danish economy may well have been among the least regulated in the western world before 1914. Indeed, the first joint stock company act was passed only in 1917, and the first Banking Act two years later, coming into force in October 1920

48. Horwitz's newspaper articles were published in a book: Horwitz, *Minut-Millionærer*. The quote is from May 1916 (p. 21). See also the Banking Committee's description of the boom and the peace crisis in *Bankkommissionen, Beretning*, 54–60.

49. Horwitz, *Minut-Millionærer*, 63. The quote is from January 1917.

50. *Ibid.* The quote is from September 1918 (pp. 89–91). More generally on the stock exchange during the bubble, see Gejl, *Indenfor Snorene*, 219–228.

51. Shiller, "The Sickness beneath the Slump."

52. Brasch, "Sådan er det," in *Svikmøllen*.



Figure 2 That's how it is! The War (krigen) and the Stock Exchange (børsen).

just as Denmark's peace crisis began.⁵³ This very liberal economic framework in the context of a heavily wartime regulated economy presented wide opportunities for bankers to serve their own interests. While there were critical voices such as Birck's and Horwitz's, the dominant narrative seems to have been that it was all about taking "full advantage of the ample opportunities that are currently up for grabs," as Glückstadt wrote to Marcus Wallenberg in September 1914.⁵⁴ Although Birck and Horwitz circulated a counter narrative of finance capitalism, opposing the liberal grand narrative, the representation of Glückstadt as a hero rather than a villain remained dominant. However, when Landmandsbanken's problems, and in particular the collapse in September 1922, became known, the need for making sense of it arose and the search for meaning started.

In Search of an Explanation

When it became clear in September that Landmandsbanken's losses exceeded its capital, Glückstadt was fired. Despite the fact that he quickly and (as far as we know) freely handed over his personal assets to Landmandsbanken, he immediately became victim of numerous

53. Concerning bank regulation until 1930, see Hansen, "Finansielle Krisers," Hansen, "Bank Regulation."

54. Letter of September 26, 1914, from Emil Glückstadt to Marcus Wallenberg, Stockholm. Stockholms Enskilda Banks Arkiv, The British Bank of Northern Commerce, Dossier Nr. 2.

attacks from many sides. Perhaps unsurprisingly, Professor Birck was one of the first to present an analysis of the collapse. Echoing Horwitz, Birck wrote that the “problem was that Glückstadt’s interests were not in reality but in securities. He did not recognize that shares and bonds are different from real production—they did not create production and commerce.” He also pointed out that the total market value of shares listed on the stock exchange in 1913 was 800 million kroner, in 1918 at its peak it was 3,200 million kroner, and by the end of 1921 they were back at 800 million.⁵⁵ In these years GDP at current prices was 2,301, 4,766, and 5,794 million kroner, respectively.

On September 21, *Jyllands-Posten*, the newspaper that coined the term “Glückstadt system,” called Glückstadt a “big time swindler” who had breached the trust vested in him mostly because of his father’s name and perceived brilliance as a banker. People had looked at Emil Glückstadt as an infallible “Napoleon of finance,” but the collapse taught that one should be careful about investing too much trust in one person.⁵⁶ In general, *Jyllands-Posten* laid responsibility for the crisis at Glückstadt’s feet, criticizing the financial hegemony he had achieved through his position heading Landmandsbanken. As such, the paper echoed Birck’s criticism of finance capitalism: “it is a problem for a small country to have such a large bank, that it can control the country’s financial and economic life. By reckless and wild speculation Landmandsbanken has wasted many millions entrusted to it by the population.”⁵⁷

Julius Schovelin, the Royal Stock Exchange commissioner (and author of Landmandsbanken’s 50th anniversary publication published in late 1921) offered a somewhat different perspective. Acknowledging that Glückstadt had played a role in the collapse, he argued that a witch-hunt was now going on. Schovelin reminded the readers that Glückstadt stood behind the bank’s growth during the good years, and

It has now been demonstrated once again that even the strongest corporation can do nothing when facing an economic downturn. . . . [Glückstadt] planned for the economic cycle to return to normal – as it will one day – but he and his bank could not wait that long. Besides, he lacked judgment of character. The men that he worked with and put in positions as managers of large companies were not the right persons and they ruined him.⁵⁸

55. Birck, “Hr. Emil Glückstadt Som Bankleder,” *København*, 18 September 1922.

56. n/a, “Den Misbrugte Tillid,” *Jyllands-Posten* 21 September 1922.

