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## Directions of fiscal policy in Poland in 1919

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**Pawel Grata**

## **DIRECTIONS OF FISCAL POLICY IN POLAND IN 1919**

In the history of Polish fiscal policy, the first year of independence is called, not by accident, „a period of extraordinary revenue”. An attempt to analyse the tax policy that was implemented in that period constitutes a complex task for a few reasons. Frequent changes of persons in charge of the office of the Minister of Treasury along with an overwhelming dominance of current problems in the actually carried out fiscal agenda as well as a commonly noticed (and understandable in the circumstances) shortage of more serious aspirations to devise any fundamental systemic solutions in the sphere of taxation have resulted in a relatively modest conceptual component of issued statements on the subject by the creators of fiscal policy in Poland in that period. The multi-dimensional nature of the reconstruction of the regained, independent statehood was accompanied by difficulties that seemed almost impossible to overcome. Those difficulties impacted in a specific manner on the fiscal sphere of the economic agenda of government. Issues related to the unification of the existing tax systems that had been inherited from the partitioning powers came to the foreground. Apart from this, an equally important role was played by organisational factors (the weakness of the fiscal apparatus of the state was understandable in the circumstances). The political-economic condition of the state made it necessary to apply rules that resembled those typical of quasi-war economy.

In such circumstances, conceptual efforts that could be oriented at sketching at least an outline of the future shape of the Polish tax system by sheer necessity occupied the margin rather than the centre of attention paid to the fiscal problems by the animators of the Polish policy at that time. Both Franciszek Jossé and Władysław Byrka, who were only ranked as heads of governmental departments, and the subsequent mi-

nisters of treasury, that is Józef English, Stanisław Karpiński and Leon Biliński, not only did not manage to start implementing in due time any real measures to initiate systemic changes in the Polish fiscal policy but also they did not come up with too many public statements on that subject, either. The fatalistic conviction that it was necessary to maintain the existing regional regulations was only aggravated by the already mentioned rapid personal changes in the office responsible for fiscal policy. It almost undermined the feeling that any action that could produce improvement in this area made sense at all. All of the above listed politicians proved to be enslaved by the principle that was well captured by the words of Józef English, who – speaking in front of Sejm (lower chamber of the Polish Parliament) on 20 February in 1919 – emphasised the fact that „as fast as possible creation of new and effective sources of revenue in order to be able to foot the bill for the rapidly increasing expenditure of the state seemed much more urgent” (SSS z 20 II 1920: 78–79; Landau 2005: 21–27; Lubowicki 1927: 10–11).

Nevertheless, despite all of the reservations and debilitating circumstances, one may identify in the public statements made by the ministers some elements of their programmatic intentions and trace the practical action which, however, as a rule, was never implemented fully. The sheer awareness that at that time within the territory of the Polish state seven different tax systems co-existed truly blocked initiatives at „any rational tax policy”. Conversely, that awareness offered some comfort while some new solutions did start to be considered. Both Stanisław Karpiński, the author of the above quoted words, and his predecessor Józef English, clearly articulated the need to initiate a thorough tax reform. Its implementation was, however, in their view, dependent on many fundamental factors, such as, for instance the agrarian (land) reform or economic consolidation of the country (SSS z 20 II 1920: 80; 15 VII 1920: 7).

Generally, the tax policy implemented in 1919 concentrated – apart from the creation of the administrative-fiscal apparatus – on three parallel areas. The first area of the activities carried out by the Treasury involved temporary solutions that aimed at maximisation of the budget revenue. The instruments used in this area included strictly fiscal measures, such as increases in rates of the already existing taxes and introducing new levies, which were as a rule meant as extraordinary measures and calculated so as to supplement the continuously insufficient revenue of the Treasury (they included for example a one-off tax on real estate and capital, a property tax [*podatek majątkowy*] or a tax

on war gains). The specificity of the fiscal policy during the whole year of 1919 is best evidenced by the statement summarising it as the „period of extraordinary revenue” (this statement was already quoted at the beginning of the present paper; cf. DP 1919:11/128; 12/135; 27/245; Brzeziński 1921: 17; Taylor 1920: 91–94).

