



European party landscape in transition

November 14, 2012

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Since the start of 2011 roughly half the governments in the euro area have been forced to accept a premature end to their term of office. In crisis-stricken Greece, Ireland, Spain and Portugal the respective incumbent government was blamed for the deterioration in economic conditions and routed by the electorate. The clear winners at the polls were the major conservative parties.

An economic downturn tends to kindle voter support for mainstream conservative parties. This has unmistakably been reflected in the election results since the outbreak of the financial and sovereign debt crises in the EU. Currently, 19 of the 27 EU heads of government (11 of these in the EMU-17) are from centre-right parties.

Despite the far-reaching real economic and social repercussions of the crises and the subsequent reform measures European voters have hitherto reacted pragmatically. It is noteworthy that the political party systems in the crisis-stricken countries have changed only little, with the established major parties maintaining their dominance. Only in Greece is the party system undergoing a fundamental change and becoming increasingly fragmented.

The tendency for protest movements to form is part of a longer-term societal trend and is intensified in the crisis countries by the deterioration in the labour market. The protests are largely driven by youths with uncertain prospects of being integrated into the labour market. Since members of this age cohort are inclined to join populist groupings and protests, the policy reforms should increasingly be geared to improving the future economic outlook for young people.

Populist and anti-European fringe parties attract more voters in the core countries of the eurozone than they do in the crisis countries on its periphery. Despite growing support, however, no populist fringe party is currently among the ruling parties in the EU. The electoral successes of right-wing populist and newly established left-wing factions may hamper the formation of properly functioning governments in future, though.



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Changes of government in the crisis countries of the eurozone

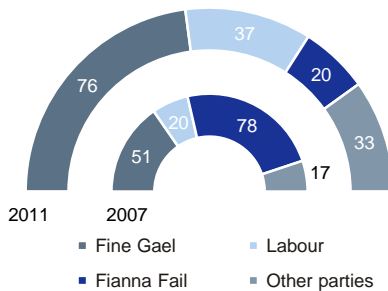
Greece:
Distribution of parliamentary seats **1**



The financial and sovereign debt crises in the euro area have not occurred without ensuing political consequences. Since the start of 2011 roughly half the governments in the euro area have been forced to accept a premature end to their term of office. Bruised in conflicts to find the right instruments to overcome the crisis, governments stepped down early in eight eurozone member countries. In the two special cases of Greece and Italy the incumbent governments were replaced by a transitional technocratic government. Some of the countries that have held early parliamentary elections over the past few months include crisis-stricken Ireland, Portugal, Spain as well as Slovenia, Slovakia and the Netherlands. In Greece, a new parliament was elected in June 2012 following the technocratic government's term in office, while in Italy the Monti administration is to continue to govern until spring 2013.

The catalysts for the early elections, except in Slovenia and Slovakia, were events directly connected with the financial and sovereign debt crises. The elections in Slovenia and Slovakia were only indirectly connected with the crises. While the crisis has hit the real economy in each of the two countries, and the lost vote of confidence on the European Financial Stability Facility (EFSF) was the reason for the ballot in Slovakia, the early elections in these still young democracies are more attributable to political turmoil on the domestic front.

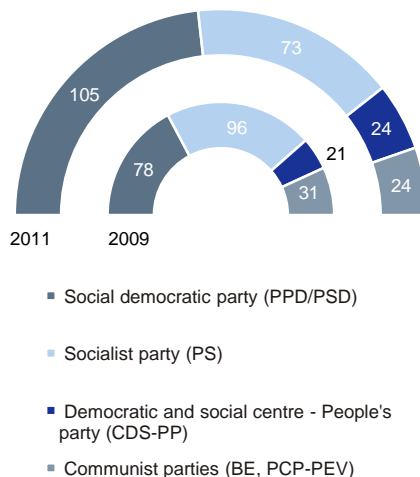
Ireland:
Distribution of parliamentary seats **2**



So far, the elections in the crisis countries have established the conservative camp as the clear winner at the polls. In Ireland, the conservative Fine Gael party gained around 36% of the vote. Portugal's centre-right PPD/PSD garnered some 39%. And in Spain the Partido Popular (PP) emerged as the strongest party with roughly 45% of the ballot¹. In Greece, too, conservative New Democracy (ND) landed around 30% of the votes cast (during the first round of voting in May 2012 it captured only 19%, though).

