

The shrinking German and Dutch centre-left

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Summary

This week the German centre left Social Democratic Party will open preliminary talks with Angela Merkel's conservative CDU on the formation of a Grand Coalition government in which it would be the decidedly junior partner. Squeezed between a dominant centre right and a relatively resilient far left, the SPD has only two plausible ways to access government: moving leftwards to try to rebuild a left-wing governing majority or political accommodation with the centre right. There are interesting parallels with the Dutch Labour party, which struck a similar pact with the centre right in September last year. Both the PvdA and the SPD have resisted moving sharply left, but if the numbers continue to count against them, could this change? And given their key role in anchoring the European mainstream left in fiscal austerity, open markets and the reform of European welfare systems, what might this mean?

This week the German centre left Social Democratic Party (SPD) will open preliminary talks with Angela Merkel's conservative CDU on the formation of a Grand Coalition government in which it would be the decidedly junior partner. Stranded between a dominant Merkel CDU and a relatively resilient far left Die Linke party, the SPD appears to have only two plausible ways to access government: moving leftwards to try and build a governing left-wing majority, or political accommodation with the centre-right. Although the idea may still be rejected by activists, the party leadership have tentatively chosen the latter. The Dutch Labour party (PvdA) entered into a similar arrangement with the centre-right VVD in September 2012. That coalition now finds itself with a wafer thin majority in the Dutch Tweede Kamer and is engaged in a desperate search for supportive votes from the opposition in the Dutch Senate to pass its 2014 austerity budget.

Both the SPD and the PvdA face a version of the same dilemma. After defining the terms of centre-left politics in both government and opposition for decades, they are losing voters, generally to the left. In Germany, a combination of Die Linke's capture of dissatisfied left-wing support and Angela Merkel's strategy of moving close enough to the SPD on its core issues of social and economic justice, and

financial markets reform to deprive the SPD of real leverage on these issues left the SPD with its second lowest post-war vote. The dramatic rise of the Socialist Party in the Netherlands as a left-wing alternative to the PvdA has done the same there.

A number of things explain this. In both cases, traditional supporters have been disillusioned with these parties' apparent legacy in the 2008 financial crisis - the German SPD is still ambivalent about its own record in liberalising the German labour market and a period of cohabitation with the CDU after 2005. Both have lost supporters over their acceptance of austerity policies, especially when they come in the form of EU fiscal obligations. Their 'Rhine/Rijn' model of Northern European centre-left politics no longer seems to provide a route to government without the centre-right. So will they accept the alternative of moving left - as Peer Steinbrück appeared to signal after the German defeat? Given their key role in anchoring the European mainstream left in fiscal austerity, relatively open markets and the reform of European welfare systems, what might this mean?

The shrinking centre

As we noted [after the Dutch elections of September 2012](#), these parties are anchored in a political

mainstream that has shrunk markedly since the 2008 financial crisis. In both the Dutch and German cases, the previously dominant parties of the centre-left have had to reach a political accommodation with the centre right to gain access to government. For the PvdA the result has been further erosion in its core support to the point that polls suggest it could win as little as 10% of the seats in the Dutch Parliament if elections were held tomorrow. The Dutch experience does not provide much reassurance for the SPD if it chooses government alongside the CDU.

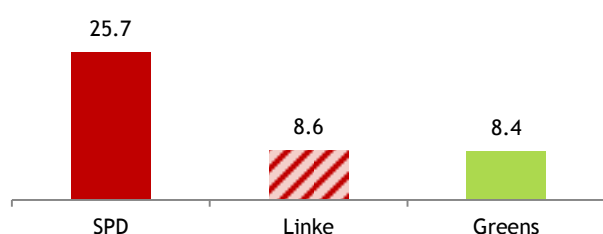


Fig 1: Parties of the German left and centre-left, September 2013

Source: Public polls

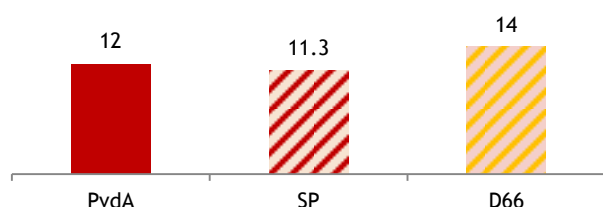


Fig 2: Parties of the Dutch left and centre-left, September 2013

Source: Public polls

Elsewhere in Europe the same trend shows up in the numbers and the resulting governments. Greece's PASOK has been fatally wounded by its stewardship of Greece's crisis, bailout and subsequent coalition with the Greek centre right. Spain's PSOE has never recovered from its own attempts to implement an austerity agenda in 2011 and is stilling lagging on 27% behind Mariano Rajoy's scandal-afflicted Partido Popular (PP). Italy's Partito Democratico negotiated an uneasy alliance with the green/left SEL to sustain a left-wing coalition capable of matching an unlikely comeback by Silvio Berlusconi and the Popolo della Libertà, and is this week still struggling to find the numbers to make governing without Berlusconi in the Italian Senate possible.

