

PIPS politics: what four recent European elections tell us

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Summary

The defeat of centre-right governments in Portugal, Ireland, Poland, and Spain despite favourable economic statistics highlights the difficulty for European governments to earn a political dividend if growth is not increasing living standards. Voters are more willing to support political parties outside the mainstream - which is taking a particular toll on the centre-left - though in the case of these four countries this is not being driven by migration or Euroscepticism. Nevertheless, these new policy revisionists are far from winning office, limiting the prospect for a rollback of structural reforms.

The last six months have seen general elections in a number of European economies: Portugal and Poland in October 2015, Spain in December 2015, and Ireland in February 2016. Of these 'PIPS', Portugal, Spain and Ireland were all electing their first governments after exiting Eurozone bailouts. All four were voting on centre-right governments who could point to rising growth, falling unemployment, falling sovereign debt yields and warm words from Brussels for economic management. Yet all produced defeat for the incumbents. So what happened? And what lessons might these elections have for wider politics in the EU?

Issues and non-issues

Part of the problem is likely to be the extent to which this growth has actually registered for voters. In most of the four markets real wages have grown much more slowly - if at all. This has been helped by low inflation, but this is a mixed blessing for voters carrying personal debt. Falling unemployment numbers have often marked high levels of emigration - all four PIPS have been net exporters of people since 2011 - and exit from the job market altogether. New jobs in many of these countries are also often low quality and relatively insecure. In all of these circumstances a general political message of policy-driven recovery may have the power to alienate voters who feel they are not sharing in it.

So governments in each of the PIPS have failed to

secure much of a political dividend from recovery - at least at this stage. Given the wider European debate two other things stand out about these elections. The first is the role of the EU itself. Three of the PIPS states (Portugal, Spain and Ireland) were the subject of EU bailouts and an extended period of policy direction from Brussels. Yet Europe was a marginal factor in all three elections, and views of the EU have arguably stabilised and improved across all three. While wholehearted positive sentiment has dipped, the number of voters expressing a negative view of the EU has also fallen since the height of the bailouts. Even in Poland, where assertion of Polish national interests and hostility to prospective euro membership was an important part of the October election, and the de facto shelving of that membership one of its most immediate material outcomes, dislike of the EU has in fact declined.

The nuances are clearly important here. While public opinion in all of these markets on Europe is often the source of strong opinion - particularly on Germany and the general balance of power between the large northern states and states outside of this core - basic attitudes to membership of the EU remain strikingly resilient. Where voters already have the euro, so does their desire to keep it. Polish voter desire to stay out of the single currency and to see Warsaw taking a firmer line with Brussels and Berlin is certainly a variant of a wider Eurosceptic mood, but not of necessarily of a kind that sees its logical conclusion in ending membership. This is potentially

