NETHERLANDS

The Netherlands’ economic freedom score is 76.8, making its economy the 16th freest in the 2021 Index. Its overall score has decreased by 0.2 point, primarily because of a decline in trade freedom. The Netherlands is ranked 9th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The economy of the Netherlands remains in the mostly free category where it has been for more than 20 years. The primary obstacles to greater economic freedom, as always, are a high tax burden and too much government spending. A positive note, however, has been the government’s strict discipline in avoiding heavy public debt.

**IMPACT OF COVID-19:** As of December 1, 2020, 9,518 deaths had been attributed to the pandemic in the Netherlands, and the economy was forecast to contract by 5.4 percent for the year.

**BACKGROUND:** Prime Minister Mark Rutte has been in office since 2010. His center-right People’s Party for Freedom and Democracy, which won a plurality of seats in 2017 parliamentary elections, heads a governing minority coalition with the center-right Christian Democrat Appeal, center-left Democrats 66, and center-right Christian Union Party. Geert Wilders’ populist Party for Freedom, despite receiving the second-highest number of votes in 2017, remains out of government. Reductions in the Netherlands’ annual budget contributions helped to secure Dutch support for the EU’s coronavirus recovery fund. A European transportation hub, the Netherlands has the EU’s fifth-largest economy, supported by exports of chemicals, refined petroleum, and electrical machinery as well as by a highly mechanized and profitable agricultural sector.
Private property rights are strongly protected, and contracts are reliably enforced. The judiciary is independent of political interference and provides impartial adjudication of disputes. Tolerance for political corruption is very low, and any cases that do arise are prosecuted expeditiously. Anticorruption laws are effective and promote government integrity. The Netherlands is a signatory to major international anticorruption conventions.

The top individual income tax rate is 52 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and environmental taxes. The overall tax burden equals 38.8 percent of total domestic income. Government spending has amounted to 41.7 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 48.3 percent of GDP.

Starting a business, obtaining electricity, and dealing with construction permits now cost less, and more money is being recovered in insolvency. Overall, the Netherlands has maintained its high level of business freedom. The vast majority of labor contracts are agreed to under some form of collective labor agreement. In the budget for 2020, the government funded a wide variety of subsidies that amounted to about 1.2 percent of GDP.

As a member of the EU, the Netherlands 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. The Netherlands has an additional four country-specific nontariff barriers. There is no restrictive screening of foreign investment, and investment in most sectors is not restricted. Sensible banking regulations facilitate entrepreneurial growth.