The strategic choices these centre-left parties make will now have important consequences for the future of the European centre-left and thus the shape of the political economy in Europe. The current generation of centre-left leaders in both Germany and the Netherlands belong to a cohort of centre-left politicians whose political discipline tells them that accommodation with their left flank is a ticket to electoral irrelevance. Peer Steinbrück ruled out participating in a second Grand Coalition with the CDU, but he was also hostile to the idea of a partnership with Die Linke - although in defeat he seemed to suggest that a future alliance was 'feasible'. Diederik Samsom of the PvdA was no warmer to the idea of a working relationship with the Dutch Socialist party.

In both cases the feeling was probably mutual and partnerships cannot be taken for granted. Die Linke has formed coalition governments with the SPD in a number of Eastern German Lände, but has always presented coalition at the Federal level as unacceptable. Emile Roemer of the Dutch Socialist Party knows that his party has the PvdA under pressure (Fig 2). Some of the parties drawing left-wing voters will be more amenable to electoral cooperation with the centre-left. The Dutch left/liberal D66 and the German Greens for example, have established records of collaboration - although the German Greens have moved away from their historical leftist identity. Neither the Greens nor D66 are close to strong enough to provide an ailing centre left with strong enough numbers for majority governments. Others, like the Greek Syriza and the Italian Five Star Movement will be deeply hostile.

This is the strategic bind for the Rhine/Rijn centre-left. For the next generation of centre-left leaders in Germany and the Netherlands, recapturing the support of voters alienated by European austerity priorities and hankering for an alternative to the liberal mainstream outlook of the late 1990s and 2000s looks like a steep challenge. It will be even harder if a prolonged period of low growth, high unemployment and rationalisation of Europe welfare states and public sector employment - of the kind promised by the Dutch coalition government last

week - defines the next few years. The alternative of a more general move leftwards will be tempting.

If they - and we - need an example of what this means, France may provide a rough guide. François Hollande's strategy in 2012 was to build an electoral coalition with Jean-Luc Mélenchon's Front de Gauche. His government has struggled to deliver either the alternative anti-austerity priorities apparently promised by his campaigning or the kind of pro-business reform agenda that might have won him a greater level of acquiescence from the French centre right. His government's approval ratings are currently the lowest of any first year French President since the Fifth Republic.

Not all right

None of this should come as reassurance to the European centre right, which faces its own version of the shrinking centre ground. Angela Merkel and the CDU have been returned to government, but fought a policy-light campaign based on Merkel herself. They were undermined by a collapse in support for their free market FDP coalition partner. The Dutch Christian Democrats were punished by the electorate in 2010 and the right/liberal VVD have suffered a similar slump in support in government since 2012. Both are fighting off a right-wing populist surge from Geert Wilders People's Party that is now polling stronger than any other Dutch political party.

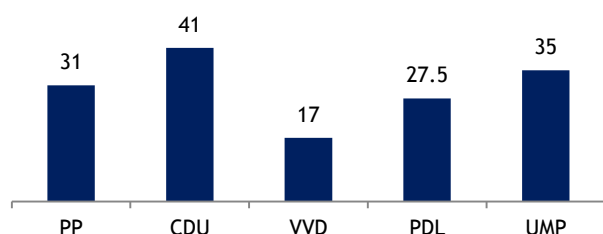


Fig 3: Parties of the European centre-right, September 2013
Source: Public polls (% voter support)

The Front National has performed a similar assault on blue collar nationalist support from both left and right in France, but has hurt the centre-right UMP significantly more. The result - at least until recently - has been a fierce battle for the tactical and tonal agenda of the UMP personified in the leadership

struggle between François Fillon and Jean Marc Copé. Nowhere in these political markets does the centre right look like an unequivocal candidate for clear majority government (Fig 3). Merkel's CDU come closest, and the resilience of the centre right under her leadership is her great achievement and the story of the German election. Yet even they fell short on September 22 with the defeat of their liberal FDP coalition partner.

For business and investors reading the political weather in Europe this raises many more questions than answers. The pressure of the margins on the mainstream of European politics is a general feature of the EU. The dynamics in the Netherlands and Germany are particularly important to watch, because these political markets are a mainstay of the liberal centre of gravity of the EU and the two core supporters of a European agenda rooted in fiscal austerity, open markets and reform of European welfare systems. The centre-left in both countries has been an important factor in anchoring these countries - and the EU - at this point in the spectrum. Five years ago this looked like a consensus that would endure. It looks a lot more ambiguous now.

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