

## Why the Czechs did not sign up to the fiscal treaty

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The EU summit on the 30<sup>th</sup> January 2012 endorsed the treaty on stability, co-ordination and governance in the economic and monetary union, and produced one rather unexpected twist: the Prime Minister of the Czech Republic, Petr Nečas, refused to sign up to the treaty. This has left the country – at least for the time being – outside the fiscal compact, along with the UK. But, unlike the UK, which signalled its disagreement in December 2011, (after it used the threat of a veto as a bargaining tool to exempt the City of London from EU financial regulations) the Czech position is not based on substantive arguments. Regardless of the immediate consequences this will have, repercussions are likely both on the domestic scene as well as on the standing of the country within the Union.

Prime Minister Nečas defended his refusal to sign up to the treaty with three main arguments. First, he cited the complications of the ratification procedure. He recalled that his country is likely to hold a referendum on the issue, and that President Klaus signalled that he would not complete the ratification process. Both these arguments are flawed. In the Czech constitution there is no obligation to call a referendum when the country accedes to a treaty that transfers competences to the EU, unlike in other EU countries, such as Ireland. In fact, there is no general framework act on having a referendum, so Parliament would have to approve a constitutional act authorising it, as happened in the case of EU accession. The fact that Nečas is personally in favour of a referendum is rather awkward in itself: he represents the party that has been most consistently opposed to direct democracy as exercised through referenda. Thus, his call for a referendum is a relinquishment of responsibility to take a firm decision; in this case saying a resolute 'No'. Under current circumstances, it is unlikely that the Czechs would vote yes, because support for the euro, fiscal co-ordination or bailout packages for countries in dire financial straits is at a record low. And with no strong pro-European voice in Czech politics at the moment, this is unlikely to change.

As regards the negative attitude of President Klaus, this does not pose an insurmountable problem either. It is up to the government to start the ratification process, and since Klaus' term of office ends in February 2013, it would be possible for the Prime Minister to postpone the referral of the treaty to the Parliament to a later stage. Unlike the case of the Lisbon Treaty – the fiscal compact's entry into force is not dependent on Czech ratification, as it will enter into force after ratification by twelve eurozone countries, so a similar peer pressure on the Czech government cannot be expected this time.

The second main argument put forward by the Czech Prime Minister was that the fiscal compact brings absolutely nothing of value to the Czech Republic. Nečas somehow missed the fact that the treaty opens up the possibility for non-eurozone contracting parties to attend the Euro summits, although only when competitiveness, the architecture of the eurozone and implementation of the treaty are being discussed. One of his arguments was that he would not sign the pact if it didn't provide for

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fully-fledged participation in the Euro summits. But Nečas is not totally clear about what he meant by fully-fledged participation, as he admitted that he doesn't expect the Czech Republic to have full voting rights until it joins the euro. At the same time, even Nečas admits that the shape of the eurozone is of utmost importance for the Czech economy, as it is highly interconnected with that of the eurozone, especially Germany's economy. Logically, therefore, it would be in the interests of the premier to have a seat at the table when crucial economic issues are being discussed.

The third argument was that the Czech government does not need the fiscal treaty as it is planning to implement most of the envisaged fiscal consolidation measures domestically anyway. In fact, most of the measures in the new treaty are perfectly in line with the current economic policy of Prague. But the tricky thing for Nečas is that he does not have enough power to enshrine such a rule constitutionally, as he would need at least some votes from the opposition Social Democrats. But the latter are unlikely to support the government unless it signs up to the fiscal compact (which might also be a condition brought forward by his coalition partner, TOP09).<sup>1</sup> It is possible that fiscal discipline would be imposed in the form of a simple act of parliament, which on the one hand requires only a simple majority, but is also more likely to be overturned by future governments, especially if they are left-wing. Thus, being a signatory to the treaty might actually be advantageous if Nečas is serious about fiscal discipline, as it would not be possible for future governments to withdraw from such obligations, since international treaties ratified by parliament (or a referendum) take precedence over regular acts of parliament.

