

Spanish politics in 2015: uncharted waters

15 December 2014

Summary

Three years ago, the Spanish two-party political system looked comparatively stable. Now, and with three major electoral contests scheduled in the Spanish calendar for 2015, everything looks very different. At the heart of this is a dramatic collapse in the Spanish political mainstream, fuelling separatist campaigning in Catalonia and creating a gap filled by the Podemos party. This political fragmentation makes the prospect of a weak minority government in 2015 look like a very real possibility. Given that Spain has traded heavily with the EU, the Troika and the markets on the stability promised by the PP's sweeping electoral wins in 2011 and Spain's consequent ability to deliver structural and fiscal reform, 2015 now looks like a key year for Spanish sentiment.

Since the death of Franco and the transition to democracy, the Spanish political party system has been remarkably stable. No coalition government has ever been formed at the national level, and a voting system that is only semi-proportional has tended to squeeze smaller national parties. Despite a parliamentary system of government, political dynamics have been fairly presidential, and governments have alternated between the Spanish Socialist Workers' Party (PSOE) and the People's Party (PP) for the last three decades. Until three years ago, this two-party system looked safe. Three years on, Spanish politics has fragmented, and the rise of the Podemos ('We Can') party will be a major factor in 2015's governance outcomes. What it might mean requires a look at the underlying numbers and the kind of government they might produce.

The collapse

The 2011 Spanish general election repeated a familiar pattern from across the EU. Against the backdrop of the global financial crisis in the last general election in 2011, the incumbent PSOE received its worst ever result, and the PP a strong mandate from the centre-right to deliver an austerity-based response to the crisis. Two small national parties - the United Left (IU), and the centrist Union Progress and Democracy (UPyD) - gained ground, but they both won less than 7% of the vote. What happened next was less conventional, although again, now familiar enough across the EU. Although the PP's popularity began to fall fairly soon into the parliament with the implementation of an assertive austerity agenda, the PSOE, tainted by its perceived record in government, received no dividend from the resultant

public resentment. Rather, it was the smaller parties (including nationalists in Catalonia and the Basque country), free of the stigma of pre-2008 governance and promising something other than austerity in pursuit of Troika deficit targets, which found their positions strengthened. By the European elections of May 2014 this flight from the former mainstream of Spanish politics became starkly clear. The combined share of the vote for the two main parties dropped to 49%, from 82% in 2009. This result and the polling collapse that preceded it are the single largest haemorrhaging of a political mainstream in the EU outside of the decimated political landscape of the bailout state of Greece.

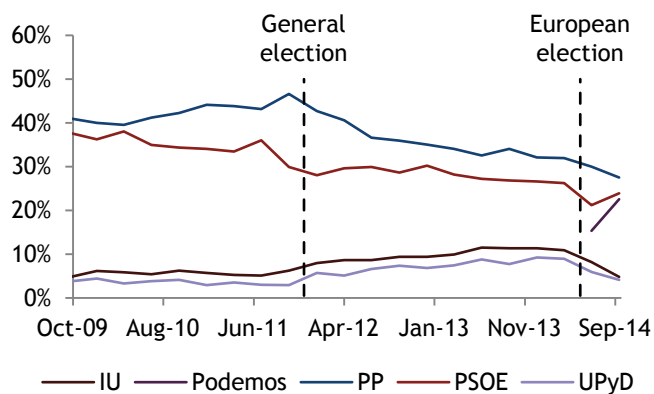


Fig 1: Party voting intention
Source: CIS

Political class (re)action

At the heart of this rejection of the Spanish pre-crisis mainstream is unquestionably the issue of corruption. A decade ago only 0.6% of Spaniards cited corruption as an issue for Spain. As a result of a number of political scandals in Spain's two large traditional parties, most notably the Bárcenas scandal in the PP in early 2013, it has now risen to more than 40%, and is perceived by voters as the country's second biggest problem after unemployment. It is this profound sense of a flawed and self-serving political 'caste' that Podemos leader Pablo Iglesias has capitalised on, dominating social media, to come from nowhere to win 1.25 million votes in the European elections in May. Three years ago the big implicit question in Spanish politics was where the political energy of the 'indignados' movement would be channelled. Podemos now seems to be the answer. In Catalonia this sentiment has been projected towards the Madrid-based political elites, and has been one of the drivers behind the rise of pro-independence sentiment, which has added an additional element of uncertainty to the Spanish political situation.

