

The Dutch kick off a fateful European electoral year

Introduction

After Brexit, President Trump’s surprise victory, and Italy’s referendum vote against proposed changes to its electoral system, many are wondering whether the anti-establishment revolt will now spread to the Netherlands, where an election is scheduled for March 15.

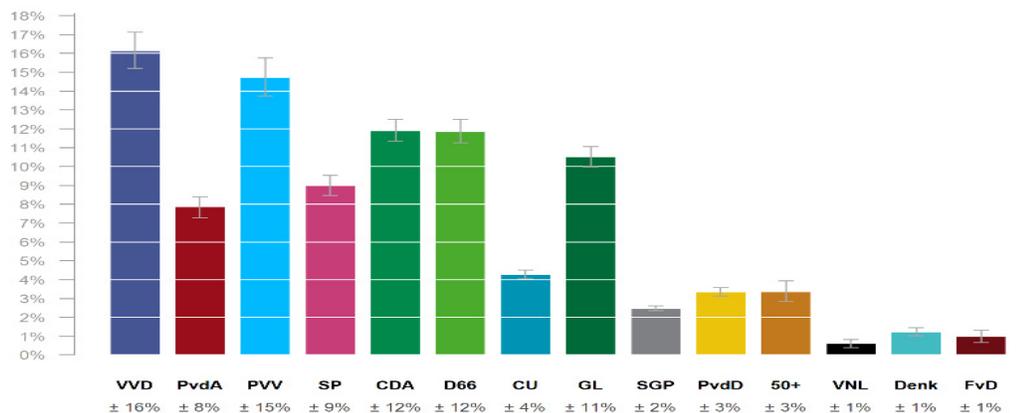
It is feared that a strong showing by the far-right Freedom Party in the Netherlands could be an early indicator of how well the anti-establishment forces will do in upcoming elections in France (April/May) and Germany (August). Moreover, though Italy and Greece are not slated to go to the polls, they could end up holding snap elections this year.

At first glance, it seems odd that the Freedom Party has gained traction in the Netherlands. EU projections have the Dutch economy growing 2% in 2017 against only 1.6% for the Eurozone. Unemployment, meanwhile, is only at 5.4%, compared with 9.6% for the Eurozone. That said, it is important to note that the Netherlands has only recently emerged from a period of near-zero growth and painful austerity (2008-2014).¹ Even more important is the fact immigration has emerged as the campaign’s hot-button issue.

What it takes to form a government

The Dutch Parliament has 150 seats, which means that at least 76 are needed to form a government. The electoral system is based on proportional representation and this encourages the proliferation of parties (a mere 0.67% of the vote is all it takes to win a seat). As a result, no single party has ever been able to govern alone. According to estimates, 11 to 14 of the 28 parties competing in the election could be represented in Parliament.

The latest polls have the ruling centre-right Freedom and Democracy Party (VVD) just ahead of the far-right Freedom Party (PVV), with the former projected to take 24-28 seats and latter, 21-25. One question mark is whether similar to Brexit and the Trump victory there exists a substantial pool of Dutch voters that refuse to admit to pollsters that they are in fact supporters of the Freedom Party. The other main contenders are the Christian Democrats (CDA), the Democrats 66 (D66), the Green Party (GL), the Socialist Party (SP) and the Labour Party (PvdA).



Peilingwijzer. Tom Louwerse, Universiteit Leiden. Bijgewerkt: 05-03-2017

Source: 'Peilingwijzer (a running average of all polls)

¹ “Dutch paradox - Voters head for far right amidst rising prosperity,” Reuters, March 3, 2017

Even if the Freedom Party were to win the most votes, nearly all the mainstream parties have vowed not to govern with it. Ironically, exclusion from the governing coalition would not necessarily be a bad thing from the Freedom Party's perspective. Indeed, it would reinforce the party's narrative that the establishment excludes others from power and it would allow the party to avoid the inevitable hit to popularity that comes with governing and making unpopular decisions.

If current poll projections hold, the next governing coalition will be a fragile alliance of 4 to 6 parties. In contrast, the current governing coalition is made up of only two parties: the centre-right People's Party for Freedom and Democracy and the centre-left Labour Party.

What does the far-right Freedom Party stand for?

The Freedom Party was founded by Geer Wilders in 2006. Its one-page election manifesto advocates barring Muslim immigrants, closing all mosques and banning the Koran. Wilders has been under police protection since a plot to kill him was uncovered in 2004.

The Freedom Party has also promised to hold a referendum on whether the Netherlands should withdraw from the EU/Eurozone. However, the Dutch constitution does not allow for a binding referendum on EU membership. To change this rule would require a two-thirds majority in both houses of Parliament,² a near-impossible feat.

The Freedom Party has changed the political landscape

Regardless of whether the Freedom Party wins the most votes or is part of the next government, it has already succeeded in pushing mainstream parties much further to the right on certain issues. Immigration is a case in point.

