

Albanian government introduces flat tax

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The government of Albania has agreed on a standard tax rate (flat tax) of 10 percent aimed at outdoing its East European rivals and attracting international investors. The government in Tirana is determined to transform the impoverished Balkan state into a haven for multinational companies and western speculators.

From the start of next year, corporate taxes will be reduced from 20 to just 10 percent. The basic rate of income tax, which amounted to 5 percent for average incomes and a maximum of 25 percent for top earners, had already been changed to a uniform rate of 10 percent for all incomes on August 1.

But even this is not enough. In August the head of government, Sali Berisha, announced that the state would make development land available to foreign investors for the symbolic price of one euro. Concessions for socially indispensable services such as health service, education, water and waste disposal, infrastructure, energy and raw material production - are also to be sold off bargain-basement style for one euro.

Should any potential investor be nevertheless deterred by any remaining tariffs, the Albanian government is also ready to step in. A law over foreign trade zones is in preparation and is due to be passed by parliament in October.

Government representatives repeatedly emphasise that the reform of the tax system is beneficial for the country. The participation of foreign investors in Albania would increase tax revenues, increase transparency, and provide an alternative to businesses, which operate outside of the country's legal framework and tax structure.

In fact, none of these claims are true. The halving of corporate taxes will inevitably lead to sizeable deficits in the national budget, which is already chronically under-financed due to high unemployment and wide-spread tax evasion. The state has already withdrawn financial participation in almost all public services such as health care, education, or infrastructure. Any further decline in the national budget can only worsen the situation.

The main victims of this reform will be those surviving on low incomes. The increase in taxes on low-income earners from 5 to 10 percent means that these taxpayers will finance the tax cuts for companies and high income earners. At the same time those on low wages will be hit hardest by the social consequences of declining tax receipts.

Sixteen years after the introduction of capitalist free-market reforms, the country already resembles an economic and social wasteland. The country's few profitable national industrial companies have been sold off to the highest bidder and any sort of welfare provision only exists on paper.

Official unemployment lies between 10 and 15 percent. This

statistic, however, is a gross underestimation because it only includes a tiny fraction of those who receive the small level of welfare provision paid to the most needy. If one computed unemployment according to the criteria used in Western Europe, the real total would be between 45 and 50 percent.

Many Albanians are forced to survive by working in the so-called informal or extra-legal sector, where they work "off the books" in construction, transportation, house-cleaning, street vending, and other jobs. According to estimates the total number of such workers is around 30 percent of the total workforce. At the same time, the number of emigrants seeking their luck abroad is rising. Monies sent to family members by Albanians working abroad currently exceeds the total receipts from Albanian exports.

Workers with an official job must live on poverty wages. A teacher earns an average 150 euros per month, a factory worker between 80 and 120 euros. A pensioner must survive on an average income of 50 euros, while steadily rising prices for goods and services are in many cases comparable with those in Western Europe. Already this month Prime Minister Sali Berisha announced a 57 percent increase in the price of electricity.

State institutions are hopelessly outdated and under-financed. A large proportion of the population is deprived of any adequate education and health care. Hospital treatment is possible in most cases only with the payment bribes and two years ago, Albania occupied the second to last place of all European states on the international corruption index.

Albanian agriculture is also in a dire condition and the agricultural reforms introduced at the beginning of the 1990s had devastating effects. In the 1980s agriculture's share of the gross domestic product amounted to approximately 40 percent. Today this proportion stands at less than 4 percent. People living in rural areas today are to a large extent dependent on self-sufficiency.

The tax policy of the government has attracted international companies seeking big returns through the exploitation of raw materials and a cheap labour force. The British MedOil company, as well as Steamoil Gas Limited, want to establish extensive sites for new oil drilling. According to official figures, unexplored Albanian reserves total around 1.8 billion barrels.

MedOil has secured the rights over oil fields for the next 20 years under a deal, which requires that just 10 percent of all profits made remain in the country. Other companies, such as the Canadian Bankers Petroleum or Occidental Petroleum, have already been operating for some years in the country. Western European enterprises, particularly from Germany and Austria, see huge potential in the Albanian building and banking sector and are increasing their investments.

