

Paweł Grata

**THE TAX POLICY
OF THE WŁADYSŁAW GRABSKI'S CABINET
IN THE PERIOD 1923–1925**

The fiscal-monetary reform (*reforma skarbowo-walutowa*) undertaken by the extra-parliamentary cabinet of Władysław Grabski, which was established on the 19th of December in 1923, is recognized as one of the most momentous accomplishments of the II Republic of Poland. The stabilization and replacement of the Polish currency, which was implemented then, became even a symbol of success of the young statehood. The balancing of the state budget was a necessary condition to fulfill if the attempt at a general „sanation” (*sanacja*¹) of the state was to succeed. For this reason, most of the activities pursued by the new cabinet aimed at an effective, rational and efficient tax policy which would correspond to the budgetary requirements (notably, savings which could be gained just by cutting expenses might only play a minor role in the reducing of the budget deficit). Although the so called Grabski reform has been itself a frequent object of historical research, its tax dimension has remained, as a rule, at the background of research questions, related either to general political-economic circumstances of the „sanatory” reforms (*reformy sanacyjne*) or to

¹ *Sanacja* (Sanation) was a coalition political movement in the interbellum Second Polish Republic. It was created in 1926 by Józef Piłsudski as a broad movement to support the „moral sanation” („restoration to health”) of the Polish body politic before and after the May 1926 Coup d'État that brought Piłsudski to virtually dictatorial power. From then until 1939, Sanation was the dominant political force in Poland, largely controlling the government. Named after the Latin word for „healing” („sanatio”), the Sanation movement mainly comprised former military officers who were disgusted with the corruption in Polish politics. Sanation was a coalition of rightists, leftists and centrists whose main focus was the elimination of corruption and the minimization of inflation. Sanation appeared prior to the May 1926 Coup d'État and lasted until World War II but was never formalized (<http://en.wikipedia.org/wiki/Sanation/> – a note added by the translator.

a decidedly more popular reform of the Polish currency. The tax problem is, as a rule, included only as an additional aspect of the research – indelible but failing to attract much attention, which is best evidenced by the fact that it was analyzed most extensively neither in the literature dedicated to the reform nor literature devoted to Władysław Grabski, but rather in general analyses, such as the one authored by Z. Landau and J. Tomaszewski (Drozdowski 2002: 158; Landau, Tomaszewski 1971: 210–216; Sułkowska 1990: 105; Tomaszewski 1961: 49–53, 118–120).

In spite of the fact that the reform was finally implemented in 1924, its programmatic layout had been formulated by Władysław Grabski nearly a year before. When he was a minister of the treasury in W. Sikorski's cabinet, he prepared a draft bill whose goal was to improve the state of the Treasury of the Republic. The bill was read in the Sejm at the beginning of March in 1923. However, never passed by the Sejm, it was eventually withdrawn in October by the subsequent cabinet led by Witos. The bill contained already most of the resolutions implemented later, in the period between 1924 and 1925. Namely, there were included in the bill provisions concerning a fixed – defined in gold – indicator of tax rates, a proposal to introduce an extraordinary tax on property, a need was stressed to balance the budget and to rationalize economic strategies of state enterprises, alongside a postulate to endow the President with extraordinary powers to issue directives which would have the force of statutory laws (*Protokoły...* 1923, vol. 21: 732–740).

The tax proposals, which were presented in more detail during an exposé delivered by Grabski at a Sejm sitting on the 3rd of March in 1923, had been based on a postulate stating either a recovery of „all of the pre-war types of revenue or an increase in the yield from the existing sources of revenue until the pre-war level is reached” (*wszystkich źródeł dochodów przedwojennych, względnie podniesienie wydajności istniejących źródeł dochodów do normy przedwojennej*). The goal was planned to be accomplished by valorization and increase of tax rates – defined in gold, increasing the role of a tax on real estates which had been marginalized during the first years of the Polish state's independence as well as a pronounced growth of revenue derived from indirect taxes and state treasury monopolies. The property tax, which was later perceived as an embodiment of the fiscal reform, was only to complement the revenue of the state budget until a desired level of so called ordinary revenues of the Treasury had been reached (SSS, 3 III 1923: 29–33).

Further work on the reform was, however, considerably slowed down and then, because of Grabski's dismissal in June, stopped. Nonetheless, in May, the reformers still managed to have a law on the state industrial tax adopted by the Sejm and in June, after many months of a tug-of-war, they did have a bill on land tax (*podatek gruntowy*) passed. However, after Grabski had been dismissed, his programme became, in principle, only a point of reference for further discussions related to future reforms. Nevertheless, some of the elements included in his programme succeeded in being transformed into the state law. In the context of the future „sanation”, the most important proved to be the following laws: a law on the property tax, passed on the 11th of August and a law which stipulated a fixed unit to calculate taxes and credits, which was passed on the 6th of December 1923 (DzU 1923: 94/127; 127/1044; Lubowicki 1927: 61–62; Zieliński: 60–66).

