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THE FINAL LINK IN CENTRALIZATION: ABOLITION OF EXCISE
TAXES, AND ESTABLISHMENT OF THE COMMUNAL FUND (1903)
(Summary)

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The economic and financial crisis that hit Romania in 1899 raised concerns about structural issues within the public budget. The government turned its attention to the revenues of the 32 counties, 71 urban communes, and 2,911 rural communes, which represented 37% of public finances and relied heavily on revenue obtained from excise taxes. The solution chosen by the liberal cabinet of D. A. Sturdza was the Law of 1903: it abolished barriers around localities, facilitating free trade and commerce but centralized excise tax revenues into a Communal Fund under the control of the Ministry of Finance. From this fund, money was distributed to communes according to an algorithm. The algorithm underlying the Communal Fund penalized the communes in Moldova and Dobrogea, which had managed to establish a more efficient local system of revenue control and collection, while rewarding Oltenia and Muntenia, regions that had distinguished themselves before 1903 by their lack of fiscal imposition or widespread tax evasion.

This measure marked a crescendo in centralization. Even though local authorities were elected, they had no say in the most important aspects of local life: education, religious matters, public safety, and, through the 1903 law, not even over communal finances. The Minister of Finance presented taxpayers with a scenario in which there was an opposition between the “greedy”, “irresponsible”, or “chaotic” local administrations and the “rationality” and “balance” of the government, which would take charge of the money. This amounted to a denial of the capacity of local administrations to address citizens’ issues. It was an apology for the centralization of the state, highlighting the profile of the “paternalistic state” and a complete lack of trust in the value of local initiatives and the ability of local communities to self-administer. In the decade that followed (1904-1914), the government failed to increase the revenues of the Communal Fund, indicating a less impressive performance than the communes from which it had taken away revenues.

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