In a mirror image of the votes gained by the centre-right parties in the crisis countries, the incumbent ruling parties suffered heavy losses. In Portugal, the socialist PS party lost 23 of its seats in parliament (which has a total of 226), while in Spain the socialist workers' party PSOE had to relinquish no less than 59 seats (parliamentary total: 350). In Greece, the Panhellenic Socialist Movement (PASOK) lost 123 seats and is now down to only 33 out of a total of 300. Ireland also saw a change of government with Fine Gael ousting the ruling party, though the incumbent had likewise been a major conservative party and not from the social democratic camp. Fianna Fail's defeat at the polls is significant insofar as this party had to switch to the opposition benches after being part of the government for over two decades.

Portugal:
Distribution of parliamentary seats **3**



In the countries of Belgium, France and the Netherlands, which differ from the crisis countries in terms of economic performance, the electoral results have been more varied. However, as the economic outlook in Europe remains grim, even socialist parties are committed to implement conservative austerity measures and structural reforms nowadays. In Belgium, which has traditionally always had a fragmented party landscape, it took an unusually long time (18 months) for a government to be formed, with liberals, social democrats and Christian democrats eventually joining together in a coalition. In France, the presidential and parliamentary elections brought a shift to the left. The social democratic camp is now the strongest political force in France at all levels (including regions, *départements* and major cities). The left government, though,

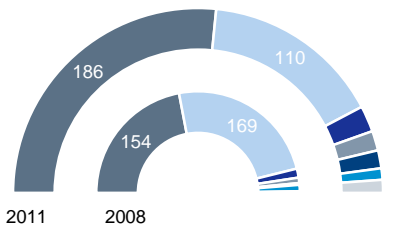
¹ Despite the good results for the PP at the parliamentary elections, separatist groups receive increasing support on the regional level now. Separatists won regional elections in October in the Basque country and are likely to do so at the elections in Catalonia on November 25th. However, renegotiations about the autonomy status and fiscal transfers to the central government are more likely than independence.



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Spain:
Distribution of parliamentary seats

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- People's party (PP)
- Socialist workers' party (PSOE)
- Catalan regional party (CiU) 10/16
- Basque regional party (AMAIUR, EAJ) 6/12
- United left (IU-LV) 2/11
- Other regional parties (BNG, ERC, CC-PNC) 7/7
- Other parties 2/8

is already struggling with shrinking popularity and facing pressure to implement structural reforms to increase the economy's competitiveness. The government announced plans to reduce corporate taxes by EUR 20 bn, which will be financed by a combination of cuts in public spending and an increase in the value added tax (VAT). In the Netherlands the conservative ruling party VVD returned to office, whereas the populist right party of Geert Wilders suffered a defeat at the ballot box. The VVD has now formed a stable and pro-European coalition with the mainstream social democratic PvdA.

It's the economy, stupid!

One approach that may be taken to analyse the political developments seen in the eurozone over the past few months is known in political science as the theory of "economic voting". In the literature on economic voting it is undisputed that the state of the economy plays a major role in the nation's voting decisions. Before casting their ballot, voters review the development of the labour market, inflation, overall GDP and personal real income in order to assess the government's economic policy. In this context the reward-punishment hypothesis argues that governments are punished at the ballot box if the economic situation has deteriorated – regardless of party ideologies. Contrastingly, according to the differential partisan capability hypothesis, voters ascribe differing degrees of economic competence to political parties, punishing them on election day if they fail to perform well in their natural field of competence. The electorate's expectations also play a special role in the differential partisan capability hypothesis. Depending on how the voters assess the future economic policy challenges and which issues they regard as most urgent, they will cast their vote for the party credited with having the greater competence in resolving such issues. Typically, conservative parties are attributed with having greater competence in fiscal policy and social democratic parties in labour market policy.

EU's flagging reputation is not tantamount

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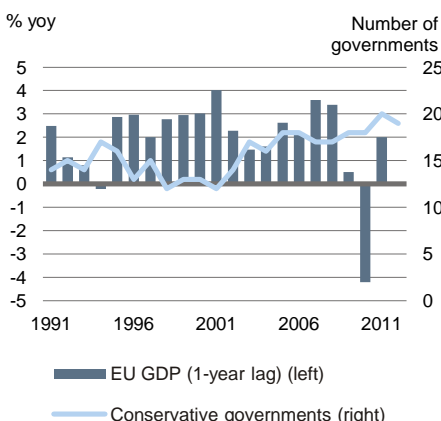
| % | Positive Image of the EU | Support for EMU and euro |
|------------|--------------------------|--------------------------|
| Germany | 33 | 65 |
| France | 39 | 68 |
| Italy | 30 | 53 |
| Spain | 22 | 55 |
| Greece | 26 | 75 |
| Portugal | 24 | 58 |
| EU average | 31 | 52 |

Source: Eurobarometer

A comparison of election outcomes and citizens' varying assessments of the economic situation in the crisis countries confirms the reward-punishment hypothesis, which says that the electorate, regardless of their political convictions, held the incumbent governments accountable for the crisis and voted them out of office as a consequence. This effect has been particularly evident in Greece. Even though the conservative ND played a major role in manoeuvring the country into economic misery during its rule under Kostas Karamanlis between 2004 and 2009, not the ND but PASOK was punished hardest by the voters during the last parliamentary elections.

