Romania: new right-wing government slashes taxes, fuels social tensions

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"The modernisation of Romanian society starts today," declared Prime Minister Calin Popescu-Tariceanu in his first speech as head of government at the end of December. He also emphasised that his government will work closely with the European Union. The chairman of the National Liberal Party (PNL) had just been nominated head of government by the also newly elected president, Traian Besescu, who is the head of the Democratic Party (PD). The government that has come to power aims to work in close cooperation with the EU, with the goals of privatising industry, lowering taxes and decreasing social services.

The government, however, rests on a very shaky majority in parliament. At parliamentary elections at the end of November, the coalition of Tariceanu's National Liberals and Basescu's Democrats was not able to win enough votes. Only through repeated threats of new elections was Tariceanu able to pull two smaller parties over onto his side. Originally, the Party of the Hungarian Minority (UMDR) and the Humanitarian Party (PUR) had favoured a coalition with the Social Democrats (PSD), which had been in power up to that point.

However, even this four-party coalition is not enough for an absolute majority. As a result, the government is dependent on the support of the ultra-right Great Romania Party (PRM), whose leader, Vadim Tudor, a former officer of the notorious secret service Securitate under the Stalinist regime of Nicolae Ceausescu, openly espouses fascist positions. From the 27 votes that the government received from parties outside the coalition, apparently a considerable number came from the ultra-right PRM.

While governmental representatives tirelessly present their country as a "role model" and "exporter of security and stability," one can already see by the way the new government has been formed, and by its initial actions in office, that the coming future—which includes joining the European Union in 2007—will be dominated by great tensions and conflicts.

Tariceanu's 24-member cabinet is made up of largely unknown representatives of the country's thin upper-class layer. It is starkly opposed to the interests of the large majority of the Romanian population, more than one quarter of which live below the poverty level. Ten of the 24 cabinet members are owners of large enterprises. The catchphrases "government of the rich" and "government incorporated' are already making the rounds.

Prime Minister Tariceanu was minister of trade and industry from 1996 to 1997 and is considered a "successful businessman," with an estimated private wealth of about $15 million. Vice Prime Minister George Copos is the wealthiest minister, with an estimated wealth of $160 million. Defense Minister Theodor Atanasiu, Economics Minister Ioan Codrut Seres and others are also flaunting their successful enterprises.

The newly appointed government decided to dramatically lower taxes just a few hours after being sworn in. From January 1, there is now a flat 16 percent tax on all income. Until that point, the tax rate was 40 percent. The capital gains tax rate, formerly 25 percent, was also lowered to 16 percent. At the same time, social costs for employers were lowered by 10 percent.

With these moves, the Bucharest government is entering the race to reduce taxes, which is presently in full force in eastern Europe. Slovakia, Estonia and Hungary have all significantly lowered taxes for businesses—much to the joy of large Western companies. Compared to the countries that joined the European Union in May 2004, labour costs in Romania are a third lower (1.50 euros per hour), and the government now wants to prove that the country also has the lowest taxes on business.

The tax cuts will have an even more dramatic impact on the population. Even the International Monetary Fund, which sent a delegation to Bucharest at the end of January, expressed worries that an annual reduction in tax

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revenues of at least 30 billion lei (about 750 million euros) will lead in the long term to a budget deficit and drive up inflation.

According to the new government, the budget deficit is to be curbed by selling off state-run companies, doubling taxes on workers and consumers, and cutting subsidies to smaller companies.

Under these conditions, there will be nothing left to invest in the ailing public cultural, educational and social institutions. There are already signs that the minimal rise in pensions and social programmes for schoolchildren, begun by the preceding government, will be reversed. There has already been agreement not to increase salaries for public service employees.

The results of a similar process can already be seen in neighbouring Slovakia, where the introduction of a flat rate of tax of 19 percent has led to extremes of wealth redistribution. To reduce pressing deficit problems, the Slovakian government raised the value-added tax on consumer goods by 5 percent, precipitating a severe increase in the cost of living.

One of the criteria for Romania's membership in the EU in 2007 is a "speeding up of trade liberalisation" and giving up price restrictions, which will cause a new wave of price increases. In addition, the EU is demanding a decrease of "overcapacity" in the coal and steel industry. In these areas alone, there will be cuts of almost 50,000 jobs.

While the decrease of taxes and privatisation threaten to bankrupt the domestic social system, the Tariceanu government is increasing the militarisation of the country. In his inaugural speech the prime minister declared that, despite upcoming negotiations for membership in the European Union, the United States remained Romania's "privileged partner." The head of state emphasised that close links to the US, which had been started by his social democratic predecessors Iliescu and Nastase, will continue and intensify under the new leadership.

Romania has stood unconditionally on the side of the Bush government during the Iraq war. Despite the fact that, according to surveys, 71 percent of the Romanian population disapproved of the war, the US military retains an extensive military presence in the country. Romanian units are stationed in Iraq as well as in Afghanistan. Defence Minister Atanasiu has already declared an extension of the deployment of the country's soldiers in Iraq.

In return, American representatives have promised lucrative deals. Romanian industry is to deliver part of the equipment to the Iraqi army. In addition, there will be another $28 million in military aid to Romania. Representatives of the US military announced that its existing bases on the Black Sea coast will be expanded and more soldiers moved there. So far, 32 Romanian companies, mainly oil and gas, have already been involved in the exploitation of Iraq.

The US is influencing Romanian policies on all levels. It was recently made public that the head of the Romanian secret service SRI, Radu Timofte, received $150,000 from American sources last year. The first foreign trip of President Basescu, to visit British Prime Minister Tony Blair, was dominated by the issue of the Iraq war and revolved around the increase of Romanian troops that operate in Iraq under British leadership. Iraq will also be the main topic of conversation when the Romanian leadership visits the White House this month.

US interests, however, extend beyond current military deployments. This was clear following a recent meeting between US Defence Secretary Donald Rumsfeld with his Romanian colleague—"stability" in the Black Sea region is a matter of prime concern. The main point of their talks was the long-term securing of American influence in this area bordering Russia. As was made clear in the talks between Blair and Basescu, the goal is a closer relationship between Romania and Ukraine.

Romania's close working relationship with Washington has already led to conflicts with the European Union in the past. As the former EU commission president Romano Rodi put it two years ago: Romania cannot belong economically to Europe and militarily to the US.

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