57. Ibid.

58. Schovelin, “Landmandsbankens Fortid Og Fremtid,” *Nationaltidende* 21 September 1922.

In Schovelin's view, Glückstadt was not the villain. He might have been naïve, but the peace crisis deflation, an external event, destroyed the bank. Even if Glückstadt was not exactly innocent, he was not the main cause of the collapse. Actually, he was not a villain but perhaps rather a victim of his own trust in other people. When Glückstadt died in prison, Schovelin added to this characteristic in his obituary: "when the downturn and the world crisis hit, Glückstadt suddenly saw something confronting him that was completely unknown, mysterious, and incomprehensible to him. He did not believe in the world crisis . . . he had never seen, never experienced an economic downturn."⁵⁹

The implication was that Glückstadt lacked historical perspective. Therefore, he had no adequate analogy to rely on during the bubble, no roadmap by which to manage his bank. Schovelin added that Glückstadt had perhaps believed that he could stop the world crisis by throwing good money after bad money, "and then when hundreds of millions had disappeared without any effect, as a last resort he turned to stock speculation and window dressing of the accounts. Did he go beyond the legal limits in his resistance to the world recession—and if so what on earth was his motive since he in no way needed more money? What was the explanation?"⁶⁰ Schovelin provided no answers to the puzzle, but managerial failures such as this have been identified in many financial crises and are part of the group think and herding behavior exhibited repeatedly by bank managers.⁶¹

A banking expert, Professor Axel Nielsen, also pointed to the effect of external forces when he commented on Landmandsbanken's failure. In September 1922 he stressed that even though management errors had been made, the real problem lay in the monetary policy conducted during and after World War I when Parliament suspended the gold standard. According to Nielsen,

one should not consider the calamity of Landmandsbanken and other banks in this country, as a result only of the incapability of management during a world catastrophe. Behind the optimism that caught the banks' managers lay the general world business cycle, which in Denmark was further reinforced through the inflationary policy conducted. . . . The domestic inflation and exchange policy dramatically reinforced the general price increases from abroad and formed the background for the optimism which spread over time, and that is a strongly contributing cause for the current downturn being so strong.⁶²

59. Schovelin, "Emil Glückstadt," *Nationaltidende* 24 June 1923.

60. *Ibid.*

61. See, for instance, Lai, "The Norwegian Banking Crisis."

62. Nielsen, "Konsekvenser," *Børsen* 19 September 1922. See also the Interview with Axel Nielsen in n/a, "Sammenbrudet," *Nationaltidende* 19 September 1922, and his book Nielsen, *Bankpolitik*, 364–73.

The council of Venstre (the classical economic liberal party) in Copenhagen argued along the same lines when it issued a statement that the fiscal policy conducted by the government during and after the war had “to a significant degree driven speculation to such a level that society was hit hard when the downturn came.”⁶³ In this narrative the crisis was mostly a result of intervention in the economy by the state and the central bank. This type of explanation can also be found in the attempts at making sense of the financial crisis of 2007–2009, where it corresponds closely to a monetarist and Austrian economics tradition.⁶⁴

To briefly sum up, during the first few days of the failure of Landmandsbanken in September 1922 two main narratives emerged. The first argued along the lines of the finance capitalism framework that the banks, and in particular Landmandsbanken and Glückstadt had become much too powerful and had exposed not only the bank but society more generally to a bubble that resulted in financial disaster when it burst. The implication would be that the financial system needed to be restrained/regulated in the future. In contrast, the second narrative emphasized external forces, the world economic crisis, and not least the monetary policy conducted by the central bank after Parliament dropped the gold standard. While this interpretation acknowledged that individual banks and bankers had allowed themselves to be carried away during the bubble, the main culprit was the authorities who had created an institutional framework in which inflation and idle money could exist in the first place.