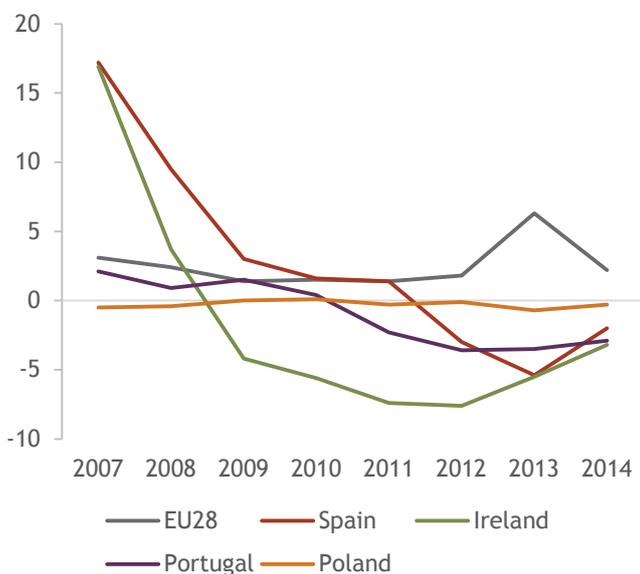


Fig 1: Net migration per 1000 inhabitants
Source: Eurostat

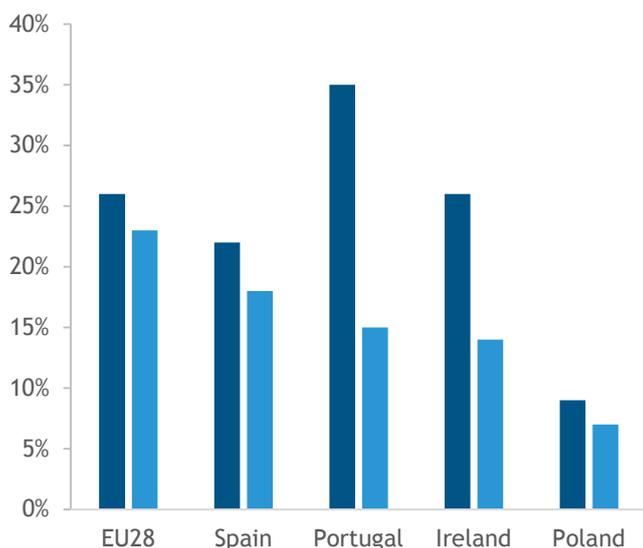


Fig 2: % saying the EU conjures a 'negative image'
Source: Eurobarometer (November 2011 and November 2015)

relevant in assessing how a British referendum decision to leave the EU in 2016 might reverberate in these countries and elsewhere in the EU.

Another notable feature of these elections is the low salience of migration as an issue, both in campaigns and in expressed voter concerns. To be sure, the Polish campaign and subsequent policy have exhibited a strong streak of xenophobia, but this is a long standing feature of Polish politics and Poland has had not experienced the sharp rise in expressed voter concern about migration seen elsewhere. In the other PIPS, a mix of factors may be relevant. The first is the fact, noted above, that all three bailout states have been net exporters of people for the last 3 years. As important is probably

the fact that all three are states with long histories of emigration (and in the Spanish case, internal migration since the 1950s) where attitudes to migrants are often nuanced by personal and family experience. In none of these countries are political movements being built around the migration question - which is likely to mark them out from the big French and German elections in 2017.

Left and right

However, the most important feature of all of the elections and the most relevant for France and Germany in 2017 relates to the extent to which the mainstream parties of centre-left and centre-right have held on to voters since 2008. In all of the PIPS, centre-right governments suffered - losing voters to centrist or rightist alternatives, independents and abstention. The Partido Popular's fall from grace in Spain in the face of public anger at corruption has been particularly marked, and proven particularly hard to stem or reverse.

But the bigger loser remains the mainstream centre-left, whose re-election bids in Spain and Portugal failed and never got off the ground in Poland and Ireland. The simple reason for this lies in the way the electoral coalition of the left in all of these countries and across Europe has fragmented since 2008, especially in markets in which pre-2008 centre-left parties have implemented austerity or structural reform in response to the crisis. Left-leaning voters have scattered - some moving further left into parties like Sinn Féin or Podemos, some finding a home with cosmopolitan centrist alternatives like Ciudadanos, some drifting into insular political radicalism, and some pragmatically sticking with centre-right governments implementing 'inevitable' adjustment measures.

Sticking this big coalition back together as a route to government may be possible, but has proven difficult. The Portuguese PS did a deal with the communists to create the numbers to displace the PSD - surprising many supporters of both sides. The PSOE and Podemos have warily considered something similar - with substantial reservations on both sides that another election in June may or may not resolve. These coalitions inevitably pull these centre-left parties leftwards, even if they involve compromise on both sides. The alternative for centre-left parties is grand coalition with the weakened but ultimately stronger centre-right - the post 2011 outcome in the Greece, the Netherlands and Germany and a possibility in Spain after June. But these experiences have been politically unrewarding for centre-left parties and have provided little incentive to choose this path, and