There are clearly parallels here with other political markets. Like Beppe Grillo in Italy, Jimmie Åkesson in Sweden and [Nigel Farage in the UK](#), Iglesias is a self-conscious and charismatic outsider, skilled at positioning himself as an alien to the elite political class. However, unlike Åkesson and Farage, but like the Five Star Movement, Podemos is entirely free of the identity-driven [populism making inroads north of the Pyrenees and in Northern Europe](#). Economically, Podemos has rapidly shed a lot of its more radical economic ideas in the wake of its showing in the May polls in order to look like a credible party of government. But it remains to the left of the PSOE, calling in May for a universal basic income, a retirement age of 60, and the default on Spain's elements of 'illegitimate debt'. These demands had by November been moderated to increased welfare benefits, a retirement age of 65, and a restructuring of the national debt, enough to earn the label of "ideological opportunist" from the spooked centre-left while remaining "Bolivarian populist" for the centre right.

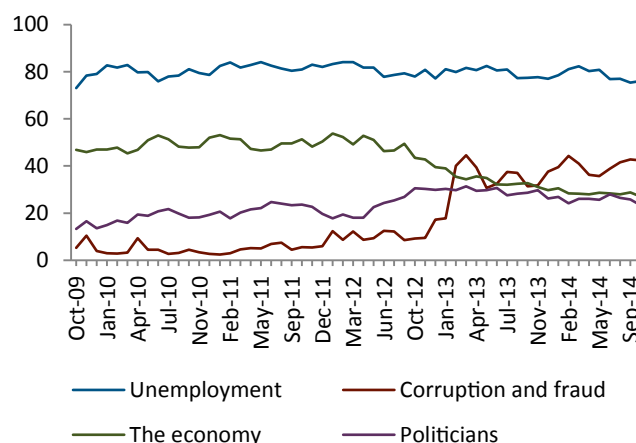


Fig 2: Top issues facing Spain (by % naming)
Source: CIS

The consequences

What happens next is obviously key. Even assuming that Podemos' popularity - currently between 22% and 30% of the vote - contracts in the heat of campaigning, the disillusion of which Podemos is the most important symptom has made it virtually impossible on current numbers for either of Spain's traditional parties to aspire to obtain a parliamentary majority, or anything close to it. Even by the more conservative estimates of a recent poll, Podemos could still take 59 seats in Spain's 350-seat Parliament, leaving the two major parties dividing up only enough remaining votes to deliver weak government.

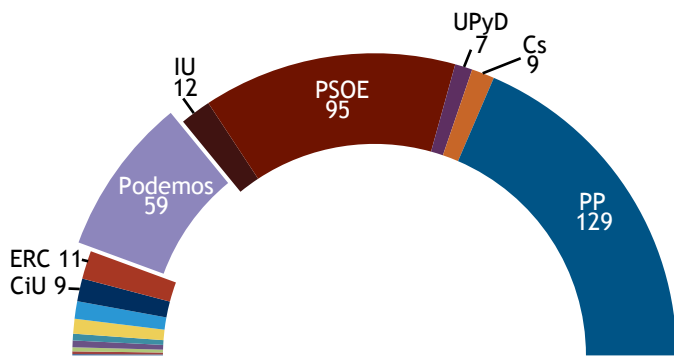


Fig 3: Projected parliamentary seats
Source: Celeste-Tel, November 2014

What this is unlikely to mean is a German or Dutch-style centrist coalition. Spain's institutional framework, such as the requirement for motions of no confidence to be constructive (i.e. they cannot simply bring down a government, but must also propose an alternative Prime Minister) militates in favour of minority government instead of formal coalitions. For the national elections late next year, two governing scenarios emerge as the most likely: a PP minority or a PSOE minority, hinging on not just on which party gets most seats, but on who Pedro Sánchez - the new young leader of the PSOE - decides to collaborate with. The PSOE has pledged not to make deals with 'populists' or the PP, but it will be forced to make that choice.

