

'Go for growth' the watchword in Europe

Division between Germany and France now the main problem

by David Marsh

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'Go for growth' will be the watchword in Europe after elections gave anti-euro or anti-orthodox populist parties at least 30% of the seats in the parliamentary body representing the fragmented edifice of the 28-nation European Union (EU).

The rampage across Europe of radical parties opposed to the EU's stance on economic rigour and political and social integration was 'a shock, an earthquake', to use the much-repeated words of Manuel Valls, the French prime minister. The political as well as economic divide between Germany and France, now manifestly heading in different directions over Europe, is the continent's No. 1 problem.

Anti-integration parties topped the polls in France and Greece as well as the UK and Denmark (which are not part of the 18-member euro bloc). But there was some reassurance for pro-European parties as radical groups fared less well than expected in Italy and the Netherlands. New centre-left Italian Prime Minister Matteo Renzi won an unexpectedly high 41% of the vote, the highest proportion of any party in an Italian national election for 50 years. This was nearly double the score of ex-comic Beppe Grillo's anti-establishment Five Star, which came second.

Chancellor Angela Merkel confirmed her grip on the centre-ground of German politics, with her combined Christian Democratic Union grouping winning a comfortable victory. However, Germany's anti-euro AfD party won parliamentary representation for the first time with 7% of the votes.

Although the practical effects of the vote remain limited for the time being, the EU-wide election results declared on Sunday evening will drive orthodox financial policies further off course. In austerity-hit Europe, the outcome will complicate, but not hold up completely, the continent's ambitious project of linking up different countries into a banking union.

The need to restore growth to drive down unemployment is the one policy uniting both the establishment parties, who lost ground because of low growth, and the radicals, who gained seats because of their promise to restore it. However, Europe lacks the money for large-scale spending programmes. The result will sharpen the argument between creditor and debtor countries about who is responsible and who should pay the bill.

The polling outcome is likely to have at least one salutary effect by damping upward pressure on the euro, which at recent highs around \$1.38 has been far too strong on the foreign exchanges. This has been compounding the euro area's problem of too-low inflation, and damaging growth by harming export prospects.

The backlash against mainstream parties may have mainly psychological repercussions on financial markets, similar to those surrounding the planned further European Central Bank (ECB) cut on 5 June to its main lending rate. This will include negative interest rates for bank deposits at the ECB – the first time a major central bank has launched a move in this direction.

Despite the setback to establishment parties, pro-European politicians in the 751-seat European legislature remain firmly in the majority. The results will take months to feed through to the workings of the parliament and the European Commission, which will be re-established with new members in late autumn. Many of the smaller, disparate left- and right-wing parties that swept to victory in polling across Europe are disgruntled novices whose members will find cooperation highly difficult.

Jean-Claude Juncker, the former Luxembourg prime minister, who led the campaign for the conservative EPP grouping in the parliament, and is a candidate to head the Commission, insisted the majority of people had voted to be part of Europe. 'The extreme right, contrary to what some of the media has said, did not win this election,' he said. Britain and other countries have launched a bid to ensure Juncker – as a representative of Europe's 'old guard' – does not get the job, and a candidate from another small country seems the most likely to take over as Commission president.

The EPP caucus looks set to win 213 seats, down from 274, but enough to remain the largest group. Supporters of European integration will be comforted by the relatively high turnout among the 400m eligible voters, narrowly up from 2009, at 43.1%.