In Court

In the trial against Glückstadt, which started just before he died, the prosecutor acknowledged that the war and its consequences—the bubble—were among the main reasons for Glückstadt’s misfortune. Taking sides with Horwitz, the prosecutor asserted that “the war period turned many concepts and values upside down. Luxury consumption and gambling gradually influenced all social classes; everything was forced up to imaginary values.” This development destroyed respect for manual and intellectual work, and, as a consequence, broke society’s soul.⁶⁵ Glückstadt should have worked against this demoralization, but instead he not only took part in it, he drove development. The reason was his character:

63. n/a, “Det Københavnske Venstre,” *Nationaltidende* 21 September 1922.

64. White, “How Did We,” Wallison, “Three Narratives,” and Schwartz, “Origins.”

65. *Stenografisk Referat*, 1.

On his way through life he has rarely met serious hardship that had to be conquered, the hardship that strengthens character and deepens the personality. The trust, admiration and veneration that he met from many sides probably developed his ambitions and his self-esteem. Gradually his self-estimation increased and his original social position became insufficient. Gradually he left his natural environment for another that he found more attractive, but thereby he drifted away from a personal relationship with the bank's old customer group and forgot to take care of the interests that it was his job to look after. His vanity urged him higher and higher.⁶⁶

According to the prosecutor, this process led Glückstadt to an "un-Danish" life of luxury; and with all his money he lost sight of its meaning. In other words he came to overestimate his own importance and ability, and he got greedy.⁶⁷ Despite acknowledging the importance of the war and the bubble, the prosecutor individualized the causes of Landmandsbanken's collapse and turned them into a question of Glückstadt's character and psychology. This "one bad apple" narrative corresponds to a certain degree with Birck's and Horwitz's but was very different from the one advanced by Nielsen and Schovelin, who first and foremost pointed to the bubble and the peace crisis as external events causing Landmandsbanken's and other banks' collapse.

The prosecution's statement was contradicted by statements presented by Glückstadt's defense. Former Minister of Foreign Affairs, Harald Scavenius, asserted that Glückstadt had served his country with great capability, and former Minister of Finance, Edvard Brandes, wrote Glückstadt that "you must always remember that you are and will always be the most insightful, the most visionary, the only great financier Denmark has."⁶⁸ During the trial Knut Wallenberg of the prominent Swedish banking family also spoke positively about Glückstadt's abilities and character:

My understanding of titular Councillor of State Glückstadt's qualities as a banker and financier can be put in a few words. As a close acquaintance and a good friend of his father, I have seen him grow up and be educated to follow his father as the leader of Landmandsbanken. Rarely have I seen a young man with so distinct capabilities and so good a training for his discipline as Emil Glückstadt. I myself would never have hesitated to entrust him

66. *Ibid.*; 1.

67. Greed is a commonly mentioned cause of business scandals, see, for instance, Hamilton and Micklethwait, *Greed and Corporate Failure*.

68. *Stenografisk Referat*, 3.

with even the most complicated tasks, for he was a pleasant and very capable negotiator, and I have never – and cannot now – doubt his honest intentions.⁶⁹

Glückstadt's defense used these statements to construct a narrative about a capable and competent banker who could not be held responsible for Landmandsbanken's collapse. The defense recounted his achievements and stressed that in 1920 his bank had been strong as a rock. "The reason that the bank collapsed shortly after was the terrible crisis, that the world went through the following years and which tore down so much of what had been solid and good, a crisis that hit Landmandsbanken under the most unfortunate situation."⁷⁰ The defense admitted that Glückstadt had been too optimistic and too trustful, and that there should have been more controls in the bank. The "unfortunate situation" was that Glückstadt had been away from the bank while providing services to the Government. No one could take over while Glückstadt was away because "there was only one head, only one, who was born to lead and that one, was Glückstadt."⁷¹ The prosecutor, on the other hand, put a different spin on this and argued that Glückstadt was absent while "his bank sailed on in a storm without a captain."⁷²

The Banking Committee

In addition to the legal proceedings, Parliament immediately established a Banking Committee in September 1922 to investigate the causes of Landmandsbanken's collapse. In addition to Bank Inspector Holmer Green and Judge C.D. Rump, Professor Lauritz Birck became a member. As already mentioned, Birck had been the most outspoken critic of Landmandsbanken, of Glückstadt, and of finance capitalism more generally before the crash. The composition of the committee could be interpreted as a sign that the majority in Parliament had already made up its mind as to the causes of the failure.⁷³ Birck is believed to have been the actual author of most of the committee's 750 page report published in January 1924.⁷⁴

The Banking Committee recognized that the peace crisis had been the most violent economic upheaval in world history.⁷⁵ Had it

69. *Ibid.*; 3.