The main fiscal objective of the cabinet, which had been formed in December, was thus to balance the state budget. The objective was to be reached by both a gradual increase in revenue from ordinary taxes and a better extraction of extraordinary revenues, which were particularly important during the first stage of the reform. The goals of the tax reform, as presented in Grabski's exposé were best reflected in the law on the remedy of the Treasury and on the reform of currency, passed on the 11th of January 1924. The law was crucial from the point of view of the ensuing reforms. *Inter alia*, it endowed the President with extraordinary powers, which had been postulated already in the programme of March 1923. This latter move was clearly tuned to activities planned by the government in the sphere of taxation (DzU 1924: 4/28; SSS, 20 XII 1923: 6–8). Generally, during the first stage of the reform, Grabski's cabinet's activities in the sphere of taxation were based on a bifurcated strategy. On the one hand, they took advantage of the law of the 11th January, which enabled legal changes affecting primarily the category of direct taxes. On the other hand, with regard to indirect taxes and monopolies of the Treasury, the changes involved an increase in the already existing taxation, which did not necessitate any extraordinary legal competences. It was, however, difficult at that time to speak of any marked priorities in the fiscal policy carried out by the cabinet, since the only clearly articulated objective of the government entailed in this context just an increase of revenue derived from all types of public taxation and not any pre-planned restructuring of the model of the revenue of the Treasury (Grabski 2003: 68–73).

The property tax certainly occupied an exceptional place in the tax policy during the first few months of 1924. It is not surprising bearing in mind that the tax was to contribute to an immediate and relatively quick increase in the level of the Treasury's revenue, which was to guarantee that the budget could be balanced. This goal was also to play an important role as a psychological factor in the implementation of the currency reform. Not incidentally, a directive concerning the collection of an additional installment on the property tax (*zaliczka na podatek majątkowy*) was one of the first legal acts issued by the President of the Polish Republic as early as the 15th of January. The directive speeded up the collection schedule of this extraordinary tax, basing on the law of the 11th of August 1923. The collection of this tax was crucial from the point of view of the success of the reform during its first stage. This is why a call to collect as many as 130 million francs in gold by the 26th of March 1924 was announced and the deadline for the next installment was set for June. Altogether, the authorities expected that as many as 180 million zloties (*złoty*), that is 60% of the amount estimated for the whole year, would have been collected in the first half of the year (DzU 1924: 5/38; *Przemówienie...*1924: 198; Tomaszewski 1961: 119).

Apart from the initiatives aiming at the faster collection of the property tax, the cabinet became involved in the preparation of legal acts which concerned the existing system of direct taxation in the country. Although a directive of the 17th of June 1924, which introduced a state tax imposed on real estates was the only genuinely novel legal act in this respect, the activities in which the fiscal authorities engaged – conceived with a view to bringing an increase in the volume of the revenue derived from direct taxes, did produce many important changes as well. On the 10th of January, the Sejm passed a law which increased the rate of the income tax (DzU 1924: 13/110). Later in the first half of 1924, by means of extraordinary powers, further important directives were announced, such as a directive which shortened the period during which taxes on capital and on interest were collected (29 January, 1924), a directive which increased tax rates (16 February, 1924), a directive which raised the cost of industrial certificates (12 April), a directive which increased the land tax (*podatek gruntowy*) (12 April) as well as a directive raising the level of taxation imposed on income derived from salaried labour (*praca najemna*) (12 April) (DzU 1924: 11/94; 16/151; 33/339, 340; 34/350; 51/523). Combining these solutions with the law which introduced a fixed unit

to calculate valorization of the taxes contributions (*świadczenia podatkowe*) and with a notable improvement in the efficiency of tax collection, the fiscal authorities managed within a few first months of the year to accomplish significant progress as far as the level and collection of direct taxes in Poland. This achievement was all the more impressive if we consider the fact that only in March of 1923, Grabski himself, then Minister of Treasury, doubted whether it would be possible to increase the revenue from those sources significantly, although he admitted that the government should aim at making a „big effort” (*forsowne wysiłki*) in the area of direct taxation (SSS z 3 III 1923: 32; Lubowicki 1927: 60–66).