The question remains: what were the real motives of the Czech premier in refusing to join the pact? The reasons are difficult to discern, as probably only a few insiders know how Nečas arrived at this decision. The TOP09 leader Karel Schwarzenberg, who was on a tour of the Middle East at the time of the summit, described the premier's stance as damaging for the country. The Chairman of the European Committee in the Lower Chamber, Jan Bauer, representing Nečas' party, for his part found the outcome to be unexpected.

One set of possible explanations is to be found mainly in Czech domestic politics. The Prime Minister finds himself on shaky ground within his own conservative party (the Civic Democratic Party, or ODS), where the eurosceptic wing, backed strongly by President Klaus (the party's founder), is gaining ground as the debt crisis worsens. Given that Klaus is about to step down from the presidential post, but intends to stay active in politics, the question is whether he could make a comeback as the ODS party leader, possibly about to oust Nečas, or form an alternative eurosceptic party around him.

The other likely explanation is simply a lack of strategic thinking on the part of the Czech Prime Minister as to what the implications of the Czech abstention from the treaty could be for his country's position in the EU. He has consistently shown scepticism about the capacity of EU summits to produce a lasting solution to the debt crisis, clearly missing the point that current developments are largely about the future direction of European integration, and that a two-speed Europe is more likely to emerge than ever before, in which the Czech Republic might find itself in the outer circle.

Another explanation is also plausible: Nečas might be convinced that this treaty does indeed pave the way to some kind of political union. As a politician who believes the EU to be solely a single market project, he naturally has a problem in signing up to a pact that might eventually lead to some kind of European federation.

Finally, the fact that Nečas has not presented any arguments against the treaty suggests that his stance has to be considered as primarily an ideological one. It could be explained by an irrational and sentimental attachment to the UK Conservative Party, again dating back to early 1990s, which viewed the EU as a socialist, overregulated, French-dominated project, and the current premier's position is a symbolic re-affirmation of this strange alliance.

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<sup>1</sup> TOP 09 (unofficial abbreviation of Tradice Odpovědnost Prosperita 09, meaning "Tradition Responsibility Prosperity 09") is a fiscally conservative political party, led by Foreign Minister Karel Schwarzenberg, and noted for its support of the free market and the European Union.

In any case, Nečas's decision will have consequences both domestically and at the EU level. As stated above, the premier has already found himself in dispute with one coalition partner (TOP09), the opposition Social Democrats, but is also under the attack from much of the mainstream media and businesses. Apart from the fact that he has not presented any real arguments against the treaty, Nečas' critics claim that he is succumbing too much to the threat of a presidential veto before trying to negotiate a consensus in the governing coalition and discussing the issue in the Parliament (which was exactly what Nečas argued back in December 2011). Given that on most of the policy issues the ODS and TOP09 are barely distinguishable, their attitude towards Europe might be the point on which the voters will decide. And this might have negative consequences for the ODS, as – paradoxical as it may seem – its highly educated and well-off electorate is largely pro-European.

As for wider EU implications, the move is likely to reinforce the image of the Czechs as unpredictable troublemakers. Many European politicians, including Nicolas Sarkozy, are already asking why something that was acceptable in December is suddenly no longer possible. This follows on from earlier Czech moves in the EU, such as the fall of the government in the middle of the EU presidency with no convincing explanation, or the protracted over the ratification of the Lisbon Treaty.

Regardless of what the Czech abstention from the fiscal compact means in practical terms, the reputation of the country is likely to suffer further, as it is going to be perceived as a member that does not really know what it wants. The most unfortunate development, however, would be if the 'we' (the financially prudent, hard-working Czechs) and the 'they' (the undisciplined eurozone) scenario is exploited further by certain political forces internally, and translates into increasingly fervent euroscepticism among the population. At this point, the country could risk not only imaginary but real marginalisation within the Union.