The aforementioned taxes proved to be the only legal changes introduced over that period in the Polish tax system. From the vantage point of the further evolution of this system, much more important were the plans and activities undertaken within the framework of two other areas of the Polish fiscal policy. The first of those fundamental problem areas involved the postulated final shape of the Polish tax regime, while the other – in fact inseparable from the former – was to be dominated by preparatory work carried out at the Ministry of Treasury since the spring of 1919 that was to result in the drafting of bills co-constituting the new system.

As much as it is difficult to identify any crystallised views on the taxation issues in the speech that Władysław Byrka made during the session of Rada Ministrów [the Cabinet] on 19 December in 1918 – even though the speech had a programmatic character in terms of the budgetary policy of the state – his successors relatively clearly indicated the future priorities of the tax policy. Basing on the assumptions of the classical doctrine and on the experiences of the developed countries of Western Europe, the subsequent Treasury ministers agreed in unison that income tax – as Józef English stated – „constitutes the most ideal version of taxation”, while direct levies – in the words of Leon Biliński – „should be the main source of the revenue because it is through direct taxes that taxation capacity is revealed” (AAN, *Protokoły...* 1918, t. 4: 657; SSS z 20 II 1920: 80; 3 X 1920: 22).

Stanisław Karpiński, who focused on current budget and currency problems, did not pay too much attention to the problematic of the future tax system. This was caused not so much by his lack of interest in these issues as by the awareness of the scale of difficulties that the Polish treasury system faced at that time. That was why he busied himself predominantly with the organisation and improvement of the effectiveness of fiscal administration as well as with preparations to harmonise the particular public levies. Only later did he respond to the critics of his reforms asking them rhetorically in his memoirs: „How could I flood the parliament with bills proposing new taxes when I was faced with so disorganized Ministry and its offices?” (Karpiński 1931: 219).

Despite the fact that he had expressed an opinion that at least a few years had to pass before the Polish fiscal system could achieve its normal effectiveness, Minister Karpiński did take the first important steps in the direction leading to the system unification. Waclaw Dzierzowski was then nominated a special purpose director at the Ministry of Treasury to deal specifically with the drafting of new tax bills – the most important of them was the bill regulating the income tax. In the summer, a bill regulating the inheritance tax (*podatek spadkowy*) was presented to the lower chamber of the Polish parliament, followed by draft statutes dealing with land tax (*podatek gruntowy*), industrial tax (*podatek przemysłowy*), mortgage tax (*podatek hipoteczny*), apartment tax (*podatek mieszkaniowy*) and income tax imposed on financial capital (*podatek dochodowy od kapitałów pieniężnych*) (SSS z 15 VII 1920: 7–9; Karpiński 1931: 218; Zieliński: 17–18).

Although none of those proposals was at that time granted the status of official legal regulation, they constituted the basis for further work that was continued under the new Minister, Leon Biliński. This Minister did not manage to persuade Sejm to adopt any important tax regulations, either. However, the fact that his Ministry was so active in this respect, especially as concerns the income tax, undoubtedly made it easier for the next Minister of Treasury, Władysław Grabski, to act. In 1920, Grabski finally succeeded in introducing first significant modifications in the tax system. The law regulating the income tax that was adopted on 16 July the same year, even made Leon Biliński – who was earlier personally involved in its preparation – express his pride and hope that the act „will be a jewel in the Polish legislation” (Biliński 1925: 271; DzU 1920: 82/550; Michalski 1924: 125–130; Ostrowski 1958: 74).

In the second half of 1919, an important breakthrough occurred in the way the future shape of the Polish tax system was perceived. This was caused by the fact that within the first few months of the Polish state’s existence, the constructors of the Polish Treasury realised what an enormous threat to the stability of the assumption that direct taxes were to play the dominant role in the Polish tax system was constituted by the actual economic reality. Namely, the practice of the budget economy indicated that the dominant role in the structure of the state revenue was played by indirect taxes – over the whole year (1919) they accounted for about 40% of all of the income derived from public levies, whereas direct taxes brought only around 30% of the total revenue. Those facts did not quite agree with the intentions that had been expressed regarding this issue (RS 1920/1922: 268–269; Rose 1922: 157).