70. *Ibid.*; 3.

71. *Ibid.*; 5.

72. *Ibid.*; quote from p. 2, see also p. 4.

73. Mørch, *Det Store Bankkrak*, 260–71.

74. Bankkommissionen, *Beretning*.

75. Bankkommissionen, *Beretning*, 316.

stopped there the Committee might have stabilized the sense making process: the calamity that hit Landmandsbanken (and so many other banks during the 1920s) had come from the “economy” and external forces that the banks and Glückstadt could not resist. However, such an explanation begged the question of how it was possible for a bank such as Landmandsbanken and a banker as highly esteemed as Glückstadt to simply collapse almost overnight. There had to be more to it than an external economic downturn that had forced itself upon innocent banks.

Outside forces notwithstanding, the Committee concluded that Landmandsbanken’s failure was first and foremost caused by the “credit and financing policy pursued by the bank’s management in the years prior to the sudden big turn of the market in 1920.”⁷⁶ Accordingly, Glückstadt and his second in command Ove Ringberg, who had died of kidney disease in April 1922, bore the main responsibility. The bank’s strategy had been much too aggressive, and interlocking directorates and conflicts of interest had greatly contributed to the “granting of credits, which, relative to actual conditions, were wholly excessive—not least with respect to the Transatlantic Company.”⁷⁷ The Committee also distanced itself from the lifestyle and wealth—symbols of greed—of Glückstadt and Ringberg: “Both Glückstadt and Ringberg amassed a considerable fortune, especially during the speculative years. They both undertook substantial private consumption, in particular Glückstadt who in the more recent years purchased luxury estates, which he decorated in a princely manner, and who was interested in industrial arts and paintings which together cost enormous amounts of money.”⁷⁸

Glückstadt’s assets and collections were sold at several auctions and attracted large numbers of bidders and spectators. The media coverage was extensive, in particular at the first auction, which took place at Glückstadt’s landed estate “Sølyst.” At the auctions, people could see for themselves how one of the country’s richest and most influential men had lived and they could shudder by the thought of how deep and complete his fall had been. These auctions probably played a role in the public’s sense-making process. So did the Banking Committee’s work. Both were widely reported on and discussed in the newspapers, and in 1924 *Svikmøllen*, an annual satirical publication, published cartoons on both the “Assault on Sølyst” (Figure 3)⁷⁹ and on the “Confiscation of Fortunes” (Figure 4) played

76. *Ibid.*; 316.

77. *Ibid.*; 316–317.

78. *Ibid.*; 318.

79. Ludvigsen, “Stormen På Sølyst,” in *Svikmøllen*.



Figure 3 The Assault on Sølyst.



Figure 4 Confiscation of Fortunes. Wild West film starring Dr. Laurits Birck.

out like a Wild West Film with Birck as the head actor as a little too zealous investigator that came to be considered a threat to too many influential people.⁸⁰

Also, the interrogations, imprisonment, trial, and death of Glückstadt were covered at length by the press, and the publication of the Committee's report provided another opportunity to discuss what on earth had happened. The *Social-Democrat* featured the massive volume as the "Report on Capitalism's Terrifying Crimes against the Danish

80. Hoff, "Formuekonfiskation," in *Svømmøllen*.

People” in a front page article. The first lines told readers that the report described “an irresponsible and incompetent upper class’ gambling with the outcome of labor led by unscrupulous criminals and foolish dreamers.”⁸¹ This socialist narrative, briefly mentioned above, attacked the very foundations of the “system” and therefore had the potential to pave the way for fundamental systemic change. However, that was much too radical for Danish society, which still had the Russian revolution and general labor unrest in memory, and was by no means prepared to make any fundamental changes to the capitalist system.