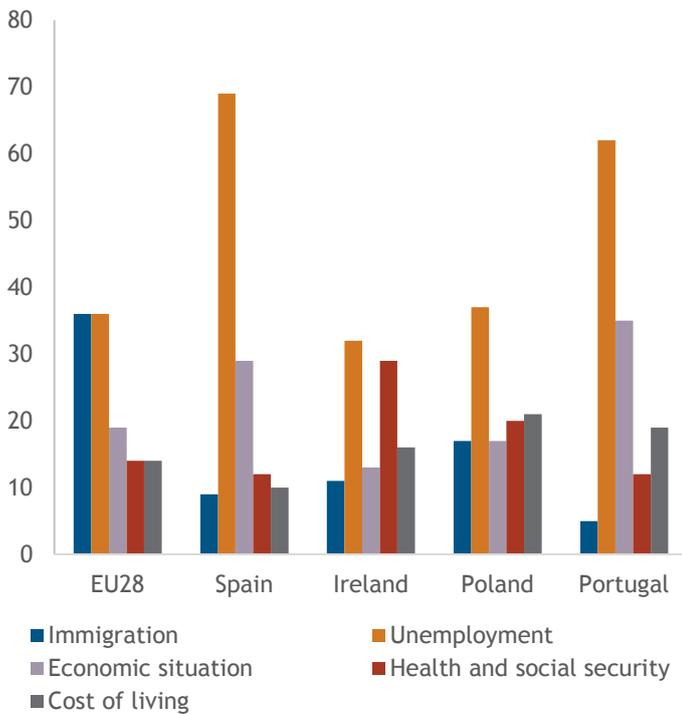


Fig 3: Main concern at the national level
Source: Eurobarometer (December 2015)

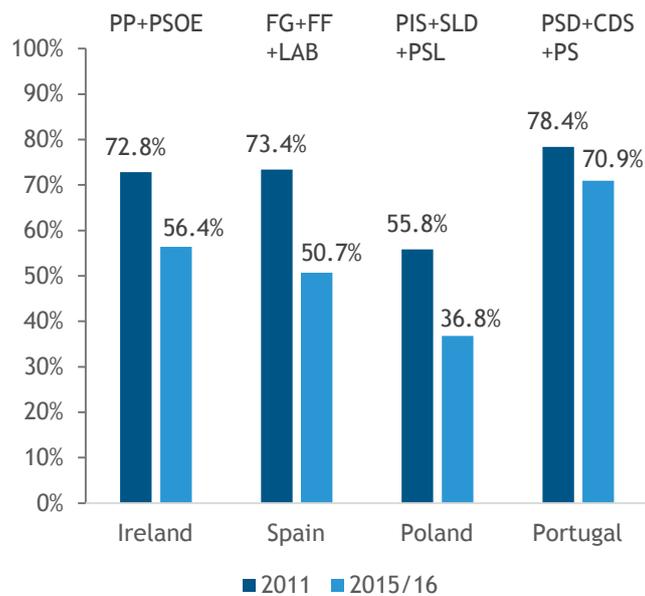


Fig 4: Combined share of the vote for 'mainstream' parties
Source: National electoral commissions

the fate of PASOK in Greece is read as a cautionary tale for Social Democrats in Spain and Portugal in particular.

The other big election of 2015 - in the UK - superficially looks quite different from the PIPS' experience. A centre-right government gained ground while delivering both a degree of austerity and improved economic performance. But the key similarity lies in the weaknesses of the centre-left, where voters inside the Labour coalition

moved sideways into a new allegiance with the anti-austerity Scottish Nationalists or supported the Conservatives as the more credible party of economic management. The centre-right vote was also supported by the first-past-the-post single-member constituency system, which acted as a psychological check on Conservative voters from supporting the anti-EU UKIP where they might have done so in a proportional system.

Looking beyond the PIPS

However else the PIPS and UK might differ from France and Germany, they do point to the big choices mainstream parties in both countries are going to make in 2017. Having opted to build his electoral coalition in 2012 with the French far-left, Francois Hollande has seen it fragment in the face of government and every attempt to win back economic credibility with centrist French voters has forced the rift wider. Even assuming he can secure the party nomination for President, it is not clear how the PS can build a serious challenge in 2017. Indirectly, its voters now seem likely to declare an informal 'grand coalition' in keeping the Front National out of power in the second round of the Presidential election.

