

# Netherlands 2018



**Total: 82.58**

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## Political Freedom

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### **Free and Fair Elections : 10**

The institution of elections is a highly trusted mechanism in Netherlands, due to its long history of fairness and freedom. Political life in the country is diverse and pluralistic, allowing all parties to compete without restrictions. After March 2017 elections for the House of Representatives ("Second Chamber"), which were as well regarded as highly free and fair, leading People's Party for Freedom and Democracy (VVD) had hard times building a fresh government, despite the fact that nationalistic Party for Freedom (PVV) was declared as undesirable by a majority of political parties that had entered the parliament. New government was formed in October, between VVD, Christian Democratic Appeal (CDA), Democrats 66 (D66) and Christian Union (CU), giving Mark Rutte the third consecutive term as the PM. These elections were considered, internationally, as a turning point against growing far right populism in Europe.

### **Absence of Unconstitutional Veto Players : 10**

There are no unconstitutional veto players in Netherlands able to undermine democracy and rule of law. Elected officials have effective power to govern the country at all levels. Problems of corruption among officials are very rare and mechanisms for prosecution of such cases are firmly in place. Civilian authorities maintain control over security forces of the country. Having in mind the previously said, it is clear why Netherlands has got the highest score possible in this subcategory, when it comes to freedom from the illicit influence on politics by various interest groups or other non-authorized actors.

### **Freedom of Press : 8.9**

Freedom of the press is granted by the constitution in Netherlands and largely upheld in practice. By living continuously in an environment of independence of journalistic work, the country came to the 3rd place in the 2018 World Press Freedom Index of the Reporters without Borders. Still, some problems remain in the media sphere, preventing Netherlands from scoring even higher in the Freedom Barometer 2018 publication Index. Reporting on immigration issues as the dominant political topic in the country faced journalists with threats, and led towards self-censorship practices when speaking or writing about these. Legislation adopted in 2017 allowed security forces to somewhat expand their authorities. It was criticized, as a threat against the right of journalists to protect their sources. Situation somewhat calmed in 2018, when the government adopted a Source Protection Act, often recognized by the European Court for Human Rights as

essential to media freedom in Netherlands.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## Rule of Law

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### **Independence of the Judiciary : 8.25**

According to the Freedom House, “judiciary is independent and the rule of law generally prevails in civil and criminal matters”. The right to free trial is guaranteed and respected, while police is under effective civilian control. Prison conditions meet international standards. During 2018, four prisons in Netherlands have been closing down, due to falling crime rates. Portal GAN noted that no citizens asked in the opinion polls witnessed any bribes to judges, while very few judges complained of any kind of pressure upon them.

### **Corruption : 8.2**

As a country with a very low level of corruption, Netherlands is a role model so much so that it spreads its huge experience in combating draft to many other countries throughout the world. The network of rules, on the integrity of the political process, on preventing the conflict of interest, or on the transparency and accountability in public life, as well as clearly defined procedures for achievement thereof, all make a misuse of public office for illicit personal or group gains extremely difficult. Fairly liberal economic system with limited public ownership narrows the ground for many types of corruption. On the top of it, civil society, be it free press or whistleblower NGOs (that enjoy state support) takes its part and pushes the limits further in attempts to completely eradicate corruption. Recent Panama Papers` leakages showed that, besides the previously known ca. 500, there were additional 180 Dutch clients in off-shore activities which circumvented the regulation on the prevention of money laundering. Generally, tax evasion (and legal or political loopholes that ease it) is the field on which recent anti-graft action is mainly focused. In 2017, Netherlands remained very highly ranked on the Transparency Internationals CPI list of 180 countries of the world: it shared places 8-11 with Canada, Luxembourg and Germany.

### **Protection of Human Rights : 8.9**

Individual autonomy and human rights are highly prioritized in Netherlands, making it in many aspects a role model country of a liberal approach thereto. Besides political and media freedom, and a, non-neglect, high awareness of the importance of economic freedom for the overall freedom of the individual, the Dutch way includes high respect for the freedoms of association and gathering, academic or other scientific research and discussion, art creativity, religious practices,

and a free choice of the way of life. Government officials and agents are educated and trained to respect those rights, while ordinary citizens are brought up in a spirit of individual responsibility, mutual tolerance and voluntary solidarity. There are a few exceptions to the freedom of speech but limitations are less strict than in comparable countries. Hate speech is punishable and the rules against it are applied. Yet the definition of hate speech is narrower than in most of the EU. "Insulting the King" (or other heads of state) is on the way to become a minor felony, whereby sentences (anyway rare) will be sharply reduced. At a non-binding referendum in March 2018, a plurality of voters rejected a draft new law on intelligence gathering and secret services. However, some of the controversial provisions, such as the extension of the rights of ordinary police, not just secret services, to hack smart phones, laptops or navigation devices of the high-profile criminal or terrorism suspects, later became legal. Respect for LGBT rights has since already long ago become a trade mark in Netherlands. Implementation of full gender equality and balance is still on the way, including in politics.