Landmandsbanken’s Failure and the Narratives

Besides the socialist narrative that faulted the capitalist system, two main narratives emerged from the prolonged sense-making process that began immediately after the failure of Landmandsbanken. The first, based on the finance capitalism narrative circulated by Birck and Horwitz, emphasized conflicts of interest, interlocking directorates, and the lack of control systems that could have checked managerial greed and incompetent or greedy bankers. Here the bank failures were due to internal problems and the financial system, and Glückstadt occupied the role of the villain. As the preeminent symbol of finance capitalism—“the Glückstadt system”—he was first in line when a culprit was needed. By blaming bank managers, universal banking and lack of controls in the banks, capitalism in general was left unblemished, although some adjustments might be wise, for instance, a revised banking law introducing more checks and balances.

This view was expressed perhaps most forcefully in 1928 by the head of the Bank Inspector’s Office. By that time several more banks had failed and Landmandsbanken had once again, in early 1928, occupied the headlines, when it became clear that the Danish State had to take complete ownership of the bank. Given that background the Bank Inspector spoke to the recently appointed Banking Bill Committee, tasked to revise the Bank Act of 1919. He stressed that

the main reason why so many banks have failed or are very weak is first and foremost lack of knowledge and responsibility in these banks’ managements and boards. This creates and maintains a groundless lack of confidence in our many capably and cautiously managed banks . . . when some . . . attempt to represent the causes of the failures as mainly coming from outside of the concerned banks.⁸²

81. n/a, “Beretningen,” *Social-Demokraten* 15 January 1924.

82. Hansen, *På Glidebanen*, 149–50.

By stressing that many banks had been managed well and been able to survive without any assistance, the Bank Inspector argued that the problem was not brought on by external forces. This view corresponded well with the earlier narrative put forward by the Banking Committee and newspapers that emphasized the responsibility of individual bankers.

Indeed, the Bank Inspector's talk was an attack on the main competing narrative, presented by Nielsen and Schovelin, among others, which emphasized external factors rather than internal. In their view, the boom and bust and the peace crisis were driven by international forces, which made it extraordinarily difficult to be a banker. With no relevant analogies in which to base policy, Glückstadt and other bankers were unable to fight against these forces of history. There was no denying that Glückstadt had been part of the collapse but it was probably better to blame his naivety rather than greed. As well, Nielsen introduced another culprit, namely the central bank, that had conducted a wrong-headed monetary policy and that together with the political intervention in the economy was responsible for the easy money and inflation that had led to the bubble. In this narrative, the financial crisis was caused by an erroneous monetary and fiscal policy and, by implication, by intervention in the economy by outsiders, the state, and the central bank.

These two narratives offered quite different explanations of the crisis. The first clearly pointed out the villains: incompetent and greedy bank managers. This narrative offered the opportunity to round up the suspects, restrict the harm done, and even strengthen the social order as argued by both Safley and Vilette & Vuillermot. It also implied that banks would need to be better regulated in order to avoid a recurrence in the future. In this perspective the first narrative presented an opportunity to move together, make some relatively minor adjustments in bank regulation, and then get on with people's lives without any fundamental changes to the economic and social order.

The second narrative had different implications. It stressed that the bubble—and therefore the banking crisis—would never have happened if the authorities had conducted a proper monetary and fiscal policy in the first place. In this narrative politicians and the central bank were the villains but the causality and the personification of the crisis was much less direct, and thus less useful in making sense of the crisis. It was, after all, difficult to argue that nothing was wrong with the banks, especially once Landmandsbanken's crash was followed by other bank failures that never seemed to end. Nevertheless, the regulatory implication of this narrative would be first and foremost to reinstall the gold standard and monetary and fiscal discipline, thus making sure that discretionary monetary policy did not get another

chance to ruin the economy's "natural" equilibrium. Thus, Professor Axel Nielsen had been very clear that Parliament and the central bank had failed by suspending the gold standard and not controlling the central bank's depreciation of the currency.⁸³ The third socialist narrative of failure and the financial crisis critiqued a capitalist system that could not balance its own forces but did not get much attention. If it had been more influential it could have resulted in a more far-reaching intervention in the economy and the financial system.

