

Free exchange

An American purchase of Greenland could be the deal of the century

The economics of buying new territory



Photograph: Reuters

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Although America has a history of taking a commercial approach to international relations, purchases are rarely made without controversy. When Thomas Jefferson bought Louisiana in 1803, doubling the size of the country, he had to set aside his zest for constitutional constructivism, which would have ruled out such bold federal action. Sixty-four years later, when William Seward, then secretary of state, purchased [Alaska](#) from Russia for \$7.2m (\$162m today), the move was dubbed “Seward’s folly”. Now the Alaska deal is seen as a masterstroke and the Louisiana purchase the greatest achievement of one of America’s greatest presidents. In hindsight, both look extraordinarily good value.

History will not be as kind to [Donald Trump](#) if he gets [Greenland](#) from Denmark under duress. On January 7th the president-elect declined to rule out using military might or economic warfare in his pursuit of Greenland (and of the Panama Canal). America will lose friends if it bullies one into ceding territory. But Mr Trump’s provocations are also foolish because an agreement to buy Greenland, made freely and in good will, could indeed be another deal-of-the-century. Such a deal would increase America’s security, and perhaps that of its NATO allies, too. Autocrats would be dispirited. And a purchase could also benefit the inhabitants of the island, who must—and surely would—have the final say.

What, then, is Greenland worth? One starting point is the island’s annual GDP. At last count, in 2021, it was \$3bn, or one seven-thousandth of America’s. Only 56,000 people live in Greenland, despite the fact it is bigger than any American state. Much of the territory’s output is the work of the 43% of the labour force employed by the state (against 15% in America). Over half the government’s bills are paid by Denmark, which gives the territory \$500m a year. The biggest industry is fishing. Removing the public sector, ignoring other spending commitments, assuming Greenland’s long-run growth continues and America’s federal government receives 16% of GDP in tax (the national average), as well as discounting using America’s 30-year Treasury yield, produces a valuation of \$50bn, or a twentieth of America’s annual defence spending.

Yet Mr Trump covets Greenland for its strategic and economic potential, rather than its puny output. The island sits between America and Russia in a part of the world that is becoming more navigable as Arctic ice melts. Although America’s Pituffik Space Base on the territory’s north-west coast already provides the armed forces with missile-warning sensors, an American Greenland might better monitor the Greenland-Iceland-UK (GIUK) gap, a strip of the Atlantic Ocean that is the access route for Russian submarines to America’s east coast, and to the North Atlantic.



Map: The Economist

On top of this, Greenland's resource wealth is immense. It has known reserves of 43 of the 50 minerals deemed "critical" by America's government, including probably the largest deposits of rare earths outside China. These are crucial to military kit and green-energy equipment. Wells off Greenland's coast could yield 52bn barrels of oil, about 3% of the world's proven reserves, according to an estimate in 2008 by the US Geological Survey.

Greenland's resources have gone relatively unexploited owing to the difficulty of operating in the territory's harsh, remote areas. Four-fifths of the island is covered by ice. There are not even roads linking settlements. And the government banned oil exploration in 2021. But as the climate warms, the minerals become both more accessible and more valuable. Already, perhaps the greatest resource rush ever seen, on a per-person basis, is under way. Firms are drilling at around 170 sites, up from 12 a decade ago.

From whom could the island be bought? In 2009 Denmark all but granted Greenland the right to declare independence should its people choose such an option in a referendum. The island's nationalist government would very much like to exercise this right. At the same time Denmark granted the territory control of its own natural resources (though as its revenues go up, its block grant from Denmark goes down). Any purchase, therefore, should not be from Denmark, which really would be colonialist, but from the islanders themselves. If America offered merely our crude valuation of the flow of future taxes, it would amount to nearly \$1m per inhabitant. Given the territory's riches and importance, America could probably make every Greenlander a multimillionaire and still benefit enormously from the purchase.

Cold feet

Romantics and nationalists would doubtless call such an arrangement grubby. Couldn't the island go it alone? After all, the 380,000 citizens of Iceland manage well enough. Greenland could host more American military bases at the same time as exploiting its natural resources on its own terms. Why abandon your identity and subject yourself to political control from Washington?

But natural-resource bonanzas bring risks, too. One is corruption that prevents the benefits from being divided fairly. It is unclear whether 56,000 people can govern effectively in the presence of an immense windfall: imagine an English town council being given Saudi Arabia's oilfields. Extracting minerals means mass immigrant labour. National security is no longer just about the risk of invasion but also forestalling hybrid warfare, from sabotage to propaganda on TikTok. Selling to America up front would bring the full might of America's administrative and security apparatus to the territory, while guaranteeing—if your columnist's advice was followed—an equal distribution of the windfall.

Respecting Greenland's right to self-determination means respecting its citizens' right to consider such an offer, which could be put to a referendum. For the choice to be free, Mr Trump would have to retract his threat of force. He should do so—and then try putting some red meat in front of the polar bear. ■

