DENMARK

Denmark’s economic freedom score is 77.8, making its economy the 10th freest in the 2021 Index. Its overall score has decreased by 0.5 point, primarily because of a decline in labor freedom. Denmark is ranked 5th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Were it not for its history of very low scores for tax burden and government spending, Denmark’s economy would be rated as free. Instead, it remains in the mostly free category for the 20th year in a row. Unfortunately, the direction in which the government is going—toward much heavier spending funded by higher taxes—is the opposite of what is needed for greater economic freedom.

IMPACT OF COVID-19: As of December 1, 2020, 846 deaths had been attributed to the pandemic in Denmark, and the economy was forecast to contract by 4.5 percent for the year.

BACKGROUND: With a modern economy that is well integrated into the global marketplace, Denmark has been a member of the European Union since 1973. Mette Frederiksen of the center-left Social Democratic Party became the country’s youngest prime minister after forming a one-party minority government in June 2019. To pass legislation, she will rely on support from three leftist parties: the Socialist People’s Party, the Red-Green Alliance, and the Social-Liberal Party. The government has introduced ambitious greenhouse gas targets and is seeking new CO2 emissions taxes. The economy depends heavily on foreign trade, and the private sector includes many small and medium-size companies with world-leading firms in pharmaceuticals, maritime shipping, and processed foods. Danish regulatory hurdles have helped to slow Nord Stream II construction.

ECONOMIC FREEDOM SCORE

HISTORICAL INDEX SCORE CHANGE (SINCE 1996): +10.5

RECENT FREEDOM TREND

QUICK FACTS

POPULATION:
5.8 million

GDP (PPP):
$319.5 billion
2.4% growth in 2019
5-year compound annual growth 2.5%
$59,830 per capita

UNEMPLOYMENT:
4.9%

INFLATION (CPI):
0.7%

FDI INFLOW:
$930.2 million

PUBLIC DEBT:
30.3% of GDP

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2019 data unless otherwise noted. Data compiled as of September 2020
Protection of property rights is strongly enforced, and a trustworthy, independent, and fair judicial system is institutionalized throughout the economy. Intellectual property rights are respected, and enforcement is consistent with world standards. Denmark enjoys a reputation as one of the world’s least corrupt nations and was ranked 1st out of 180 countries in Transparency International’s 2019 Corruption Perceptions Index.

The top individual income tax rate is 56 percent, and the top corporate tax rate is 22 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 44.9 percent of total domestic income. Government spending has amounted to 50.6 percent of total output (GDP) over the past three years, and budget surpluses have averaged 1.5 percent of GDP. Public debt is equivalent to 30.3 percent of GDP.

Construction permits are now less costly, and the paid-in minimum capital requirement to start a business has been reduced. Women’s labor force participation is among the highest in the world. Relations between labor and management focus on communication rather than confrontation, reducing the resort to strikes. The government increased subsidies for health care, education, and the welfare system in the 2020 budget.

As a member of the EU, Denmark has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. Denmark has an additional 15 country-specific nontariff barriers. Openness to foreign investment is well institutionalized. The banking sector has undergone restructuring, and the overall financial system remains stable.