In Germany, the weekend's state elections in Baden-Württemberg, Rheinland-Pfalz and Sachsen-Anhalt have all reinforced the SPD's version of the same problem. Although the CDU has been heavily impacted by a shift to the AfD, the SPD has suffered worse as centre-left leaning voters refuse to 'come home'. For the SPD, 2017 will bring the inevitable question of whether a move left to ally with leftist Die Linke is a viable alternative to accepting the likelihood of another grand coalition, if the centre-

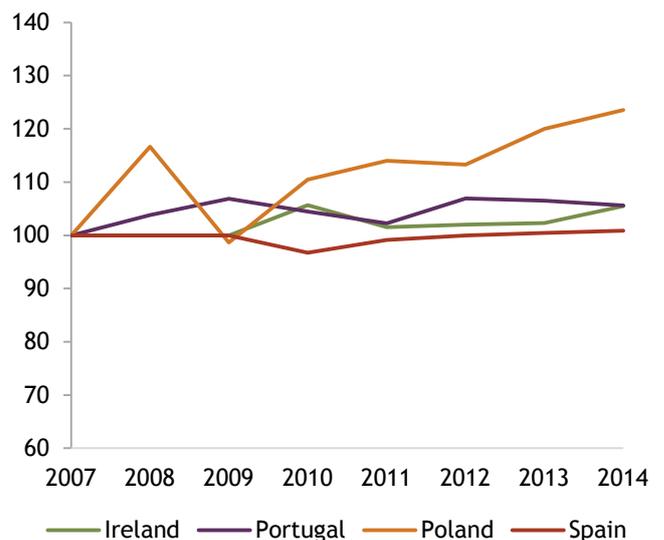


Fig 5: Average wages, 2007=100
Source: CEIC

right cannot shake off the challenge of the anti-migration right enough to win a majority.

More immediately, what should we expect from the PIPS themselves? For all of the sense of backlash, a rollback of structural reforms is actually unlikely precisely because the radicals and policy revisionists in these countries are not taking power, or close to it. The populist tinge of Law and Justice in Poland is undeniable, and its spending commitments potentially expansionary, but it is not a party of anti-austerity and not opposed in principle to structural reform. The Communist-supported PS government in Portugal has unpicked some of the austerity commitment of the PSD coalition, but continues to openly desire to respect its EU commitments. Fianna Fáil in Ireland is basically a party of continuity with a populist pitch of targeted rises in spending but no intention of tinkering with Ireland's low tax model or market reputation for credible management. Nevertheless, the lack of stable governments will inevitably impact on what gets focused on in policy terms and with what level of ambition, and how

quickly the wheels of policy turn. This plays out in Brussels also, although Spain, Ireland and Portugal are relative policy takers at the EU level.

The PIPS elections suggest that that the political cost in these countries of choosing continued austerity is real without counterbalancing political gains in real wage rises and quality employment. It can also fairly be predicted that the window for substantial structural reform in all of these markets may be shrinking, unless it can be sold to electorates as job-creating and income-boosting. After a long decade of relative prosperity, electorate expectations are badly conditioned for the possibility of a decade or more of slower trend growth and stagnant incomes. They are also in many cases indebted, or dependent on savings income in ways that mute the benefits of low inflation and low interest rates. There is no obvious political dividend from telling them this, as opposed to reflecting back to them anger or resentment. This is likely to be an observation with much wider relevance for the EU in 2017.

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The views expressed in this note can be attributed to the named authors only.

Annex 1: Election results (seats)

Spain	2015 (change)
PP	123 (-64)
PSOE	90 (-20)
Podemos	65 (new)
Ciudadanos	40 (new)
Nationalists	26 (-7)
Other	6 (-14)

Poland	2015 (change)
PiS	235 (+101)
PO	138 (-59)
Kukiz	42 (new)
.N	28 (new)
SLD	0 (-50)
PSL	16 (-22)

Portugal	2015 (change)
PSD+CDS	107 (-25)
PS	86 (+12)
BE	19 (+11)
CDU	17 (+1)
PAN	1 (new)

Ireland	2016 (change)
FG	50 (-26)
FF	44 (+24)
SF	23 (+9)
LAB	7 (-30)
AAA	6 (+1)
Ind/other	28 (+14)

Source: National electoral commissions

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