Conservative parties benefit from economic downswing

6



Source: IMF

What is less clear, however, is whether the differential partisan capability hypothesis also retains its validity, i.e. whether voter decisions are based on their assessment of party competence in delivering solutions. This is partly attributable to the fact that the manifestos of established mainstream parties have converged over time and differing areas of expertise can no longer be ascribed clearly to a mainstream party from either the social democratic or the conservative camp. This is partly also attributable to the fact that EU citizens have differing views at personal and national level as to which problems are the most urgent. Since 2010, EU citizens have regarded inflation as the chief concern at the personal level. However, at the national level they consider unemployment to be the most urgent problem².

² In the latest Eurobarometer survey (July 2012) some 45% of the respondents said rising prices represented the biggest worry at personal level. Note in this context that in the eurozone the inflation risks are considered higher in the core countries (43%) than in the crisis countries (36%). The reading for Germany, at 50%, outstrips the EU average, but it is lower than for Estonia (61%), Austria (55%) or France (52%).



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Looking back in history, though, it may be seen that an economic downswing tends to result in voting gains for conservative parties. Currently, 19 of the 27 EU heads of government (11 of these in the EMU-17) are from centre-right parties. In this respect, the recent election results may be interpreted to mean that voters desire political stability in times of crisis and ascribe the mainstream conservative parties greater governing competence.

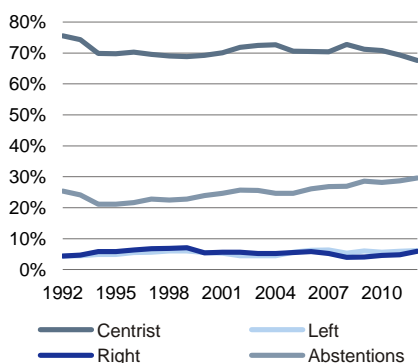
Given the stronger validity of the reward-punishment hypothesis and the only weak economic recovery in the EU, further economically triggered changes of government between mainstream conservative and social democratic parties cannot be ruled out. However, the irregularity of the changes that took place because of the topicality of the crisis in 2011 ought to decline. Moreover, this does not necessarily mean a reversal of reform efforts.

It is not uncommon to see changes of government in times of structural transition. A look at the countries of Central and Eastern Europe that had implemented substantial reforms up to 2004 during the EU enlargement process shows, however, that even though there were changes of government during the accession negotiations in several countries (e.g. Poland, Hungary and the Baltic countries), all the centrist parties pursued the very same strategic goal – rapid accession to the EU. The broad political consensus on the benefits of EU membership transcended party lines and strengthened the reform drive in the candidate countries. Surprising parallels may also be found with regard to the public image of the EU. Even the growing euro-scepticism in those former accession countries, which increasingly perceived the protracted negotiations as being "dictated by Brussels", was not reflected in the final decisions.³ Ultimately, all the candidate countries said "yes" in the national referenda. Today, too, flagging confidence in the EU may be understood more as a protest against current policy, but not as a general rejection of the EU per se. Besides, more than 50% of all EU citizens are still supporters of the European Economic and Monetary Union and of the euro.

No fundamental transformation of party systems

Established centrist parties still appeal to voters the most

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Sources: European Election Database, Election National Ministries of the Interior

Despite the far-reaching real economic and social repercussions of the crises and the subsequent reform measures that triggered the elections, European voters have hitherto reacted pragmatically/rationally. The traditional centrist parties are still the ones that appeal to EU-15 voters the most. This is equally true in the crisis countries of the eurozone. In Spain, the conservative PP and the social democratic PSOE hold considerably more than 75% of the seats in parliament. In Portugal, too, there is still no sign that the traditional two-party system could come to an end. Together with the socialist PS party, the mainstream centre-right PPD holds roughly 75% of the parliamentary seats. In Ireland, the two major conservative parties Fine Gael and Fianna Fail scarcely differ in their party manifestos and continue to claim more than half of the parliamentary seats between them. Together with the social democratic Labour Party they occupy roughly 90% of the seats in the Irish Parliament. Euro-sceptic parties on the extreme left and the extreme right are not part of the government anywhere in the EU despite slightly increasing support.

