

Dutch Unease: the significance of this week's Dutch election

9 September 2012

Summary

- The Netherlands will go to the polls this week to elect a new government. In the context of the Eurozone crisis this election looks set to be an important one for a number of reasons that extend far beyond the actual result.
- The most likely result of the election is a rough three-way split between the Liberals, the Labour party and an insurgent Socialist party that has at some points in the last three months polled as much as a third of the electorate. A prolonged negotiation on a coalition will have implications both in the Netherlands and across the Eurozone.
- The rise of the Socialist party is the most marked version of a trend that now has serious variants across Europe - a trend of anti-establishment political insurgencies against incumbent mainstream political parties. This is happening both on the left and on the right. Both are characterised by a strong variant of Euroscepticism defined not by opposition to the European Union itself but by the Union's perceived political and economic evolution.
- What these newly buoyant parties of both left and right share is key and may have long-term consequences for European politics. Most have risen since 2010 on explicit resistance to the political consensus around austerity in Berlin and Brussels and the kinds of institutional change proposed for the Eurozone and wider EU. They are exerting identifiable pressure on the traditional centre ground that is likely to reshape it in important ways.

The Netherlands will go to the polls this week to elect a new government. In the context of the Eurozone crisis this election looks set to be an important one for a number of reasons that extend far beyond the actual result. First, it will be Europe's first 'AAA' election since 2010: the first election in a surplus state since the framework of the Fiscal Compact was established. Second, it looks likely to be defined not by the politics of the Eurozone bailout, but by the politics of the Berlin consensus and the domestic backlash against the austerity framework established by the Fiscal Compact. This Global Counsel Insight looks at the likely result of the Dutch election in context,

especially what the rise of the Socialists tells us about an important new anti-establishment strain in European politics.

Berlin's former best friend

Mark Rutte's Liberal-led centre-right coalition government has been a firm ally of Berlin's insistence on strict fiscal conditionality on periphery Eurozone states in return for European Financial Stability Facility bailout funds. Before 2011, Rutte's position was reinforced by the Netherlands' own fiscal position, but this has deteriorated sharply since 2010 as the Netherlands has moved into recession and its finances into

deficit to a degree that breaches the rules of the European Fiscal Compact. The issue in this election is above all whether the Netherlands itself is willing to be bound by the fiscal discipline rules in the Compact. Rutte's minority coalition government collapsed in April when it failed to reach agreement on spending cuts to reduce the Netherlands' 4.7% deficit.

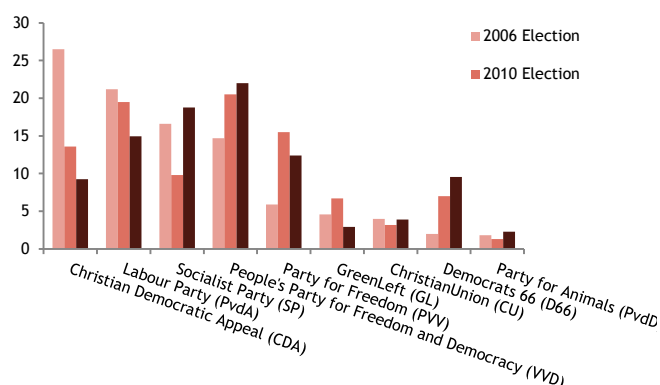


Chart 1: Main parties in Dutch politics 2006-2012 (% vote or declared support)

Source: Public polling

Although it was Geert Wilder's anti-immigration PVV Freedom Party that brought down the government in April by withdrawing its support for spending cuts, the party to watch will be the Socialists led by Emile Roehmer who have seriously capitalised on public unease with austerity. The Socialists have mounted a sustained challenge to the more conventionally centre-left PvdA over the last six months on an explicit platform of rejecting the spending constraints imposed on the Netherlands by the EU Fiscal Compact.

Polls currently suggest that the result will be indecisive, with the centre-right People's Party for Freedom and Democracy (VVD), the PvdA and the Socialists emerging as the largest parties. This will provoke a period of negotiations over a potential coalition, in which Rutte's party is likely to have first rights as the largest party by a narrow margin. If the Liberals are unable to construct a coalition, the prerogative will shift to the other two parties. As with Syriza in Greece, support for the Socialists is such that transparent attempts to exclude them from government (assuming that unlike Syriza, the Socialists were willing to be part

of a 'grand coalition') will simply reinforce Roehmer's point about the Dutch political establishment.

What will this mean for the wider Eurozone is hard to know precisely, but a few things are likely. The first is that it is likely to delay Dutch ratification of the 2012 Fiscal Compact, which has not yet occurred. As a key member of the Berlin-led AAA bloc, this is politically difficult for Merkel and is likely to strengthen views in Rome and Madrid that they have a stronger negotiating position in areas such as conditionality on ECB bailouts. Any further Eurozone integration plans that require Dutch parliamentary approval are also likely to be problematic politically. Dutch support for Berlin, which has been unquestioned and largely unqualified to this point, is now much more of an unknown.

