

## Political shock in Europe: a New Year assessment

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### And the volatile Russian component

Yesterday, *Economic Viewpoint* highlighted the risk scenario of the Great Depression 2019-21. If anything like that were to become reality the danger of political turmoil in one or more big West European nation would be seriously large. The purpose of today's *viewpoint* is to highlight this danger for three nations – France, Germany and the UK.

### KEY MESSAGES

- If yesterday's scenario-building in *Economic Viewpoint* is at all near the mark (a great depression in 1919-21) then we should worry about the potential for domestic political shock in Western Europe. Rad on! .

In **Germany** the big political news of late 2018 was the successful counter-coup of Chancellor Merkel within her CDU party as evidenced by the triumph of Annegret Kramp-Kamembauer (AKK) in the elections for party Chairman. Implicit CDU strategy is to pick up votes from centrist voters now supporting the SPD and Greens and counting on those gains offsetting losses to the right (whether the FDP or the AfD). This tactic of "cannibalism in the Centre" could well provoke an exit of the struggling SPD from Frau Merkel's Grand Coalition, possibly as soon as the aftermath of the European Parliament Elections at end-May 2019 (especially if the SPD perform badly). Latest opinion polls put support for the CDU/CSU at just below 30%, the Greens at almost 20%, the SPD and AfD at just below 15% each, the FDP and Far Left at just below 9% each. The exit of the SPD from the coalition would most likely trigger new Federal elections in Germany by late 2019, though there is the possibility of a long-lasting minority CDU government.

Deterioration in the global economic climate by then including Germany would most likely fan support at the far ends of the political spectrum, ostensibly for the AfD and the Left Party. But the Greens might try to gain from that tendency without alienating their centrist support – a tough balancing act. It is hard to see a stable centrist government emerging – which would involve at least a two-way coalition between the CDU and the Greens, and more fully also the SPD; for any party which joins the CDU in coalition realizes this is the kiss of death for its popularity, especially given CDU strategy of winning centrist support also on the left. So the potential shock for Germany is ongoing government, most likely by the CDU, with the center-ground overall losing support. If in addition, the bills for Merkel's European policies begin to become obvious to all – this could fan a shift to the Far Right in Germany and perhaps to the Far Left. To survive, the continuing minority CDU government would have to take increasing heed of the views on the Right.

The Brexit process will have an impact on German politics. An eventual no-deal exit would most likely represent (in German politics) a serious setback for euro-centrism – and be seen as a failure of Merkel policies. *Mittelstand* companies and

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indeed the Big Exporters could well shift to the anti-centrist parties, including the FDP. And that could bring new pressure for a change of direction (towards the right) within the CDU (and the overturning of AKK). The sago goes on!

Fast forward to potential UK political shock: let's take one scenario well within the main field of probabilistic vision

PM May loses the vote on her EU deal in the UK Parliament in the week of January 14. She returns within days (or weeks) with an "improved deal". In this it would become explicit that the "backstop" of the UK staying in the EU customs area if no comprehensive trade agreement consistent with no land border within Ireland is finalized by the end of the transition period (December 2020) would only apply for say a year or perhaps two years. Effectively the UK could give one-year notice of exiting the Withdrawal Agreement and going instead for a no-deal Brexit, which would start in 2022. In principle the UK government could spend the next three years preparing the country for trade with an EU frontier (whether in the context of a Canada plus deal or in the context of no deal). Those possibilities may be enough to get the EU deal through Parliament. In practice, so long as PM May or another quiet Remainer resides in 10 Downing Street, no one would seriously believe in effective negotiations taking place with a Canada plus outcome, unless in the interim the right assumes power in Germany. In this context and given the economic climate (of depression), a victory for the Far Left Labour Party could well become the mainstream scenario, as working-class nationalist support deserts the Conservative Party (in mass abstention).

Finally, take the French political outlook.

In some respects this is the most uncertain of all given the collapse of the conventional parties (the Socialists and the "Gaullists" that represented the triumph of President Macron. April 2022 is the date to watch – the time of the next Presidential and Parliamentary elections – but well before then the social and economic climate could feel the impact of probable outcomes then. The two round presidential election system in France can produce strange and abrupt outcomes – especially if the center is in disarray. And some political realists would claim that we have to fit in a Russian element – of using cyber-space tools to boost support for the extremes, whether on the Left or the Right. The allegation of such Russian interference has been made in respect of the revolution of the "yellow vests", which brings key support from both Far Right and Far Left, albeit that evidence remains thin at this point. (But those infamous BOTs which are Kremlin inspired could be unveiled at some point). It is well within the mainstream of possibilities that the run-off in the Presidential election will be between Far Left and Far Right candidates.

"The Putin question" is one input into the mix. That does not mean the huge question of "what follows the Putin regime", but the potential for Russian involvement in foreign political outcomes – in this case Western Europe. Those in a mood to despair point to President Trump's decision to withdraw US forces from Syria and the related suspicion that this may represent some hold of the Russian president over the US president – all a subject far beyond the present Viewpoint! – but certainly one which is the basis of geo-political foreboding.

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