This situation was not surprising, though. Both the assumptions adopted by Władysław Byrka at the end of December in 1918, and the draft of the budget preliminary for the first half of 1919 that had been prepared in the spring of 1919, had been based on absolute dominance of indirect taxes and monopolies in all revenues of the Treasury. Even if one does not take into account the ephemeral nature of the budget forecasts in 1919, those proportions must have clearly indicated that there existed an incongruence – reconfirmed by the pre-war reality when indirect taxes accounted for about 20% of the revenue derived from taxation – between the ambitious systemic assumptions and the real fiscal capacity of the Polish society in that period (AAN, *Protokoły...* 1918, t. 4; 857–858; *Projekt preliminarza...*: 9; Taylor 1929: 2, 5).

This was acknowledged most clearly by Minister Biliński, who in October of 1919 stated that in the post-war conditions „there was no way out but to resort to indirect taxes, taxes on consumption, that is taxes that are unfortunately a burden imposed on all, including the poorest strata of the population, and which – just because – bring great revenues”. The preservation of the principle that was as early as in February defined by Minister English in terms of an „only just principle: the more you have, the more you give” proved thus impossible. More and more attention was then focused in the tax debate on indirect forms of taxation that used to bring at least one third of the revenue in the Prussian partition and as much as one half of the revenue in the two remaining partitions (SSS z 20 II 1919: 80; 3 X 1919: 21–22).

In this manner indirect taxes became a most important instrument at the disposal of the tax policy makers while the question of their scope and inclusiveness as well as the preferred taxing procedure became one of the most important issues. Paradoxically, in the context of the aforementioned aspirations to base the tax policy on models advocated by the classical doctrine, the treasury monopolies were to become the ever more important element of the fiscal regime. In spite of the many reservations that both J. English and S. Karpiński expressed regarding this very form of collecting taxes on consumption and in spite of the many critical opinions that appeared in the press in that period, the monopolies, traditionally functioning in some regions of the Polish territory, gradually became more and more anchored in the then constructed system of taxation (Caro 1919: 51; Fromowicz 1920: 1–2; SSS z 16 VII 1919: 42, 52–53).

In congruence with a regulation issued on 12 November in 1918 by Franciszek Jossé, all of such entitlements of the state to public revenue

that already existed in the respective post-partition provinces were to be continued. They included: the tobacco monopoly, salt monopoly, saccharine, spirits (alcohol) monopoly, sugar monopoly and lottery monopoly. Furthermore, the fiscal practice tended to create still other monopolies. Already, in the aforementioned budget preliminary for the first half of 1919, in this sector of the budget there appeared the coal monopoly exemplifying the sequester entitlement of the state. The agenda of the next ministers just followed the suit, as if by inertia, resulting in the actual reinforcement and even expansion of the scope of the system of monopolies (MP 1918: 205/1–2; Projekt preliminarza... 1919: 9; Roszkowski 1982: 96–105).

Even the unwillingness that Stanisław Karpiński had articulated regarding the idea to introduce a rigid tobacco monopoly that would cover the whole country could not change the ever more visible tendency that was symbolically marked – in June of 1919 and despite the Minister's advice to the contrary – by Sejm's voting for a resolution that obliged the Cabinet to prepare an adequate tobacco bill. The positive experience that some of the top treasury officers coming from the Austrian partition had had with the monopolies combined with the practical considerations (they indicated the significance of the revenue derived from that type of taxation – in 1919 it accounted for 30% of the total revenue derived from public taxes) played some role in those developments (SSS z 18 VI 1919: 21–23; Karpiński 1931: 218–219; *Zestawienia...* 1922: tab. III).