Lesser attention paid during the first stage of the reform to indirect taxes and monopolies of the Treasury, was caused, as already mentioned, by the fact that a possibility to affect the level of revenue derived from direct taxation by means of directives issued by the executive authorities was much bigger. Additionally, this was also more tuned to Władysław Grabski's declarations, according to which a process to reach a desired level of revenue from other types of taxation was to be gradual. However, even in this area, conceptual work proceeded. The efforts concentrated not so much on those indirect taxes that had been, mostly, inherited from the partitioning authorities (with an exception of a new law on beer tax, adopted on the 12th of June 1924 and a law of the 1st of July 1925 which imposed tax on wine) as, rather, on a systematic expansion of state monopolies, which had been consistently promoted by Władysław Grabski since the beginning of the 1920s. The expanded system of the state monopolies was to become the most characteristic feature of the fiscal policy carried out by Grabski's cabinet. In congruence with the assumptions cherished by the reform's author, in the structure of the budget revenues the monopolies were to replace the property tax, introduced just for a three-year period. This is the reason why, within the framework of efforts to reorganize the tax system, the government was so intent on both expanding the already existing and establishing new enterprises which enjoyed a monopoly status. The new type of tax on consumption was explicitly reinforced by a series of legal acts. These were as follows: a new executive directive which complemented the law on public lottery, passed already in 1920, a law on the spirit (alcohol) monopoly of the 31st of July 1924, a presidential directive of the 30th of December 1924 which introduced a unified monopoly in the domain of salt commerce, a law on the matches monopoly (*monopol zapalczany*) of the 15th of July 1925. In

addition, financial means were guaranteed – generated by the so called Italian loan – to enable the Polish Tobacco Monopoly to buy out the private tobacco industry in Poland, which had been envisaged by a law passed already on the 1st of June 1922. It goes without saying that the expansion of the system of state monopolies was accompanied – similarly as in the case of the other taxes – by a considerable increase in the level of prices for the items included in the monopoly system (DzU 1920: 31/180; 1922: 47/409; 1924: 71/687; 117/1043; 1925: 83/561; 101/666; Grabski 1920: 29–30; PMT 47: bk; Podczarski 1926: 171–172).

In general, the taxation policy during the first stage – deemed most important for the success of the treasury-currency reform – was permeated by clear-cut fiscalism. Its sole, clearly expressed goal entailed ensuring that an adequate level of the budget revenue was reached. The following months of the government by the cabinet were plagued by ever more visible negative economic side-effects of the stabilization policy, a deepening industrial crisis and new currency problems. Those circumstances did not act in favour of abandoning the clear-cut fiscal bias. The few initiatives to decrease the fiscal burdening of citizens were, rather, a consequence of a necessity to review measures which had been introduced earlier but proved to be ineffective (*vide* a law of the 18th of July 1924 which lowered the rate of tax on the inheritance (*podatek spadkowy*) and donations or a law of the 18th of March 1925 which lowered the unreasonably high rates of the income tax). A gradual phasing out of the collection of coal tax in 1924, which was introduced to enforce lowering of unduly high commercial prices of coal, was an only instance of an initiative which did not follow the predominant fiscal logic (DzU 1924: 72/699; 85/821; 1925: 36/242; Grabski 1924: 22–23; *Sprawozdanie...* 1924: 17–18).

It is difficult to evaluate the effectiveness of the taxation policy carried out by Grabski's cabinet in an unequivocal manner. The basic criteria which have to be adopted in this case should include parameters such as a comparison with the preceding period, an assessment of a degree to which the planned level of the budget revenue was achieved and the level of success as regards the plan to balance the state budget. The comparison with the preceding year of 1923 speaks naturally to the advantage of the Grabski's cabinet, since the budget noted an increase of revenue by five times. However, because of an increased inflationary pressure, this point of reference seems actually of little validity. The fact that the level of revenue derived from taxes fell by nearly 20% in 1923 as compared to 1922, illustrates the point clearly (RMS 1924:

176). The results produced by the fiscal policy look relatively good in the context of the budget planned for 1924. In general, revenue from public taxes (*daniny publiczne*) and monopolies exceeded by nearly 12% the expected level. However, a more detailed analysis reveals serious fault-lines in the seemingly optimistic picture. The visibly higher, by several tens of percent higher than expected, were the revenues from indirect taxes, tolls, customs duties, treasury stamps (*opłaty stempłowe*) and monopolies of the Treasury, whereas the level of revenue expected from direct taxes was not attained. Out of the three main categories of direct taxes, only the industrial tax did not fail (it brought nearly 20% more revenue to the budget), whereas the income tax brought only half of the expected level of revenue. The level of revenue derived from the land tax (*podatek gruntowy*) was estimated at below 90%. A serious failure was also ultimately admitted as far as the collection of the property tax is concerned (60% of the planned level of revenue). In this particular case, evaluation needs to be done carefully, however, since the property tax actually indeed fulfilled its basic function during the first stage of the reform, which was most important from the vantage point of the plan to introduce new currency. This is evidenced by the 80% effectiveness of the collection of the second installment of the tax and nearly 75% of the planned revenue really collected as the first installment, as compared to only 30% of the level of the revenue derived from the second installment (DzU 1924: 76/747; Kauzik 30: 49, 59).

