

MACROCOSM

Europe's Fake Quake

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It's all over but the shouting -- because that's all that happens in the EU Parliament.

We urge clients not to be intimidated by the heated characterizations of this weekend's [elections for the European Union Parliament](#), which would seem to point to the imminent demise of the EU and the euro currency. "[Earthquake](#)" is the most often-heard term, but our favorite is [The Sun of London's "Up yEURs"](#). Remember, of the 18 countries that use the euro currency, only one speaks English. So in the US we get our news from London, from reporters native to the EU member nation most skeptical of European integration, so much so that it doesn't even use the euro currency. The EU news from London will always be bad.

- *We don't believe the elections point to the end of European integration, nor the breakup of the euro currency, nor the end of pro-growth reform in peripheral Europe.*
- *If anything, they point to voter frustration in the nations that have experienced the least reform in Europe's debt, banking and currency crises -- France and the UK.*

The first reality that must be grasped here is that none of this really matters. The election makes little difference to the composition of the EU Parliament, and the EU Parliament makes little difference to Europe.

- In the current EU Parliament, elected in 2009, far-left and far-right parties controlled 20.4% of seats.
- Now, the far-left and the far-right combined control 33.2%.
- Between them, they don't come close to securing a majority. And the two biggest winning blocs in the election -- the UK's United Kingdom Independence Party (UKIP) and France's *Front National* (FN) -- have refused to work together. It is hard to see how these parties will be able to do anything more effective than shout a lot, which has been the main tactic of UKIP's front-man Nigel Farage since first entering the EU Parliament.
- And the EU Parliament does not really do anything, anyway. Generally, it has always been a democratic rubber-stamp on decisions taken elsewhere. While its role has expanded in recent years, it still has little real power. In a nutshell, UKIP, FN *et al.* are in a powerless position in a powerless parliament.

Update to strategic view

EUROPE MACRO, EUROPE EQUITIES, FX:

Equity and fixed income markets across Europe were correct to respond positively to European Union Parliament elections results that, on the face of it, put the future of the EU and the euro currency at risk. The reality is that these were low-turnout protest elections that leave anti-EU parties an uncoordinated minority in a body with no real powers. If anything, the elections send a pro-reform signal to politicians in the stagnant nations of France and the UK. In Italy, the Netherlands and Germany, pro-Europe pro-growth parties were victorious. We reiterate our positive outlook on peripheral Europe and on Germany.

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- Thus this was largely a protest election in which voters could harmlessly vent their frustrations knowing that the results would be only symbolic. Such gestures attract only the most committed protestors -- only 43% of voters turned out.

The second key reality here is that the election's results were quite diverse across nations. Surges by anti-Europe parties in the UK and France suggest that voters are not so much frustrated by so-called austerity, but by stagnation. The results were very different both in nations which came into the recent crisis fiscally sound, or are now inspired by the possibility of returning to growth.

- [In Italy](#), the vote was a ringing win for new pro-Europe prime minister Matteo Renzi (see "[Renzinomics Renaissance](#)" February 20, 2014). Having been appointed prime minister without an election, his *Partito Democratico's* 40.8% vote share -- more than that of the next two parties combined -- is a mandate for Renzi's pro-growth reform agenda.
- [In the Netherlands](#), after [virtually declaring victory last week](#), Geert Wilders' far-right anti-Muslim *Partij voor de Vrijheid* drew only a 13.2% vote share, down from 17.0% in the previous election five years ago.
- [In Germany](#), the anti-euro *Alternative für Deutschland* pulled a 7% vote share. But Angela Merkel's *Christlich Demokratische/Christlich-Soziale Union* secured a comfortable victory with a 35.3% vote share.
- [In Spain](#), the far-left *Podemos*, a party only three months old, drew an 8% vote share. The pro-Europe pro-growth *Partido Popular* of Prime Minister Mariano Rajoy came in first, with a 26.1% vote share. The victim of *Podemos'* win seems to be Rajoy's opposition *Partido Socialista Obrero Español*, whose leader [resigned yesterday](#).
- [In Greece](#), the anti-austerity (but pro-euro) SYRIZA came in first with a 26.6% vote share. But the two mainstream parties who govern in coalition together earned 30.8%.
- [In France](#) it's hard to know what to make of the first-place finish of the anti-euro *Front National* of Marine LePen, with a 25.0% vote share, up from only 6.3% five years ago. On the face of it, it's surely a protest against the very unpopular president François Hollande. But versus the election five years ago, Hollande's *Parti Socialiste* lost only 2.5% of vote share -- the biggest loser was *Europe Écologie*, the "greens," down 7.2%.
- [In the UK](#), the anti-Europe UKIP came in first with a 27.5% vote share. UKIP is unlikely to show as well in next year's general election, in which the vote is a winner-takes-all system rather than the proportional representation system used in EU elections. And in local elections, conducted at the same time, UKIP gained 163 council seats, but won a majority in none.
- In the aftermath, the opposition Labour and Liberal Democratic parties are [taking the brunt](#) of UKIP's win, having apparently failed to offer attractive alternatives to the present euro-skeptic

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Thomas Piketty
Financial Times
May 23, 2014

[Data problems with Capital in the 21st Century](#)
Chris Giles
Financial Times
May 23, 2014

[A Letter to the Fed Chief From the Babe](#)
Brian Costa
Wall Street Journal
May 22, 2013

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Conservative regime. Indeed, UKIP's win could point to [a Tory victory](#) next year.

- While that would have certain pro-business implications, it wouldn't fundamentally change the UK's already tenuous relationship with Europe. After all, Tory Prime Minister David Cameron promised a referendum on EU membership last year (see ["On Cameron's EU Speech"](#) January 23, 2013).

Bottom line

Equity and fixed income markets across Europe were correct to respond positively to European Union Parliament elections results that, on the face of it, put the future of the EU and the euro currency at risk. The reality is that these were low-turnout protest elections that leave anti-EU parties an uncoordinated minority in a body with no real powers. If anything, the elections send a pro-reform signal to politicians in the stagnant nations of France and the UK. In Italy, the Netherlands and Germany, pro-Europe pro-growth parties were victorious. We reiterate our positive outlook on peripheral Europe and on Germany. ▶