As is the case in a number of other East European countries, Albania is governed by a small, corrupt clique, which emerged directly from the former Stalinist ruling bureaucracy and split up the country's state-owned property within its ranks. In the meantime this clique is characterised by bitter infighting and feuds over the spoils. This applies to both the Socialist Democratic Party (SP), which emerged in 1991 from the Stalinist state party, the Communist Party (PPSH), as well as to the Democratic Party led by the present head of government, Sali Berisha.

Berisha uniquely embodies the corrupt and depraved ruling elite of the country and the Albanian population has repeatedly suffered from his ruthlessness and from the consequences of his right-wing radical free-market policies.

Berisha was a high-ranking functionary of the state ruling party as well as personal physician of the Stalinist dictator, Enver Hoxha, who governed the country up to his death in 1985. In the course of the student unrest in 1990, which led to the collapse of the Stalinist regime, Berisha tried to appease the rebel students through discussions. It was at this point that Berisha, like so many other bureaucrats in Eastern Europe, rapidly developed into a passionate anti-communist and advocate of the free-market economy.

Berisha then founded the Democratic Party (PD) as a rival to the SP. Despite their bitter rivalry there is little difference between the two parties, which, in a series of alliances with several smaller parties, have dominated Albanian politics. Both advanced the process of political and economic "reforms" after 1991.

In 1992 Berisha replaced Ramiz Alia (SP) as President. Together with Prime Minister Alexander Meksi (PD), he began to bleed white what was already an economically and socially backward country. This process culminated in the middle of the 1990s, when Berisha supported dubious finance companies, which rerouted most of the savings of the population into their own bank vaults via so-called "pyramid funds." These high-risk funds, which became worthless virtually overnight at the beginning of 1997 and wiped out an estimated one and a half billion euros, had been praised by the government years before as a quick and sure path to wealth and prosperity.

When the finance bubble burst, people took to the streets across the country. Town halls were burned and military barracks attacked and plundered. In March 1997 Berisha imposed a state of emergency and accepted the resignation of the Meksi government. In the same year, he then lost office as president to Rexhep Meidani (SP). It was only possible for the ruling elite to finally quell the rebellions with the help of the Italian military.

Eight years later Berisha and the PD returned to power after the Socialist Party had completely discredited itself. The SP had faithfully followed the policies laid down by the International Monetary Fund and World Bank, which included denationalising the few profitable industrial enterprises in the country, and cutting social benefits and wages. The Social Democrats—like the Democrats—were intent on admission to NATO and the European Union, as well as opening up the country to international finance.

The last major spat between the two parties took place just a few weeks ago. At the end of July, Berisha's deputy in the PD, Bamir Topi, was elected by the parliament in the fifth ballot as the new

president. The vote in favour of Topi included six rebel SP delegates, who were promptly accused by the SP chairman Edi Rama, of allowing themselves to be compromised.

Berisha celebrated the electoral success of his candidate with the words, "It is a great victory for every Albanian citizen, who sees his future in the integration of Albania into NATO and the European Union." Congratulations also came from the neighbouring Kosovo, whose president Ratmit Sejdiu rated Topi's success as a clear signal for the independence of Kosovo—a move endorsed by the European Union.

Measures aimed at massive tax relief for business and the rich are not specific to Albania. It is the result of a vicious competition between states in both the East and West of Europe aimed at creating the best possible conditions for foreign speculators and the wealthy.

In the so-called "first round" in the 1990s, the Baltic states began to drastically lower company and income taxes, introducing tax rates of between 25 and 29 percent. These states—with the exception of some "Special Economic Zones"—suffered a loss of interest from foreign enterprises concerned that tax rates were still too high.

The "second round" of cuts was initiated by Russia in 2001. Serbia followed in 2003 with the introduction of a flat tax of 14 percent. In 2005 Ukraine, Slovakia, Georgia, and Romania followed suit.

The "new round" has now begun with tax reductions in the Czech Republic and Albania. Plans for further radical tax reductions are currently in discussion in Bulgaria, Croatia, and other states.



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