## Economic Freedom

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### **Security of Property Rights : 7.66**

Private property in the Netherlands is well protected. Judiciary is independent from the executive power, and there is little evidence of corruptive practices or improper influences within it. However, judicial processes could be long, which undermines effectiveness of the contract enforcement. Cases to judges are assigned manually, and courts use few automation processes. There is a specialized chamber within the civil courts dedicated to business disputes, the Enterprise Chamber, which is to open an English language chamber, while the National Commercial Court will offer the opportunity to litigate in English instead of only Dutch. On the other hand, bankruptcy procedures are very effective, with expedient procedures and recovery rates reaching almost 90%. Most bankrupt companies are sold as going concerns in order to maximize pecuniary proceedings. Registering property, as a major prerequisite for its legal protection, is a fast and a reliable procedure, due to the service of professional public notaries. Dutch Cadastre, Land Register and Mapping Agency offer efficient and transparent public services. However, transfer tax is as high as 6%, which poses a significant burden, even leading to a decrease in workforce mobility. Expropriation of corporate assets or private property is very rare, only used in special cases, for which a special act of Parliament is necessary. There are a few limitations to foreign ownership in industries considered as strategic (transportation, energy, finance, media, etc.). The new law on the process of investor screening in the telecommunication sector is expected to become active in the late 2018; investor screening in strategic sectors of the economy could become a more important process due to screening framework proposed by the EU.

### **Size of Government: Expenditures, Taxes, and Enterprises : 4.58**

Public expenditures in Netherlands are similar in size to other developed welfare states in the EU, reaching 43% of GDP in 2017. A small budget surplus was recorded in 2017, due to the rebound in growth rates and frugal spending. The economy has been experiencing strong growth upon rising domestic demand and a strong rise in exports. Unemployment is low, at only 3.9%. Public

debt has been in decline during the previous years, standing at 57% of GDP in 2017, which finally put the public debt level within the Maastricht criteria. Although regulatory framework is omnipresent and there are high redistributive social transfers, there is little direct government involvement in the economy. State-owned companies are not numerous (their number standing at approximately 30), and they remain concentrated in the utility service sector (gas, water and electricity distribution), and transport (railways, ports, airports and airlines). SOEs are not favoured and private enterprises are free to compete with them in the market. The state has increased its share in banking by taking over bankrupt banks such as ABN Amro and SNS bank. There are still no plans for privatization of these assets. High expenditures need to be met by high tax rates: social contributions and income tax lead to a tax wedge on labour of 37.2%, on average wage, slightly above the OECD level; while VAT is set at 21% and 6% (with an envisaged increase to 9% in order to allow for decreases in other taxes). Income tax is progressive, with four tax brackets, from 36.5% to even 52% for the highest earners. Envisaged changes in this area propose only two tax brackets from 2019, with 36% and 49.5% rates. Corporate tax is set at 25% (and 20% below the 200 000 euro threshold), but the government announced plans to decrease these rates in the near future to 21% and 16% respectively, hoping to boost economy, FDIs especially.

## **Regulation of Credit, Labour, and Business : 7.4**

Regulatory framework in Netherlands provides a friendly environment for entrepreneurial activities. Public administration is professional and there is no evidence of favorable treatment or corruption. Starting a new business is fast, through the notary services and the chamber of commerce, and there is no minimum paid-in capital required. Obtaining a construction permit is burdensome and time consuming, e.g. the process of acquiring a building permit can last up to 26 weeks. Getting electricity is also not expedient since the public utility company has slow procedures regarding contracting of private companies for construction works. Compliance with tax procedures is not burdensome, due to low number of annual payments and widespread use of electronic filing. Labour code could mostly be considered as restrictive, especially regarding the firing regulations, providing high employment protection for workers. Severance pay is low, but the role of third parties (workers' councils, trade unions, or the employment office) in redundancy process is excessive, with long redundancy notice periods, increasing with years in tenure, thus protecting more seasoned workers. These features of the code were recently strengthened, since the duration of fixed contracts was recently limited to 24 months (from the previous 36), which is also the maximum length of a single contract, and severance pay introduced for workers with at least 2 years of tenure. Therefore, a high number of workers are being self-employed as independent or through one-person companies (ZZP). Among the most problematic factor for doing business are restrictive labour regulations, inefficient government bureaucracy and high tax rates.

## **Freedom to Trade Internationally : 8.69**

The Netherlands, as a small, open economy, has traditionally favoured free trade. The country serves as an important trade hub in this part of Europe, due to its geographical position and high quality transport infrastructure. The biggest European port (Rotterdam) is situated in the Netherlands. As one of the founding members of the European Union, the Netherlands implements the common European trade policy. Tariffs are low, with the average MFN applied rate of 5.1, but tariffs on agricultural products are much higher than those on the industrial ones. Non-tariff trade barriers in the field of standardization and certification also remain as an obstacle to trade. Border and custom administration are very efficient, with low number of necessary

documents and easy border compliance. The high quality of transport infrastructure further enhances trade through lowering freight costs. Main trade partners of the country are other EU members, such as Germany, Belgium and France. Since the UK is a significant trade partner, further EU - UK relations following Brexit will be very important for the Netherlands. The restrictions on the labour market for Croatian nationals have been lifted this year, 2 years before expiration of this possibility in 2020. Non-EU nationals face a complicated procedure of acquiring a residence permit, but there is a one-year residence permit for entrepreneurs. There is a "30% tax rule" for foreign workers residing in the Netherlands, which effectively lowers their income taxes payable, since 30% of their income is tax-exempt during a limited duration of their stay in the country, in order to increase attractiveness of the Netherlands for highly skilled people, having in mind high domestic tax rates.