

## Czech Politics 2019

### Key Questions for Business

#### **Will Mr. Babis exit 2019 stronger, or will his opponents gain ground?**

Politics is driving the country into two camps: pro-Babis and anti-Babis. Three factors will determine which camp gains the upper hand in 2019.

#### **Will the EU decide Mr. Babis has violated their new conflict-of-interest rules and withhold EU money from either Agrofert or from the country?**

Denying Agrofert subsidies would force Mr. Babis to choose between his business and his political position. Blocking EU subsidies from the Czech Republic would provoke a political crisis that could dwarf anything since the divorce of Czechia and Slovakia. At a time when the EU is dealing with Brexit, Italy, Hungary, Poland, and when its primary leaders are either departing the scene (Merkel) or facing severe problems at home (Macron), Brussels inclination to enter another conflict is likely to be low, but, given the publicity generate around the issue, may be unavoidable. The most probable outcome is for EU leaders and Mr. Babis to negotiate a solution. Given the leadership uncertainties in the EU and the intensity of the campaign against Mr. Babis at home, that outcome is far from certain.

#### **Can Mr. Babis' government succeed without controversy?**

Mr. Babis rose to power promising competence and assuring the public he knew what to do. He has had to replace a lot of ministers for not getting their jobs right. Some of the people around him are accused of the same ethical lapses as those they replaced. His time in government has coincided with one of the best economic periods in the country's history. The consequences of that success- salaries rising faster than productivity, rocketing housing prices, an overloaded transit system- now pose challenges for the government. Competence is expected of this government; his opponents will be eager to disrupt, and jump on any mistake.

#### **How will Prague and Brno be governed?**

The outposts to ANO rule are the coalitions in Prague and Brno. Both cities, and especially Prague, have been hard to govern: high expectations, dispersed power, and deeply entrenched special interests have brought down many reformers. The leadership of both coalitions are filled with many political newcomers. Both cities depend on good cooperation with national and regional governments mostly controlled by ANO.

The good news is that the personal animosities that governed politics seem less relevant now. The national government is not dominated by a conflict between coalition leaders. Mr. Kalousek and Mr. Babis still dislike each other openly, but this has less impact now than it did. With new faces come new relationships. If these relationships can be based on constructive debate and willingness to compromise, Czech politics could take a turn for the better.

## Brexit

### Key Questions for Business

#### What type of Brexit will there be? Will there be a Brexit at all?

Those two questions are the key to Europe's economy in 2019, and several years beyond. Great Britain is set to leave the EU at the end of March 2019. A deal has been negotiated, but does not have the votes to pass British parliament. Without a successful vote, the country faces an exit without any deal. That would be a harsh shock both in the UK and on the continent.

Politics in Britain seem riven between groups that desire no deal at all, but for different reasons. The anti-EU camp of the Conservative Party has pursued a full break with the EU for years, drove the campaign to leave, and now do not want their victory diluted by deal which would retain some features of membership. Those who opposed Brexit do not want a deal, because they want to stay in the Union. On top of this opposition is the desire to avoid supporting a deal to avoid blame. Politicians calculate it is better to vote no and argue for a better deal (which has little chance of happening).

The combination of these forces make a rejection of the proposed Brexit deal highly probable. This will likely happen before January 21. This would set off a desperate scramble. Some will argue for a hard Brexit: at the moment, this is the most probably consequence of a failed parliamentary vote. Others will argue for renegotiations, and an extension to finalize them; this option requires cooperation from the EU and the rest of its members, and is less likely. Finally, the British government could organize another referendum with three options: the May deal, a Hard Brexit, or no Brexit at all. The probability of this final option is rising fast.

The turmoil of Brexit began with the false promises of those arguing to leave the Union during the first referendum. The lack of concrete detail on what leaving the EU would require did not allow most Britains to calculate departure's effect on their life. They cast an emotional vote without being able to assess the practical consequences. Since the stakes are so high, and parliament is bound by the results of the first referendum, holding a second referendum seems a democratic solution. Put the three options before the voters and let them decide.

## US 2018 Mid-term Elections

### Key Questions for Business

#### What does the outcome mean for Donald Trump's re-election?

His chances are lower after the vote than before it, but the vote itself does not tell us much. The number of people voting (turnout) tends to be lower in mid-terms (non-presidential elections). In 2016, when the president was elected, 136.8 million people voted. In 2018, 116.5 million people voted. President Trump won the election by approximately 77,000 in three states. In each of those states, turnout was less this year than in 2016.

#### Why did the Democrats win the House?

Urban areas tend to vote Democratic. Rural areas mostly vote Republican. Suburbs are the battlefield. The Democrats won the battle this year. They are estimated to have gained 40 seats (although the results in one California districts is not official). According to CityLab, 27 of those seats are in either dense or sparse suburban areas. Six of those seats are in more urban areas. Three are in rural-suburban areas. None are in rural areas.

#### Why did the Republicans increase their hold on the Senate?

35 Senate seats were up for election. 26 of those seats were held by the Democrats: 10 of those 26 were in states won by President Trump in 2016. The Republicans defeated four Democratic incumbents in Trump-voting states (Florida, Missouri, South Dakota and Indiana), but a Democrat won a formerly Republican seat in Arizona and Nevada.

#### What does a split Congress mean?

The easy guess is deadlock on legislation. Expect both parties to use the situation to introduce campaign issues as legislation to force the other side to block it. The Senate will focus on judicial appointments. The House will focus on oversight of the Administration— we can anticipate a showdown over the President's tax returns.

#### What about a trade deal with Europe— and steel tariffs?

An EU-US trade treaty faces little opposition in either party; negotiations will likely move forward without delay. Democrats may try to remove or reduce the administration's ability to impose tariffs without Congressional consent, but would need the Senate to agree.

#### Does it matter whether Nancy Pelosi is Speaker?

Many Republican leaders retired (including Paul Ryan). If Pelosi is not voted as Speaker, the leadership on both sides of the aisle will be new. It would take time for both sides to figure out how to make the House work, and this disruption would give the Republicans an advantage because they control the White House and Senate. The more likely outcome is that Pelosi will be Speaker. She seems to want to prove Democrats can govern moderately. Expect her to rule by compromises, and introduce issues such as infrastructure and health care to the agenda.