Because of the aforementioned problems and the deepening post-stabilization crisis, the initial goal, which entailed the balancing of the state budget, was not fully reached, either. Formally, the budget year was ended with a certain surplus of the revenue as compared to the expenditures. This was, however, accomplished only owing to an inclusion in the revenue of some extra-budgetary types of revenue, such as for instance state loans, incomes derived from the liquidation of the PKKP or from emission of coins. Those were, by definition, extraordinary and, in most cases, one time only sources of revenue for the state budget. (The real budget deficit was estimated at more than 300 million zloties.) This was rather alarming when there neared a period during which the collection of the property tax was to be phased out. In addition, the expiry in 1924 of the many extra-budgetary sources of revenue to complement the budget could certainly affect a general state of the treasury economy in the following year. Indeed, despite attempts to rescue the budget by an increased emission of coins,

the deficit reached then the level of 360 million zloties (Mieszalski 1931: 111–112).

Despite the fact that such negative side-effects of the initiatives undertaken within the framework of the new taxation policy countered the earlier expectations, it needs to be noticed that in 1924 a definite progress was, nevertheless, made on the way to secure the budget revenue at a level adequate to the budget expenditure. In 1925, a further growth of the revenue derived from public taxes was also recorded. Although the growth reached in general only 12% and was even minimally lower than the decrease in wholesale prices, which had been triggered by the falling value of the zloty, nonetheless the revenue had already been based on the collection of many more ordinary taxes whose total volume increased by nearly 1/4 as compared to 1924. The extraordinary property tax brought only 58 million zloties instead of the expected 300 million, which constituted 4% of the overall revenue. As a result, the plan to bring revenue to the budget was realized in only 91%. This fact impinged at the same time on an overall picture of the whole fiscal economy. This seemed to be the case especially that this time all of the major categories of the ordinary revenue exceeded the planned levels envisaged in the budget, whereas insignificant cases of underperformance were related to only a few of the sources of revenue (even the „black sheep” of the preceding period, that is the income tax, which was based on new principles, reached already more than 80% of the planned level of collection) (RMS 1924–1927: 74–75; *Zamknięcie...* 1924: 38, 82–83, 86–87; 1925: 30, 86–87, 92).

The progress, accomplished in terms of the volume of the revenue derived from taxation, resulted both from the initiated but still far from finished unification of the taxation system of the Polish Republic and from a systematic and ever more burdensome to society „tightening of the taxation screw” (*dociskanie śruby podatkowej*), which was evidenced by the 18–19% estimated share of the public taxes in the gross national product at the time. Although, the burden was still lesser than in more developed states of the West, if related to a universally acknowledged low level of individual wealth in Poland at the time, it was perceived as unduly big, especially that it was by several percent bigger than before the war (Lubowicki 1927: 22–23). The normalization of the tax policy was accompanied by some changes intended in the structure of the treasury revenue, which entailed an increase in revenue derived from direct taxes and monopolies associated with a notably decreased importance of indirect taxes. The

planned optimization of the revenue derived from direct taxes increased, in consequence, their share in the overall taxation revenue to 30% (in 1923 the share amounted to 21%, in 1924 – 24,6%), whereas the expansion of the system of monopolies resulted in the provision of more than 1/3 of the overall taxation revenue, which enabled a replacement of the property tax in the budget structure (RMS 1924: 178–179; 1927–1930: 74–75; the author’s own calculations).

Summing up the effects of the tax policy carried out by Grabski’s cabinet, a few basic issues need to be emphasized. First of all, the period during which the cabinet acted, was too short in comparison with the planned three-year period of the „sanation” policy to enable a full and objective evaluation of its fiscal measures. Bearing in mind the initially stated objectives, it could be stipulated that the policy failed. However, taking a long time perspective, involving several years, it might be claimed that the introduced measures enabled the balancing of the budget already in 1926 and contributed to the maintaining of the surplus until the end of the decade. A question must, nevertheless, be raised at this point which is related to an impact that an improved economic cycle (*koniunktura gospodarcza*) could have exercised on the better results of the budget economy. The answer to this question should, however, be interpreted in favour of Grabski’s government. Without the stabilization, accomplished by his cabinet, the economy would not have been able to function correctly, while the foundations of the tax policy, which was anchored in normal monetary conditions, created in the period of 1924–1925, enabled Władysław Grabski’s successors to implement a balanced budget economy (Mieszalski 1931: 112).

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