However, when the new liberal Government appointed a Banking Bill Committee in 1928, all three narratives were represented by different members of the Committee. The members came from the political parties, the commercial banks, business associations, Nationalbanken, and several ministries. The Ministry of Trade appointed Professor Nielsen as an expert. During the discussions in the Committee and in Parliament, it became clear that there was neither support for more interventionist restrictions reflecting the third narrative nor for including the role of Nationalbanken in the Bank Act. When the new Bank Act was passed in Parliament in 1930 it increased capital requirements and limited the banks' risk exposure towards individual customers. The new law also reduced conflicts of interests by severing the ties between banks and industrial companies so typical for finance capitalism and the "Glückstadt system." Bank ownership of shares and bank managers interlocking directorates were reduced as well.⁸⁴

These measures and the law more generally corresponded quite well with the narrative that focused on the risks taken by individual banks and their managers. The alternative story of monetary and fiscal policy as the "culprits" did not find much of a place in the 1930 Bank Act, even though Axel Nielsen had argued strongly in favor of restraining the central bank's discretion. However, at that time the gold standard had been restored and the central bank had been conducting a contractionary monetary policy since 1924, so a recurrence of runaway inflation hardly seemed a genuine threat at the time.⁸⁵

Why did the first narrative blaming the banks and their managers come to dominate? Why did the sense-making process stabilize meanings around this particular narrative? As indicated at the outset, an answer must take account of the question of interests and power. The banking crisis considerably weakened the political and economic position of finance capital and of the community of big business that

83. Nielsen, "Konsekvenser."

84. Hansen, "Bank Regulation," 59–60, and Hoffmeyer and Olsen, *Dansk Pengehistorie*, 147–52.

85. Hansen, "Production Versus Currency," in *Universal Banking*, ed. Teichova, Gourvish, and Pogány, and Hansen, "Banking Crises."

Birck had opposed so vigorously before the crash. During the banking crisis it was not only Glückstadt who lost his social and economic position and legitimacy; the same thing happened to multiple bank managers and board members. This lack of legitimacy and therefore of power was dramatic enough that rumors circulated about the need to bring the banking committee's investigation to a halt.⁸⁶

The fact that Birck was appointed to the bank committee in the first place could be seen as an indication that the political system had already made up its mind. However, it is also important to distinguish between the immediate need for pinpointing a scapegoat and the larger narrative about the financial crisis more generally. The first narrative had some advantages vis-a-vis the second one that focused on monetary and fiscal policy. By targeting easily identifiable villains such as bank managers and boards, the moral of the first narrative was much more accessible and widely circulated than the alternative, where more anonymous forces were at play. Also, Nationalbanken's manager Carl Ussing vigorously defended himself and the bank against Nielsen's attacks, and this probably also contributed to weakening the second narrative.⁸⁷

Finally, it is important to consider the interplay between the grand societal narrative and the concrete narratives explaining the crisis. For instance, the third, left-wing narrative circulated through the social democratic newspaper about a systemic failure of capitalism was not likely to gain much support in the face of a the general liberal economic ideology of the time. The first narrative on the failure of the banks and their managers was much more likely to be seen as a plausible explanation, given the criticism of the banking system and speculative activities not only during and after World War I, but also in relation to the 1908 banking crisis.

Putting Things in Perspective

It is an important observation that the two competing narratives bear a striking similarity with the two main narratives that have arisen from the debate about the current Great Recession. This can be explained by the two narratives' close relation to the competing grand narratives of neoclassical (and Austrian) economics on the one hand and the Keynesian narrative on the other. It is no coincidence that the two

86. The cartoon by Christian Hoff already mentioned exemplifies this (Hoff, "Formuekonfiskation.") See also Mørch, *Det Store Bankkrak*.