Only in Greece is the party system undergoing a fundamental change. First, voters are visibly abandoning the major established parties. Since the fall of the military dictatorship in 1974 the ND and PASOK have taken turns leading the government. Together, they used to garner between 80% and 85% of the votes in parliamentary elections. At the polls in June 2012 their share dropped to only about one-third of all votes. Second, during the economic crisis the party system

³ In the early 2000s the share of those supporting EU accession fell to below 50% in the three Baltic countries as well as in Poland, Slovenia and the Czech Republic.



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has become fragmented and new parties have stepped onto the political stage as competitors. The ND and PASOK each spawned two new parties apiece (the liberal Democratic Alliance and the nationalist Independent Greeks as well as the left-leaning Social Pact and the Arma Politon party that later merged with the Independent Greeks). Moreover, members of Syriza, the leftist party alliance, founded the moderate, pro-European Democratic Left, which has now joined with the ND and PASOK to form a coalition government. The make-up of the ruling coalition is the third new departure for Greek politics. It is a potential source of uncertainty for Greece's political stability, since the country has had virtually no experience with coalition governments in the past. As regards the fragmentation of the party landscape, however, it is significant that nearly all the newly founded parties are products of the already established parties and are not new political movements. For this reason, they are not considered to be political newcomers. Question marks remain regarding the extent to which they will be able to meet the electorate's demands for a break with the past, though. Since the country is heading for its sixth year of recession and there is no sign of economic recovery on the horizon, the general public's active involvement in political affairs is not about to lose momentum. Therefore, a further fragmentation of the party landscape and further protest movements cannot be ruled out.

Protest movements express growing economic and political dissatisfaction

The political consequences of the crises have remained relatively limited for the traditional mainstream parties in Europe so far. For one thing, the crises have provided an opportunity to readdress the challenges that have been facing the major parties in Europe for several years. These include the freefall in membership, blurring party profiles and party loyalty, general political fatigue and the related decline in voter turnout. For another thing, despite broad support for the centrist parties society has shown a loss of faith in politicians' ability to resolve problems and manage the nation's affairs (at the European level in particular), which has intensified in the course of the crises because of the exceptional complexity of the problems and the rapidity with which decisions have to be taken. As a consequence there has been an increasing tendency for protest movements to form; this has to be regarded as an expression of growing economic and political dissatisfaction.

Actually, the protests of the past few years are part of a longer-term societal trend that had been pointing towards a "protest and movement society" even before the onset of the latest financial and economic crises. Supported by the new forms of mass mobilisation (via internet and social media) protest movements in the democracies of Western Europe and North America are now considered to be a conventional form of political involvement and are regarded by a continually growing share of increasingly critical citizens as a legitimate instrument in politics. This process has intensified since the beginning of 2010. Thematically, the transnational protest movements (for example, the Occupy movement) have largely taken up the banner from the anti-globalisation campaign of recent years. Besides the issue of social justice the protest society has, since the onset of the crises, increasingly called for greater transparency and participation in political decision-making processes.

In the individual EU member countries national mobilisation issues dominate the agenda; an independent, homogeneous, European protest society has not developed yet. Nonetheless, it is striking that since the crises erupted the protest movements have largely been driven by young people with uncertain prospects of being integrated into the labour market. Between 2008 and 2010, no other region in the world saw the youth unemployment rate grow as fast as it

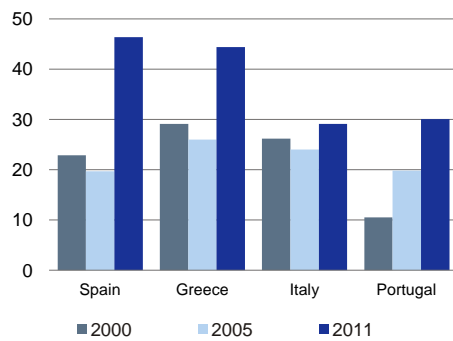


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High youth unemployment as a driver of growing protests

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Age cohort <25 years (%)



Source: Eurostat

did in the industrial countries. In the EU-27 alone the rate rose from 15.8% to 21.4% between 2008 and 2011, thus reaching its highest level since 1999. In the crisis countries of Greece, Portugal, Spain and Italy in particular the youth unemployment rates jumped skyward. Young people's precarious lifestyles are a potential threat to political stability, since this age cohort is more inclined than others to vote for populist groupings. Politicians ought to treat the protest movements of today's youth as a political catalyst to correct these negative developments. As part of the economic policy reform measures the focus should thus increasingly be concentrated on improving the economic prospects for young people.

