

Nordic Best Practices Can Pave the Way for Denmark to Become the World's Freest Nation

Jonas Herby and Line Andersen, CEPOS

This briefing summarises a recent analysis by the CEPOS, which investigates how Denmark can become one of the economically freest countries in the world by adopting a framework similar to other Nordic countries. Economic freedom is strongly associated with growth. By implementing best practices from the Nordic countries, the Danish GDP has the potential to increase by €1.5 – 7.3 billion (0.4 per cent – 2.2 per cent).

Introduction

Denmark already has a relatively free economy and ranks in the top ten on most of the frequently used freedom indices. However, Denmark has the potential to reach the absolute top by adopting best practices from its neighbouring Nordic countries.

The significance of achieving a higher level of economic freedom should not be overlooked. It is well-documented that anti-competitive regulation has negative effects on the economy. Regulation limits growth, which ultimately influences living standards. Improving economic freedom is strongly associated with healthier societies, cleaner environments, greater per capita wealth, human development, democracy, and poverty elimination (Kim, 2022).

Background

The CEPOS analysis identifies Nordic best practices that promote economic freedom by utilising four freedom indices. The indices are the OECD's Indicators of Product Market Regulation, the World Bank's Ease of Doing Business,¹ the Heritage Foundation's Index of Economic Freedom, and the Fraser Institute's Economic Freedom Ranking. These indices are widely applied in economic research (see Doucouliagos and Ulubasoglu 2006; Cebula and Clark 2012; Bergh and Bjørnskov 2019).

More specifically, the OECD measures product market regulation while the World Bank uses a number of objective measures of business regulation to rank the ease of doing business in 190 economies. The Heritage Foundation measures twelve aspects of economic freedom, which are grouped into four broad categories. The first category is rule of law, which includes property rights, judicial effectiveness, and government integrity. The second category is government size, which includes tax burden, government spending, and fiscal health. The third category is regulatory efficiency, which includes business freedom, labour freedom, and monetary freedom. The fourth category is market openness, which includes trade freedom, investment freedom, and financial freedom. Lastly, the Fraser Institute measures economic freedom mainly along the following categories: the size of the government, legal system and property rights, sound money, freedom to trade internationally, and regulation.

Today, Denmark ranks in the top ten on all the above-mentioned indices. However, by adopting the best practices observed in Denmark's neighbouring Nordic countries, it has the potential to reach the top three rankings and even secure first place in two of the indices. This would position Denmark as one of the economically freest countries in the world.

Gal and Égert (2017), Herby and Andersen (2022), Brkić et al. (2020), and Akin et al. (2014) have studied the relationship between economic growth and economic freedom, as measured by the four indices. By applying their estimates, the CEPOS study found that by implementing Nordic best practices, the Danish GDP could potentially increase by €1.5–7.3 billion. This increase corresponds to a yearly salary raise of €500–2,500 for an average Danish working family.

Policy areas for improvement

The analysis highlights several areas where other Nordic countries outperform Denmark. Sweden performs better when it comes to addressing barriers to competition in the service sector; evaluating the impact of regulations on competition; and providing access to electricity for businesses. Norway outperforms Denmark when it comes to enforcing contracts; ensuring transparency in lobbying activities related to regulatory design; and maintaining a lower top marginal tax rate. Finland achieves higher scores in areas such as resolving insolvency; reliability of the police; and judicial effectiveness. Lastly, Iceland has a lower tax burden; lower government spending; and a smaller share of GDP allocated to

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¹ Ease of Doing Business was recently hit by a scandal when it emerged that – due to pressure from China and Saudi Arabia, among others – data had been modified. However, the variables included in the index are still relevant, and there is no reason to believe that the Nordic countries have pressured the organisation or otherwise manipulated data.

transfers and subsidies when compared to Denmark. These findings shed light on specific areas where it can draw insights and potentially improve its economic framework.

The above demonstrates that, although Denmark is a relatively free economy, there is still room for improvement. The aim of the CEPOS study was not to point out specific regulatory reforms but rather to illustrate that by drawing inspiration from other Nordic countries, it is possible to achieve more freedom and prosperity – both of which can be accomplished without changing Denmark's status as a Nordic welfare state.

Recommendation

Based on the findings of the CEPOS analysis, it is recommended that Denmark adopt best practices from its neighbouring Nordic countries to further enhance its economic freedom. While it already ranks highly in various freedom indices, implementing best practices can advance it to become one of the economically freest countries in the world.

By incorporating insights from the OECD's Indicators of Product Market Regulation, the World Bank's Ease of Doing Business, the Heritage Foundation's Index of economic freedom, and the Fraser Institute's economic freedom ranking, it is possible to identify areas for improvement in Denmark. Examples include reducing barriers to competition in the service sector; assessing the impact of regulations on competition; ensuring transparency in lobbying activities; and reducing taxation and government spending.

If Denmark implements the best practices demonstrated by the other Nordic countries, it can promote economic freedom and prosperity as well as maintain its status as a Nordic welfare state.

The CEPOS analysis can be found [here](#).

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