87. Ussing, *Nationalbanken 1914-1924*, and Ussing, *Universitetet Og Nationalbanken*.

explanations also correspond very well to the two dominant theories of financial crisis, the Minsky-Kindleberger theory and the monetarist and Austrian economic theories.⁸⁸

In the 1920s, like today, bankers were portrayed as greedy and immoral. This is understandable from a sense-making perspective, but it is not an explanation that helps us to appreciate why serious financial crises happen. Danish society needed bankers like Glückstadt as villains in order to make sense of the calamity. Thus, the public condemnation, the interrogation, arrest and death of Glückstadt, intensely reported by the newspapers, served the purpose of reinforcing social and economic values and demarcating what behavior was acceptable—even normal—and what was not, in Danish society. It became clear to everybody that flying high also meant falling far, and a fate such as Glückstadt's was not what anybody would want.

Emil Glückstadt was not a master of the universe, but he was a master of a boom economy being fed by narratives about all the easy money that could be made on the stock exchange. In a memorial article, Julius Schovelin noted that “in retrospective it is no longer difficult to see how much of his unbroken array of successes relied on the fact that he took over right before a boom, where the ones who ventured most profited most.”⁸⁹ But the bubble did not last forever, and neither did his success. In a very short time Glückstadt went from being a visionary and competent banker to a rascal blamed almost singlehandedly for the collapse of his bank. Glückstadt was turned into a bad banker *ex post facto*, and with him the “Glückstadt system” collapsed as well.

This explanation must also be seen in a broader contextual perspective such as the one I have attempted to present in the beginning of this article. Glückstadt was not acting in a vacuum, but was part of and co-producer of finance capitalism during the first globalization period. There were few limits to what big banks and their managers could do; but the collapse of the banking system, and in particular Landmandsbanken, and the unfolding under public scrutiny of the bank's relation to big business, effectively put an end to the “Glückstadt system.” The heroic narrative about business leaders could no longer be maintained in face of the massive critique. In combination with several other factors, not scrutinized here, the failure of

88. See Hansen, “Hvem Har Skylden?” For the Minsky-Kindleberger hypothesis, see Minsky, “A Theory of Systemic Fragility,” and Kindleberger and Aliber, *Manias, Panics and Crashes*. For the monetarist approach, see Schwartz, “Real and Pseudo,” in *Financial Crises*, ed. Capie and Wood, and Friedman and Schwartz, *A Monetary History*. For the Austrian view, see, for example, White, “How Did We Get into This Financial Mess?”

89. Schovelin, “Emil Glückstadt in Memoriam.”

Landmandsbanken and Glückstadt contributed to the radical change of story that happened in the 1930s during the Great Depression.

The reputation of the banks was damaged and the economic dominance of the financial system was about to be dramatically reduced. In Denmark, the revised Bank Act of 1930 put an end to the worst excesses of finance capitalism, and banks became more risk averse. New young bank managers replaced the dethroned generation; they and their organizations were also heavily influenced by the banker as villain narrative.

More generally on an international scale, the Great Depression challenged the grand narrative of economic liberalism and a Keynesian and welfare society narrative became dominant in many countries in the post war period. Financiers and financial systems were forced on the defensive with tighter regulation, for instance, the Glass-Steagall Act in the United States that resulted from a specific narrative about the behavior of banks before the Depression.⁹⁰ The era from World War II to the 1970s may have had its fair share of business scandals, but periods of deregulation/liberalism and globalization seem to increase the occurrence and magnitude of financial crises and scandals.⁹¹ While the risk of expropriation by an interventionist state may be smaller in such periods, the opposite risk of the financial and business community being carried away in new era thinking, corporate governance errors, and asymmetric incentive structures may be much bigger.⁹²

During the stagflationary crisis of the 1970s, the Keynesian/welfare society (or the social) narrative came under as much pressure as those of liberalism and finance capitalism had been in the inter-War period. Managerial capitalism came under attack, and concepts like neoliberalism, globalization, and finance capitalism (and financialization) once again entered the vocabulary. Business leaders and in particular the finance community became the heroes of their own narrative. An economic and financial master narrative gradually displaced a social narrative. The business leader, the entrepreneur, the financier, and the private equity capitalist have once again become exemplary actors.⁹³ People lost faith in the state's capacity to govern the economy, and citizens were reduced (or elevated, after one's taste) to consumers and investors.⁹⁴

90. White, "Before the Glass-Steagall Act."

91. See, for instance, Reinhart and Rogoff, *This Time Is Different*, 155–8, and Kindleberger and Aliber, *Manias, Panics and Crashes*.