A prolonged stalemate on the Dutch budget will inevitably provoke tension at the European level. The European Commission's thankless obligation to police fiscal discipline among EU states will draw it into an implicit stand-off with the Hague that it can only lose - either by alienating the Dutch or implicitly signaling to the embattled periphery that the Eurozone's new-found fiscal rectitude is more flexible than it might suggest. The ratings agencies are also likely to take a close interest, especially if cooling German growth has the inevitable knock-on effect across the border in the Netherlands. The Netherlands key position in many German supply chains makes it especially vulnerable to external shocks to Germany's exporters.

Less Marx, more angles

What is happening in the Netherlands has much wider implications for European politics, because it has key parallels elsewhere. The Socialist party are part of a wider trend across most of the major European political markets that is important to watch. Like the Parti de Gauche in France, the UL in Spain, the 5 Star Movement in Italy, Sinn Fein in Ireland and Syriza in Greece, they are part of a pattern of European political movements that have been mobilised since 2010 against the uneasy political consensus established in Brussels and

Berlin.

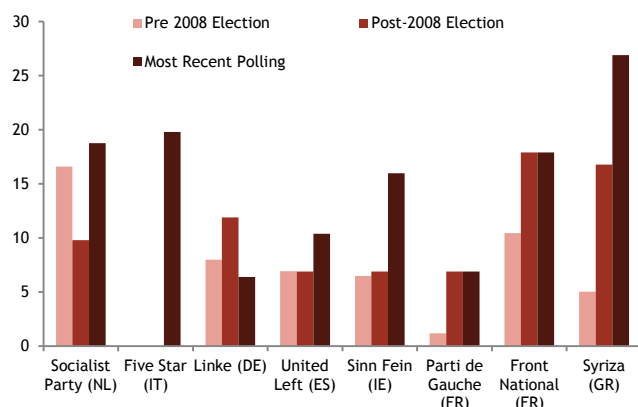


Chart 2: Nein Danke, Angela. Party performance (% actual vote or declared support)

Source: Public polling

These parties have various provenances. Most of them have been active anti-capitalist campaigners throughout the 2000s and some, especially in the Netherlands and France, were active in the campaigns of 2005 in opposition to the new European Constitutional Treaty. Some, like Sinn Fein, have staged a major reinvention around the EU issue. Others, like the 5 Star Movement in Italy are hard to categorise and have broadly ‘left’ positions on public services and green energy but lean most heavily simply on their anti-establishment credentials. However, it is generally opposition to the policy framework established by the Eurozone Fiscal Compact that has been the vehicle for their current burst of popularity.

Although these parties are all typically labeled far-left and they often have Maoist or Marxist precedents (where they have been around long enough), their platforms are rarely transformative. In fact, they tend to be essentially ‘conservative’, mobilised by the perceived threat of austerity to the European welfare state and labour market, and running on platforms that usually include job creation programmes focused on additional stimulus spending and a dose of redistributive taxation.

The Socialist party in the Netherlands has actively campaigned on a platform intended to project both some measure of radicalism, but also a willingness to fit into the conventional frameworks

of Dutch parliamentary politics. Indeed, the rapid rise of the Socialist party in the Netherlands has provoked a debate within its own ranks about the party’s apparent new willingness to flirt with mainstream social democratic politics. Alexis Tsipras’ first act of European public relations after Syriza’s strong polling in the first round of the Greek elections in May was an opinion editorial in the *Financial Times* on his commitment in principle to the euro. This is not Maoism redux. It is the expression of a more complex mood of resentment.

Aside from a general sense of anger, what all of these parties share are two key things. The first is a profound distrust of globalisation and a resentment of what is perceived as the elite politics of the European Union. In particular, what they see as a two-decade long consensus around economic liberalisation both within the European single market and globally. In this respect they are mobilised by exactly the same anxieties that fuel ‘far-right’ parties like the BNP in the UK, Geert Wilders’ PVD in the Netherlands or the Front National in France, without the chauvinist or anti-immigrant rhetoric. The base of both sets of parties is typically exactly the same blue collar workers, responding to the same economic and social insecurities.

The second is a strong variant of Euroscepticism defined not by opposition to the European Union itself, but by the Union’s perceived political and economic evolution. Although most of these parties opposed the creation of the euro, none advocate the scrapping of the single currency now, and certainly none are in favour of withdrawal from the European Union in the manner of parties such as the UK Independence Party. They take a variety of views on the precise nature of future European integration but they are generally sceptical of deeper integration and certainly opposed to a version of closer integration based primarily on German-style fiscal discipline. They are Eurosceptic in a ‘directional’ rather than ‘conceptual’ sense. This is also something they share with most of the currently buoyant parties of the far right.