Not mentioning the maintenance of fiscal competencies that were typical of occupying regimes, the Polish fiscal authorities clearly tended in this way to accomplish what was subsequently labeled by Professor Adam Krzyżanowski „unification based on ever more statist intervention”. An almost unconditioned approval expressed by all of the subsequent ministers of the enormously burdensome sugar monopoly (it provided the most significant share of the tax revenues), the fact that even S. Karpiński, who was against monopolies, did prepare a bill concerning the spirits monopoly as well as wide-ranging plans to expand the system of state monopolies that were presented by L. Biliński (oil, coal) meant not only that the authorities recognized the exigencies of the reality but were tantamount to their affirmation of that form of taxing consumption that was expedient and practical even though contrary to what was advocated by the doctrine (AAN, *Protokoły...* 1919, t. 7: 298–299; SSS z 18 VI 1919: 20; Krzyżanowski 1931: 458).

Even though the attempt to get support of the Parliament (Sejm Ustawodawczy) for the spirits monopoly failed – because the deputies were in favor of prohibition – and in spite of the fact that Minister Karpiński failed to draft the bill regulating the functioning of tobacco monopoly, the words of Leon Biliński, who favored such solutions, uttered on 3 October in 1919, when he was emphatically speaking about the European countries, claiming that „none of these states can manage without great monopolies”, determined in fact the direction in which the Polish tax system was further developed (SSS z 2 VII 1919: 4–23; 3 X 1919: 22).

This dominant tendency in the Polish tax policy was in a paradoxical manner reconfirmed by the agenda of the last of the Ministers of Treasury to be nominated in 1919, that is Władysław Grabski who became the head of the Ministry in the Cabinet of Leopold Skulski. As few others, Grabski had declared his intentions to base the fiscal system of the state on a more just income tax, that would seem an almost ideal instrument. On the other hand, when in charge of the Ministry, Grabski carried out a program aiming at the expansion of taxation based on monopolies. In this way, he contributed to the adoption of some legal acts that were particularly important from the vantage point of the construction of the domestic taxation system. He was the one to pilot in the parliament the bills that introduced a unified income tax, tax on inherited wealth and gifts, tax on bank deposits, on capital and interest as well as the bills that regulated the rates of the industrial tax and land tax in the particular post-partition provinces. He was also the one to consistently support the growth of fiscal statist interventions, which was exemplified by the adoption of the act regulating the lottery monopoly, passed in March of 1920, or by the drafting of bills regulating, respectively, the tobacco and sugar monopolies (Lubowicki 1927: 11–12; *Przyszła polityka...* 1919: 3).

What was implemented in practice by Władysław Grabski belongs, by chronological necessity, to the next period of development of tax policy in the independent Poland. Nevertheless, it might be assumed that for the considerable part this resulted from the budgetary practice during this first year of independence. Ambitious plans had to always be forsaken when faced with pragmatic decisions. The implemented solutions tended to be more related to the already functioning regulations – imposed by the partitioning or occupying authorities – than to long-term strategies. The implementation of the latter was really



not possible in the circumstances that dominated in 1919. However, what was done in practice, in reality determined the future shape of the Polish tax system even though it involved the preservation and reinforcement of the inherited models.

Because of the difficulties in practical implementation of any pre-planned fiscal policy, the dissonance between the policy assumptions derived from scientific doctrines and the policy's real life practicalities could hardly seem trivial. The future was to prove that the difficulties which had been noticed at the beginning of the independent Poland were to plague the tax policy of the state for many years to come. Even if we put aside the period in which the economy was pressed by inflation, the shape of the Polish tax system that finally emerged out of the reforms authored by Władysław Grabski in mid-1920s, as a matter of fact, was only slightly different – which is hard to believe – from the system with which the first Ministers of Treasury in the II Polish Republic had to deal with. The share of direct taxes in the budget revenue still oscillated around 30%, while indirect taxes accounted for around 40% in the structure of the budget's income. Those indicators were almost identical with the ones known from 1919 (RS 1927: 515). Therefore, it could be claimed that despite the formal failure, the agenda of the first Ministers of Treasury – quite unexpectedly – had proved to constitute an important step in the process during which a stable tax system was ultimately shaped in Poland. The necessity to strike a balance between lofty assumptions and the economic reality of the Polish territories – that they had noticed – turned out to form the foundation on which the whole future tax policy of the state was to be built.

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