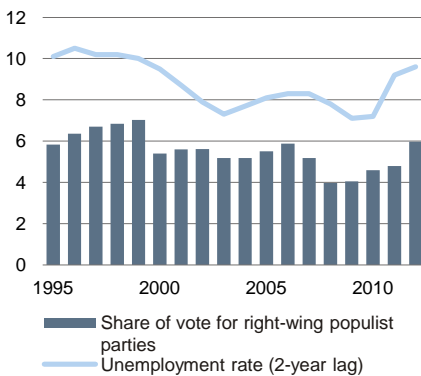
Right-wing populism flares up during a crisis

The public's loss of confidence in the traditional mainstream parties has not only led to protest movements, but also to the revival of populist currents. Populism (primarily the right-wing variant) emerged as a politically serious challenge back in the 1970s, and since then it has been a recurring issue in European politics. Populism rears its head during a crisis and it seizes on controversial issues of the day, thus constantly creating new terms of reference. Since the outbreak of the economic and financial crises the growing anti-establishment mentality, euro-scepticism and criticism of globalisation have provided welcome opportunities for established, right-wing populist parties and for newly established left-wing factions to sharpen their profile.

Support for right-wing populism in times of crisis

9

%, EU-15



Sources: DB Research, Eurostat

The electoral successes of right-wing populist parties within the EU differ very considerably. While they have traditionally had strong representation in the core countries of the eurozone and managed to gain votes in the course of the crisis (in France and Austria, for example), right-wing populism is virtually non-existent in the crisis countries on the euro area's southern periphery (Spain and Portugal). In Italy, moreover, right-wing populism is concentrated in the northern part of the country. There, however, the right-wing Lega Nord has lost half of its voter base since its peak at the end of the 1990s. This north-south divide in right-wing populism has remarkably not changed in the course of the sovereign debt crisis. The right-wing populists have been able to broaden their base in some of the core EMU countries (France, Austria, Finland), while in the southern EMU countries only Greece has seen a right-wing extremist party, "Golden Dawn", claim victory in an election. Since the parliamentary elections in June 2012 "Golden Dawn" has held 18 seats in the Greek Parliament.

Despite the election victories of right-wing populist parties there is at present no right-wing populist party directly in power in any government in the EU (the Lega Nord had participated in the ruling coalition in Italy up to November 2011, and the right-wing populist PVV tolerated the minority government in the Netherlands until the parliamentary elections in September 2012. At that point, though, it suffered a considerable setback). However, Belgium, Denmark, Finland, Greece, the Netherlands, Norway, Austria and Sweden do have parliamentary representatives from right-wing populist parties.

Not only the right-wing populist movement but also the left-wing populist parties have increasingly won public support in the course of the crisis. Some of the newly founded factions have benefited from protest voters. One example is the party of the "Common People and Independent Personalities" in Slovakia, which captured 8.6% of the ballot and nine seats in parliament in its first bid for election in 2012. Other parties' substantive focus is on achieving more transparency and participation in political decision-making processes.



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These parties include, for instance, the Pirate party in Germany⁴ and the Five-Star movement in Italy.

As with the protest movements, the upswing in populism may have a critical and educational function for the political system insofar as it compels established parties to engage in self-reflection and respond accordingly. To curb the expanding power of the right-wing populist parties, established major parties must address the public's (globalisation) fears, explain the complexity of the problems in understandable terms and propose objective approaches to remedy the situation.

As regards the formation of a government, the populist parties' entry into parliament has two effects. On the one hand, this can hamper the formation of functioning governments (take the Netherlands, Sweden and Belgium, for instance), while on the other hand this may increasingly lead to the formation of grand coalitions since mainstream conservative and social democratic parties combined generally capture much more than 50% of the vote on average. While finding the appropriate way to engage with the right-wing populist parties in the process of forming a government has so far been considered a challenge for the established parties, the newly established left-wing factions now have a greater chance of becoming part of the government (for example, the Pirate party in Germany). Ultimately, though, conservative and social democratic parties continue on average to attract far more than half of the votes cast, which is why it cannot be ruled out that, in future, more and more governments will be grand coalitions.

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⁴ However, the Pirate party has lost considerably in voter appeal during the year. According to opinion polls in April 2012 it would still have captured 11% of the vote; the share is currently 4% and thus below the 5% threshold needed to enter parliament.