Dutch General Election: Populist Support Falls Short

March 2017

Introduction
On March 15, 2017, the people of the Netherlands voted in the country’s general election. While official results weren’t published until March 21, 2017, electoral committees released provisional results in the immediate aftermath, which were widely accepted by the Dutch public and ultimately mirrored the official results when announced.

The People’s Party for Freedom and Democracy ("VVD") remained the most popular political party, receiving 21% of the vote.¹ Despite the VVD’s number of parliamentary seats falling from 41 to 33 (of 150 available),² the VVD’s leader and the country’s current prime minister, Mark Rutte, is responsible for forming a new governing coalition.

This result represents a defeat for the Party for Freedom ("PVV"), a populist, anti-European Union ("EU"), anti-immigration party, which received 13% of the vote.³ While the PVV represents the second most popular political party, with its number of parliamentary seats increasing from 15 to 20,⁴ this is below the party’s historic peak in 2010 of 24 parliamentary seats, and only slightly above the parliamentary seat counts of the CDA and D66 (mainstream political parties that each have 19 parliamentary seats). The PVV’s defeat contrasts with pre-election polls that suggested that the PVV could potentially finish first. The significant voting gap between the VVD and PVV surprised political commentators and public markets alike, leading to a renewal of confidence in the EU and a modest rally in public equity markets and the euro.

Prior to the election, international observers were concerned that the results could lead to a change in the Dutch government, with the PVV as the leading political party in Parliament, and its leader, Geert Wilders, as the prime minister. While the former was possible, given the PVV’s popularity in pre-election polling, the latter was unlikely: Mr. Wilders lacked the broad political support necessary to coalesce the Netherlands’ fragmented political landscape.

Another key concern focused on the wider implications across Europe of a PVV victory. Many viewed the Dutch general election as a harbinger of European sentiment ahead of the French presidential election in April/May and the German parliamentary election in autumn. These elections could have more profound consequences on the European landscape, given France and Germany’s importance to the stability of the EU and the euro. Therefore, a PVV victory and the populist sentiment that it would have implied would have amplified near- and medium-term political and economic uncertainty across the eurozone.

While StepStone believes that the Dutch election result will help stabilize European private markets in the near-term, caution is recommended. Populist victories in France and Germany could exacerbate existing private markets risks in Europe, including constrained deal flow, asset pricing dislocations, a difficult exit environment and adverse operating performance of private companies.

The Dutch Political System
The Netherlands is a democracy based on a parliamentary system of representation. The Dutch Parliament consists of two chambers: the Senate and

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¹ De Kiesraad, 21 March 2017.
²³⁴ Ibid.
the House of Representatives. Dutch general elections occur every four years and are specific to the House of Representatives, which operates on the basis of proportional representation across a single, nationwide constituency.

The Dutch political system has historically been fragmented across several political parties, requiring governments to be formed on the basis of coalitions of political parties. This was the case prior to the 2017 general election, as no political party held more than 41 parliamentary seats (27%). In fact, the Netherlands has operated with parliamentary coalitions in each government since World War II. Therefore, Dutch prime ministers—the leader of the most popular party—have historically had less political influence than their American, British or German counterparts. For example, the Dutch prime minister cannot issue executive orders; instead, he must build consensus across a coalition of competing political parties with differing ideals and agendas.

**The Rise of the PVV**

Mr. Wilders founded the PVV in 2004, following his departure from the mainstream, center-right VVD, which, at the time, was part of a governing coalition. Mr. Wilders disagreed with the VVD’s openness towards Turkey’s possible accession to the EU, leading him to establish what has since grown into a formidable political party. Unusually, Mr. Wilders remains the party’s only official member; candidates running on the PVV’s ticket cannot join the party as it has no formal organization. As a result, the PVV is synonymous with Mr. Wilders himself.

Amid growing domestic angst towards immigration and general anti-establishment sentiment, the PVV has grown more popular in recent years. While these populist themes were relevant in the voting processes that resulted in Britain’s decision to leave the EU and the election of Donald Trump as president of the United States, Mr. Wilders and the PVV represent a more extreme ideology. Had Mr. Wilders assumed power, he would have sought to close all mosques in the Netherlands, eliminate immigration from Muslim countries, leave the EU and revert to the guilder—the euro’s Dutch predecessor. Mr. Wilders’ manifesto lacks comprehensive fiscal and monetary economic policies, and instead focuses on anti-immigration and identity politics to obtain support.

Though the PVV polled higher than any other political party ahead of the election, all major political parties previously ruled out coalescing with the PVV. As such, the likelihood of Mr. Wilders being given the flexibility to exercise his key campaign promises was always limited. Political commentators have also suggested that Mr. Wilders views himself as a political ideologue who has no intention of compromising his ideals within a coalition.

**What Happens Next?**

As a new coalition government is formed, the support for Mr. Wilders’ cause may still influence outcomes. For example, Mr. Rutte recently attempted to capitalize on anti-immigration sentiment by telling immigrants to “act normal or go away.” This statement represented a shift to the right for the VVD and may have played a part in the VVD’s success in the general election. However, the VVD has not shifted so far right as to compromise its ability to form a coalition.

The results indicate that a governing coalition will require at least four political parties, excluding the PVV. Mr. Rutte has already commenced discussions with the CDA and D66, both of which are pro-EU and likely to join the VVD’s coalition, potentially solidifying the Netherlands’ continued membership within the EU. As such, any governing coalition led by the VVD is not expected to seek “Nexit.”

**Impact on Private Markets**

Despite intensifying political uncertainty since the Brexit vote last June, supported by the U.S. presidential election result and the “no” vote in the Italian constitutional referendum, StepStone has observed limited effects on European private markets in recent months.

The fundraising environment closed 2016 on a buoyant note, supported by frothy demand across several large, established private markets managers. This year’s first quarter has experienced only a modest slowdown from

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5 Ibid.
these levels, which appears to be more a function of fundraising timelines than of caution ahead of upcoming political events. In only a few isolated cases has StepStone observed managers racing to raise funds ahead of events such as the French presidential election, and this has been primarily evident in France.

While new investment and exit activity has moderated to a degree during the last nine months, valuations and leverage availability remain high. This suggests that the weight of capital, a function of significant dry powder coupled with a period of very strong fundraising, continues to outweigh the near-term political uncertainty Europe will face during the balance of 2017.

**Conclusion**

The success of the VVD in the 2017 Dutch general election has momentarily assuaged the rise of euro sceptic, populist campaigns across the European continent, thereby serving as a stabilizing force in the EU. All eyes now shift to the upcoming French presidential and German parliamentary elections that have the potential to more dramatically change the European political landscape (see Figure 1).

In the case of the French presidential election, there is a legitimate concern that the populist and euro sceptic candidate, Marine Le Pen, could become president, which would imperil France’s EU membership. While a Le Pen victory is unlikely, it is possible; such an outcome would cause significant public and private markets stress.

In this context, StepStone continues to recommend that investors deploy capital cautiously and defensively when investing in Europe during the coming months, evaluating new opportunities on a case-by-case basis, and carefully incorporating the risks and opportunities that exist during this period of political and economic uncertainty.

**Figure 1. Relevant Political Events**

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