The margins and the mainstream

As we argued earlier this year ([GC12/08 *François Hollande says non*](#)), this anti-establishment, 'soft' Eurosceptic strain is the most important dynamic in European politics and it is shaping the mainstream of European politics by reshaping the margins. Although this strain has existed for many years in a scattered and peripheral collection of anti-capitalist groups and far-right movements, it has both been systematically excluded from the political mainstream and self-excluded by its own radicalism or rhetoric.

In many European states these small players have managed to capitalise not on the Eurozone crisis *per se* - many actually performed poorly at elections between 2008 and 2010 - but specifically on rising public resentment of austerity after 2010. This trend has shown up both on left and right. Rather than Europe shifting left or right in conventional terms, what is happening is the development of a distinct populist type that stands in opposition to the 'incumbent' parties of the centre-left and centre-right that have shared power over the last two decades in Europe. These are parties that are all invested to a basic degree in the liberal, pro-globalisation European model and have all invested to some significant degree in the austerity position.

The important question for investors and businesses in Europe concerned about the basic direction of travel is not the unlikely possibility of these parties gaining power, but their impact on the major incumbent parties. As we noted in May ([GC12/14 *Why a resurgent far-right will hand France to the left*](#)), the rise of the Front National in France is provoking a profound debate in the more mainstream centre-right UMP about its need to move rightwards to capture support. Francois Hollande himself fought a campaign that deliberately emphasised his discontent with the Berlin-Brussels austerity model in order to maintain the support of Jean-Luc Mélenchon and the voters of the Parti de Gauche. Indeed, his softening resistance to the Fiscal Compact when now in power is likely to cost him Parti de Gauche support when France moves to ratify the Compact.

Other Hollande positions on issues like top-rate tax, the taxation of financial transactions and the French retirement age reflect the same concern for his left flank. Other parties of the European centre-left that have broadly supported the thrust of Eurozone policy but have insurgent parties to their left, like the PSOE in Spain and the SPD in Germany, are likely to take the same lessons from the Hollande playbook. The PvdA campaigned on a line that was recognisably 'Hollandaise'. Even mainstream centre-left parties which do not have a significant competitor on their left, like the Labour party in the UK, are drawing similar conclusions about the European mood, particularly with respect to the financial sector and the scope and speed of public spending cuts.

In terms of the ultimate resolution of the Eurozone crisis, the rise of this brand of soft Euroscepticism creates a range of other challenges. It does not necessarily imply a public check on the institutional changes required to stabilise the Eurozone - indeed some of these parties in the periphery favour steps such as Eurobonds. But it is nevertheless striking that this level of innate suspicion of further European integration is emerging arguably *before* it is even fully understood just how much further integration is planned in Brussels and Berlin.

Whether politicians will be able to sell this level of integration to sceptical electorates is a real issue. Moreover, the German trade-off of political and fiscal union for tight and immediate fiscal discipline in itself looks like an increasingly tough sell. What this implies for German willingness to move quickly and concertedly to substantive change of the Eurozone's institutional structure is hard to guess, but it is unlikely to be positive.

In the longer-term there are also likely to be implications for policy within the Eurozone itself, and within the European single market to the extent that the Eurozone block can shape or dictate policy. As we have already seen, it provides a powerful impetus from both left and right for 'mainstream' parties to be more sceptical of rapid fiscal contraction, more sceptical of globalisation, more hostile to inward investment, more aggressive on financial services reform and

more supportive of redistributive taxation.
Ultimately, the impact of these insurgent parties
will come not through winning elections, but by
shaping the platforms of those who do.

38 Wigmore Street
London
SW1U 2HA
info@global-counsel.co.uk
+44 (0)207 656 7600

© Global Counsel 2013

Although Global Counsel makes every attempt to obtain information from sources that we believe to be reliable; we do not guarantee its accuracy, completeness or fairness. Unless we have good reason not to do so, Global Counsel has assumed without independent verification, the accuracy of all information available from official public sources. No representation, warranty or undertaking, express or implied, is or will be given by Global Counsel or its members, employees and/or agents as to or in relation to the accuracy, completeness or reliability of the information contained herein (or otherwise provided by Global Counsel) or as to the reasonableness of any assumption contained herein. Forecasts contained herein (or otherwise provided by Global Counsel) are provisional and subject to change. Nothing contained herein (or otherwise provided by Global Counsel) is, or shall be relied upon as, a promise or representation as to the past or future. Any case studies and examples herein (or otherwise provided by Global Counsel) are intended for illustrative purposes only. This information discusses general industry or sector trends, general market activity and other broad economic, market or political conditions. It is not research or investment advice. This document has been prepared solely for informational purposes and is not to be construed as a solicitation, invitation or an offer by Global Counsel or any of its members, employees or agents to buy or sell any securities or related financial instruments. No investment, divestment or other financial decisions or actions should be based on the information contained herein (or otherwise provided by Global Counsel). Global Counsel is not liable for any action undertaken on the basis of the information contained herein. No part of this material may be reproduced without Global Counsel's consent.