Czech government ousted as economy flounders

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The Czech government led by Prime Minister Mirek Topolanek (ODS) narrowly lost a vote of confidence in parliament on Tuesday, March 24. The government coalition consisting of the conservative Civic Democrats (ODS), Christian Democrats (KDU-CSL) and the Greens failed to win a majority in the vote and will be forced to step down.

The Czech prime minister currently holds the revolving chair of the EU and the toppling of his government represents a major embarrassment for the European Union. One Prague-based political scientist, Jiri Pehe, has already queried: "How can a government which has no support in the country be able to lead the European Union?"

The Czech Republic is one of a handful of European nations that have still not ratified the EU's Lisbon Treaty. The collapse of the Topolanek government is expected to strengthen the hand of the Czech President Vaclav Klaus, who is a bitter rival of Topolanek and a fierce opponent of the European Union.

The upper house of the Czech parliament is due to discuss the Lisbon Reform Treaty in April, and any rejection of the treaty by the Czech Republic would have enormous repercussions for the EU. Leading EU parliamentarians, including European Commission President José Manuel Barroso, appealed to Czech politicians not to exploit the crisis of the current government and support the treaty. The resignation of the Topolanek government is also regarded as a threat to another plank of Czech foreign policy—its agreement to allow the US to stage part of a controversial missile defence system on Czech soil.

The vote of confidence in the Czech parliament was introduced by the opposition Social Democrats (CSSD), who criticized the government's handling of the economic crisis and were able to rally 101 supporters for their motion in the 200-member parliament. Four votes in favor of the CSSD motion came from the government camp, including two former members of the ODS and two other MPs recently expelled from the Green Party.

The resignation of Topolanek and his government did not come as a great surprise. The ODS-led government has proceeded from one crisis and scandal to another since coming to power in 2006 and has already survived no less than four separate votes of confidence since taking power. In the latest reports in the Czech press, Klaus is credited as being the driving force behind the no-confidence vote against Topolanek.

Arguing for the no-confidence vote, CSSD leader Jiri Paroubek declared that the Czech government was "a disgrace" for the EU because it had so far failed to ratify the Lisbon treaty. Paroubek's main criticism, however, was directed at Topolanek's handling of the economy, claiming that the latter had "closed his eyes" to the impact of the global economic crisis.

Significantly, Paroubek did not openly criticise the cuts in social welfare, health care and pensions introduced by the Topolanek government. The Czech Republic was a pioneer in Eastern Europe for the break-up of the former state-run health system and the introduction of fees for patients. The Topolanek government has also undertaken major cuts to the country's pension scheme.

Paroubek's CSSD has its roots in the former Stalinist state ruling party of Czechoslovakia. The leaders of the CSD (predecessor of the social-democratic CSSD) played a key role in the introduction of free-market "shock therapy" in Czechoslovakia (later in the Czech Republic) after the collapse of Stalinism. The party also played a leading role in implementing the budget cuts necessary for the country's entry into the European Union.

It is therefore not surprising that the CSSD has little to say about the outgoing government's budgetary policy. The Topolanek government is in many respects merely continuing and intensifying a program of cuts and savings begun by the social democrats. At the same time Paroubek is aware that the defeat of the government also undermines the European Union. The pro-EU CSSD leader immediately made clear that he will only push for fresh elections after the Czech Republic's presidency of the EU expires.

It is now up to Czech President Vaclav Klaus to name a replacement administration or call new elections. Vaclav Klaus is a founder of the Civic Democratic Party but resigned at the end of 2008 claiming that Topolanek had strayed away from the neo-liberal aims of the party.

Crisis hits Czech industry

While Czech politicians, including Topolanek himself, have recently sought to distance the economic problems in the country from the crisis erupting in other Eastern European and Baltic countries, economic data tells another story.

While Baltic countries such as Estonia and Latvia have little in the way of domestic industry and relied heavily during the past two decades in opening up their countries as a haven for financial speculation, it is the industrial base and especially the country's reliance on exports that is increasingly proving to be the Achilles heel of the Czech economy as the international crisis deepens.

Exports constitute about 80 percent of the country's gross domestic product, according to the Czech central bank. Czech industrial output fell 23 percent in January as exports dried up. Especially hard hit are auto and truck production facilities.

Just a few months ago the central bank was predicting nearly 3 percent growth for the country, but in a recent interview the chairman of the central bank, Zdenek Tuma, predicted a 2 percent economic contraction for 2009.

According to one business research firm, such prognoses are in fact far too optimistic. A report by the company Capital Economics claims that all Eastern European countries are about to experience a "shock therapy" that at least matches the economic devastation that took place two decades ago following the collapse of Stalinism. Capital Economics expects industrial output to fall this year by 5 percent in the Czech Republic and Russia, 7.5 percent in Hungary and Romania, 10 percent in Estonia and Ukraine, and a staggering 15 percent in Latvia and Lithuania.

In all of these countries the slump in industrial production will result in new waves of dismissals and factory closures. Official unemployment in the Czech Republic has already risen to 12 percent. Commenting on the collapse of the Czech government, Neil Shearing from Capital Economics declared, "We're seeing the political backlash as this spreads into the labour market."

The toppling of the Czech government came just days after Ferenc Gyurcsany, Hungary's prime minister, tendered his resignation over his government's own handling of the financial crisis. Topolanek is the third head of an Eastern European state to be toppled in the wake of the rapidly deteriorating economic situation in the region.

Since the autumn of last year the crisis has already claimed the governments of Latvia, Iceland and Belgium, produced serious political tremors in Hungary, and led to major demonstrations or riots in a number of countries, including Bulgaria, Greece, Ireland and Lithuania. Last week France was rocked by a day of mass protests and demonstrations.

On March 23, the Austrian daily *Der Standard* commented on the resignation of the Hungarian prime minister and warned that the crisis threatened the fragile democracies in Eastern Europe: "It is high time democratic forces realised that this crisis is spreading from the financial world to the real economy and from there to the political scene. Some states are worse affected than others. Above all in the Eastern European transition countries the economic crisis could turn into a crisis of democracy."