92. See Lamoreaux, "Scylla or Charybdis?" See also Smith and Walter, *Governing*, and Coffee jr, "A Theory."

93. See, for instance, Uchitelle, "The Richest of the Rich," *New York Times* July 15, 2007, and Baker and Smith, *The New Financial Capitalists*. For a critical perspective, see Ho, *Liquidated*, and Preda, *Framing Finance*.

94. See Reich, *Supercapitalism*, and Dore, "Financialization."

Here, I have discussed one case of financial collapse and scandal in Denmark in the first era of globalization and financial capitalism. As mentioned at the start, I suggest that this case is indicative of some general characteristics in the way societies make sense of financial crises and of the rise and fall of financial superheroes. Emil Glückstadt was neither the first nor the last financier who realized that success does not necessarily last forever. In the early 1930s, financiers such as Ivar Kreuger of Kreuger and Toll, Oscar Rydbeck of the Swedish Skandinaviska Banken, Jakob Goldschmidt of the German Danat Bank, and Charles Mitchell of National City Bank went from heroes to villains in a short time. Today, the obvious candidates could be, for instance, Dick Fuld of Lehman Brothers, Joseph Cassano of AIG, Jeff Skilling of Enron, and Bernard Madoff.⁹⁵ In *Unsettled Account*, Richard Grossman argues that “systematic identification of the main culprits behind banking crises can only be determined by considering the historical record.”⁹⁶ In this article, I have argued that the historical record shows how narratives play an important part in identifying the main culprits, and that this identification is the result of a process of sense-making. Grossman also argues that the continuing *pas de deux* between regulators and the regulated, what Ed Kane called the regulatory dialectic, is likely to continue.⁹⁷ Making sense of financial crises by means of narratives will therefore continue to play an important role in this area. The role of narratives in so-called cognitive biases such as group think and crowd behavior as well as in processes of “cognitive regulatory capture” needs more attention from historians.⁹⁸

My basic assumption is that financial bubbles, scandals, and crises are cultural as much as economic events. They challenge conventional values and categories and force contemporaries to make sense of, first, the dramatic increases in asset prices and then the equally dramatic fall from the top of society of these icons and of their role in the collapse of their banks. In his interesting analysis of the 2008–2009 financial crisis, Hans-Werner Sinn argues that the crisis was not the result of irrationality and that “the search for the guilty parties who could be taken to court or made morally responsible makes no sense, because their misconduct has become the normal case.”⁹⁹ In this essay, I hope

95. More generally, the large number of books on the financial crisis should also be seen as attempt of making sense of the crisis. See, for instance, Tett, *Fool's Gold*; Cohen, *House of Cards*; Sorkin, *Too Big to Fail*.

96. Grossman, *Unsettled Account*, 64.

97. *Ibid.*; 289. For the concept of regulatory dialectic, see Kane, “Competitive Financial Reregulation,” in *Threats*, ed. Portes and Swoboda.

98. On cognitive biases and the 2008 financial crisis, see, for instance, Eichengreen, “Fortifying,” 20. On cognitive regulatory capture, see Buitter, “Lessons.”

99. Sinn, *Casino Capitalism*, 87 and 90.

to have shown that Sinn misses an important point. Rather than the search for guilty parties making no sense, I would argue that that is exactly what it does. The whole purpose of telling stories is to make sense of what appears confused or meaningless, and the same process of narrative construction has followed the subprime crisis.¹⁰⁰

The sense-making process is of immense importance, because it contributes to the construction of narratives that enable societies to go forward and to respond to the problems identified by the narrative that comes to dominate. In the words of David Carr, “sometimes we must change the story to accommodate the events; sometimes we change the events, by acting, to accommodate the story.”¹⁰¹

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100. Elliott and Bailly, "Telling the Narrative," and Wallison, "Three Narratives." For an interesting analysis of how the new capitalists of the era of financialization aimed at constructing a new narrative, see Uchitelle, "The Richest of the Rich, Proud of a New Gilded Age." For the concept of financialization, see Dore, "Financialization of the Global Economy."

101. Carr, "Narrative and the Real World."

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