- In an effort to blunt the popularity of the Freedom Party, the leaders of both the Labour Party and the Christian Democrats (both centrist parties) have recently come out in favour of significantly limiting immigration.³
- To the same end, current Prime Minister Mark Rutte wrote an open letter complaining about immigrants that "abuse our country's freedom to cause havoc, when they came to our country precisely for that freedom." He warned them to "act normal or leave."⁴

Public opinion towards the EU has soured as well. This makes it much harder politically for any future Dutch government to approve reforms needed to overcome the Eurozone's many challenges. These include creating a fiscal transfer mechanism to ensure stable funding for poorer regions (something all developed countries have). Debt relief for countries such as Greece, too, is very politically unpopular.

Support for traditional mainstream parties declining

The Netherlands is part of a broad European trend of declining support for traditional mainstream parties in favour of anti-establishment forces on the far right and left of the political spectrum. Its three traditional main parties - Labour, Christian Democrats, and Freedom and Democracy - have seen their combined share of the vote slide from 86% in 1986 to a projected 40% this year.⁵ According to forecasts, the seat total for the current Prime Minister's Freedom and Democracy Party will drop from 41 to 24-28, while for its coalition partner, the Labour Party, it could plunge from 38 to 11-13.⁶ In contrast, the far-right Freedom Party's seat total could jump from its current 12 to 21-25.

Germany is another country where support for mainstream parties has plummeted. The combined share of the vote of its two main parties - the Christian Democratic Union and the Social Democratic Party - has fallen from 90% in the late 1970s to just over 60% today. As for Europe as a whole, the share of the vote received by the winning party has decreased from an average of 37% in the early 1980s to only 31% today.⁷

² "2017 Might Not Be Europe's 'Year of the Populist' After All," Time Magazine, March 2, 2017

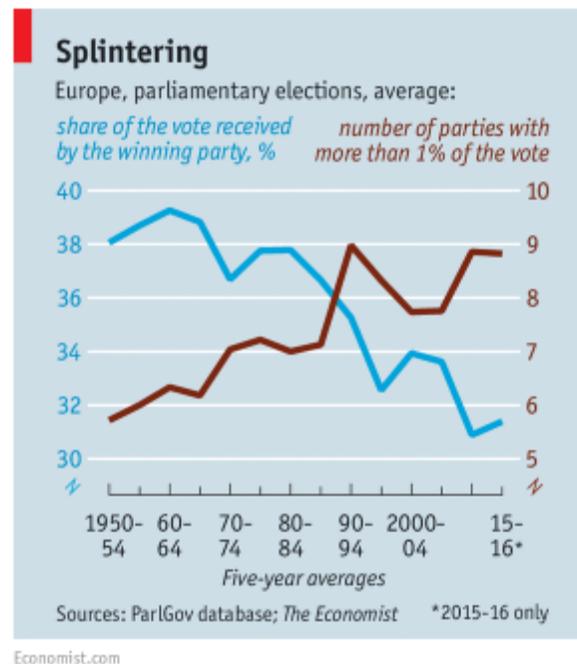
³ "Rutte Closes Gap with Populist Wilders in Dutch Election Poll," Bloomberg, February 28, 2017

⁴ "The Netherlands' election is this year's first test for Europe's populists," The Economist, February 11, 2017

⁵ "Dutch parliamentary election: everything you need to know," The Guardian, March 2, 2017

⁶ "Dutch paradox - Voters head for far right amidst rising prosperity," Reuters, March 3, 2017

⁷ "Europeans are splitting their votes among ever more parties," The Economist, January 12, 2017



Source: “Europeans are splitting their votes among ever more parties,” The Economist, January 12, 2017

A fragmented political landscape makes it harder to form stable governing coalitions, as the following examples illustrate. First, in October, Spain’s Popular Party formed a minority government after ten months of political deadlock and two elections. Second, after the 2010 election, Belgians went a record 589 days without a government.

Several months of negotiations will likely be needed before a governing coalition emerges from the multitude of Dutch parties. The complexity of this task is highlighted by the following press quote. A coalition excluding the far-right Freedom Party may need “to accommodate up to a half dozen mainstream parties. This could make for shaky alliances involving pro-business conservatives; center-right Christians; centrist liberals; center-left Labour, now the junior governing party; or left-wing Socialists or Greens.”⁸

Conclusion

In summary, the geopolitical headwinds facing the Netherlands are indicative of the challenges facing many other EU/Eurozone countries. These include:

- The rise in popularity of anti-establishment parties
- An increase in anti-EU and anti-immigrant sentiment
- The splitting of the vote among ever more parties, which makes it increasingly difficult to form stable governing coalitions
- Mainstream parties being forced to take a harder line on immigration and the EU in an attempt not to lose further support. This makes it even harder for countries to find common ground on the types of reform needed to meet the EU/Eurozone’s many challenges.

The combined impact of these factors leaves the EU/Eurozone stuck between a rock and a hard place. Many experts feel the EU/Eurozone can overcome its challenges only through further integration. However, this line of thinking is at odds with the growing sentiment among the European electorate that further integration will only worsen matters. If the EU’s governing elites attempt to push further integration without democratic consent, they risk a political backlash of epic proportions. Indeed, pressure is already mounting for the repatriation of powers back to the states. The inability to solve this political conundrum is one of the main reasons that Europe’s major stock indices should continue to lag far behind their U.S. counterparts for the foreseeable future.

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⁸ “Splintering of Dutch Politics Augurs Instability After Election,” Voice of America, March 6, 2017

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