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Czechia's iron trap

The Czech Republic's economic situation is difficult. Instead of relieving the frustrated people, the government is relying on reforms à la Thatcher

Next year will mark the twentieth anniversary of the accession of many Central and Eastern European states to the EU. And yet, recent economic developments have further postponed the realisation of its most tangible promise: to match their living standards with those in 'older' EU member states.

In many Central European countries, liberalisation and market integration have raised the prices for everyday goods and services to Western European levels – and some even higher (absurdly enough, many Czech citizens to cross into Germany to buy groceries, as the prices are cheaper across the border). But wages and purchasing power remain far too low. This is particularly due to the way the region's economy was transformed following the demise of state socialism. Lacking domestic capital, much was bought up by foreign investors that were attracted by tax reliefs and competitively low wages. Getting out of that structural pitfall is proving to be extremely difficult.

The case of the Czech Republic

For this reason, large segments of the population – including the upper middle class – continue to live precariously. In 2022, the effects of Russia's war on Ukraine has pushed inflation in the Czech Republic up to 20 per cent. Until now, inflation has yet to drop below 15 per cent, and for some basic necessities like food, it's even higher. Next to the war on Ukraine and the Covid-19 pandemic, large international concerns dominating the domestic market are also to blame — with grocery sales staying in the hands of just a few foreign supermarket chains. Government inaction is further exacerbating the issue. Its ideology of relying on – malfunctioning – market forces in such a situation has further aggravated the long-term structural problem of low purchasing power.

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The 'Minimum Decent Wage' instrument, evolving from the notion of a 'living wage', was published by an expert platform in April and demonstrates the problem quite well. In Czechia, financing a life including basics such as housing and food, as well as social and cultural participation and the possibility of saving currently requires around € 1 750 per month – with € 100 more for residents of the capital, Prague. But almost two-thirds of Czech jobs do *not* pay this level of salary, and since 2022, inflation has raised the number of underpaid jobs by half.

Large segments of the Czech population find themselves in quite critical social situations that call for state intervention and support. In a country where people rarely take to the streets, demonstrations – unfortunately often called by extremists, who combine legitimate demands with problematic ones – are becoming quite popular. In September 2022, for example, 80 000 people gathered in central Prague to protest against the high cost of energy – and to call on their government to stop aiding Ukraine.

Tightening the belt even further

The current Czech government – which in 2021 won over oligarch Andrej Babiš, who is mired in affairs – is following an extremely neoliberal approach, which progressives in other countries often overlook. The government has offered almost no relief or new forms of support for employees, who have mostly been additionally burdened.

On 11 May the government presented an enormous and very detailed package for consolidating public finance and reforming pensions. While the country's government debt is comparatively low, it is the fastest growing in Europe, which has led to widespread warnings that Czechia will end up like Greece. In addition to small increases in corporate and real estate taxes, the value-added tax will rise on many previously cheaper goods; numerous income tax deductions will be abolished, including those for trade union membership fees; workers will have to contribute to health insurance, reducing their net income; and the retirement age will rise – to name just a few projects. The narrative under which the reform was presented is also significant – to avert national bankruptcy as well as a complete collapse of the state there are *no alternative* to these steps. Everything possible is now being done to *explain* to the public that there is no alternative to these uncomfortable cuts.

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While we'll have to wait and see how the measures are finally implemented, the outcome seems obvious: employees will have to bear most of the national budget overhaul, with the government not considering any savings or interventions too insignificant or too dramatic with respect to how they will affect citizens. In fact, the package is viewed as inflationary because it depresses incomes and further raises prices.

It is also striking how Czech corporations, companies, people of means, large property owners and heirs – unlike the afflicted employees – are hardly involved in reducing the budget deficit — although *that* would be very easy because the relevant taxes are either very low or non-existent. For example, doubling the real estate tax would still only amount to two-digit annual contributions – even for apartments in the best neighbourhoods. But since there's no progressive taxation in Czechia, housing will become even more expensive, and wealthy people who own numerous apartments will not be properly taxed.

Aggravating an already explosive situation

Trade unions are now also taking a stand against the reform. On 15 May, all member unions of the ČMKOS confederation declared their readiness to strike, which could be followed by a general strike. However, this could prove to be a strategic mistake, as their demonstration against high prices in the autumn only attracted a few thousand participants – an ominous yet telling imbalance compared to the right-wing populist event a few weeks earlier. It remains to be seen how much pressure the current steps can unleash and whether they will harm the trade unions' position.

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This would aggravate the already explosive social and political situation, which, given the weak Social Democrats, will probably only benefit populists of various stripes. The parliamentary opposition is currently composed of just Babiš's ANO Party ('Action of Dissatisfied Citizens') and the far-right 'Freedom and Direct Democracy' party (SPD). At present, polls are showing that these two parties could create a governing majority together, while the parties currently in power

have already lost theirs.

But even this dangerous constellation is not deterring the government from its asocial course, despite having sworn to do the opposite after the election, when they claimed they knew that populism is fed by social problems and wanted to win back disappointed and angry Czechs. There is no sign of that now: the governing parties are too caught up in the logic of austerity, which has long become *passé* in other countries. The danger of losing power in favour of extreme forces in the next 2025 parliamentary election is thus becoming more and more real.

This risk should be acknowledged by progressive forces in Europe, where many governments are still elated about Prime Minister Petr Fiala's foreign policy performance and its pro-European, pro-Western stance. Domestically, however, the Czech government is emulating Margaret Thatcher's Great Britain of the 1980s. Given the Czech Republic's current fragile social situation, that is sure to have grave political consequences.



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