The PP at this stage look more likely to win a plurality and could in principle maintain a weak minority government, sustained by PSOE support (or at least acquiescence, via abstention) on budgets and key votes. This would be easier if Mariano Rajoy, who is very unpopular on the left, decided to make way for his deputy Soraya Sáenz de Santamaría to be the general election candidate prior to the campaign, and this will be an electoral calculation inside the PP to watch carefully, despite Rajoy recently confirming he will stand again in 2015. In this scenario the government would be likely to suffer legislative deadlock, and could face a hostile left-wing with enough votes to approve measures against the government's wishes. This could in principle go as far as repealing Rajoy's landmark 2012 labour reform, which the PSOE has made one of its key pledges and Podemos also advocates. Spanish oppositions have often been able to pass measures against the will of minority governments, but never on anything as significant as the Rajoy labour market reforms. Any such repeal would unquestionably have a serious impact on both market sentiment on Spain, but also Spanish credibility in Brussels and Berlin, with unpredictable consequences. Quite how a PP government would react to such a dramatic demonstration of its

impotence is also hard to predict.

An unlikely rapprochement between the PSOE and Podemos could see Sánchez become Prime Minister even if he came second, though he - learning from the experience of Francois Hollande in France - will probably see considerable risk in being sustained in government by a party of the far left, and Podemos would undoubtedly extract a high price, if it was willing to deal at all. Sánchez himself seems most minded to talk up minority government, and has praised the consensual politics it brings. If the PSOE were to win the most seats, he would likely come into power by securing the abstention of either the left or the right in the investiture vote for the Prime Minister. He would then be able to negotiate with different parties depending on the policy issue, and while the support of the PP would guarantee greater continuity from an external perspective, he will nevertheless be acutely aware of his own vulnerability on his left. So while a PSOE minority may be potentially be more stable, it would still inevitably result in important changes in domestic policy and a large measure of unpredictability. The PSOE has moved somewhat to the left under Pedro Sánchez, and has called for increasing the minimum wage, higher spending on education, restructuring the debt of families at risk of eviction, and raising taxes on large corporations, all of which he would be held to strongly by Podemos, and which Sanchez would be highly reluctant to trade away for PP support.

The inescapable conclusion is that 2015 will end the stability and apparent majority consensus of the Rajoy administration, which has become a political fiction in any case. Alongside the continuing uncertainty and tension hanging over the relationship between Madrid and Catalonia, the wider Spanish political landscape appears set for a significant shock. The first test for Podemos and the PSOE will be the May 2015 regional elections and the concurrent local elections. Podemos' result in these contests will be the strongest indicator of whether it can translate its current support into votes at the ballot box. It may come first in some regional authorities, such as Asturias, and hold the key to governing many others.

This will have important consequences particularly for public expenditure, as Spanish regions and local authorities control nearly half of total public spending. Rajoy's fiscal consolidation has been assisted by the PP's control of two-thirds of the regional governments and many of the largest cities. This will no longer be the case after May 2015, and the combination of parties on the left

could have a majority in many of these which will at the very least break the general commitment to austerity in principle, although the practical consequences are hard to predict.

Podemos' credibility as a party of outsiders could also be tarnished its choices, and it might lose many of its supporters at the general election simply by having cooperated with the PSOE at the local and regional level. But it will be most crucial to watch what the Socialists do with their newly elected local representatives. Their choices between collaborating with Podemos or the PP in key regional authorities and town halls will be the best indicator of the kind of national government we might expect come December 2015.

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