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# DIRECT TAXATION IN AUSTRIA

BY

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## INTRODUCTION

ENGLISH and American economic theory has been neglectful of the influences of the State upon the production and distribution of wealth. This neglect is largely due no doubt to the *laissez-faire* assumptions of the early Fathers. With the extraordinary growth of public functions, however, and the accompanying rise in public expenditures, the treatment of the problem of the production and distribution of wealth has become more realistic. More and more clearly has it been recognized that the State is itself an *entrepreneur*, and that, through its pricing policy and even more through its spending and taxing policy, it is creating a pattern of distribution far different from the one which would result from a *laissez-faire* régime.

As the rôle of the State has grown, so also has grown in intensity the struggle among the various social and economic classes for control of the revenue system. This struggle has not received due attention in the United States because of the comparative insignificance, until very recent times, of public expenditures, and the adequacy of traditional methods of raising the modest revenues involved. In European countries, however, public expenditures long since reached proportions that rendered revenue policies a matter of greatest concern to all classes. A further reason for this neglect is to be found in the differences between the American and the Continental party systems. In the United States we have but two parties, and they differ only in nuances. This is inevitable since they both cater to all and hence to the same classes. On the Continent each social class has its own party, whose changing political fortunes are clearly reflected in the financial policies of the government.

The purpose of this study is to show how closely the public finances reflect the changing political fortunes of the various classes in the State and how vitally they affect the production and distribution of wealth. Public expenditures and social legis-

lation have not been entirely neglected. Obviously a complete study should envisage the whole range of legislation and the entire revenue system. Nevertheless it reveals an important change that has taken place within a comparatively short time. This change is in the popular attitude toward government. In the public mind the traditional rôles of the State and the citizen have been reversed. No longer is it the citizen's duty to support the State. Rather it is the State's function to support its citizens, and to guarantee to all at least a tolerable standard of health, education, and general well-being.

As one examines the budgets of modern democratic States, one wonders where this hardy experiment will end. The opponents of democracy maintain that it will only end with the end of democracy. Yet the believers in democracy can find comfort in the knowledge that nondemocratic governments are not more economical. Italian Fascism and Russian Bolshevism have been accompanied by equally embarrassing budgetary experiences. Men have not yet worked out any effective guiding principles by which to forecast convincingly the results of new social measures. Governments still proceed by the trial and error method. The only limit is still that set by hard necessity. When taxes can be screwed no higher, the political leaders call a halt. The halt is usually called only after it has become apparent that the effort to overtax the wealthier classes in order to guarantee some arbitrary social standard to the less fortunate threatens the basis for a tolerable existence for all.

The rising trend of public expenditures is of course not new. In the pre-war period, however, it was accompanied by still more rapidly rising incomes. Moreover, the character of pre-war expenditures was less calculated to undermine individual responsibility, which in the last analysis is essential to the well-being of any social group. This change in the character of public expenditures is in no small degree the consequence of the war. The war revolutionized men's attitude towards life and their responsibilities for their own destinies. No one can understand the financial difficulties of the post-war period who fails to grasp this

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fact. This study of Austrian war and post-war finance may contribute to an understanding of this psychological revolution.

The materials for this study were largely gathered during 1922-23. The subject was suggested by Dr. Mises, of the University of Vienna, to whom I am also indebted for permission to use the excellent library of the Viennese Chamber of Commerce. There every facility was placed at my disposal. Anyone who has observed the red tape of certain European public and university libraries will realize the extent of my gratitude to the librarian and staff of this library. Finally, I wish to acknowledge my indebtedness to Professor John Whyte, of the College of the City of New York, for his patient and critical reading of an earlier draft out of which this book has finally emerged.

**DIRECT TAXATION  
IN AUSTRIA**

## CHAPTER I

### THE DIRECT TAX SYSTEM IN 1914

#### I. GENERAL CHARACTERISTICS

FOR some years prior to the World War the Austrian direct<sup>1</sup> tax system had consisted of a combination of produce and income taxes.

The produce taxes numbered seven in 1914. They were levied on the real or assumed incomes from land, from buildings, from incorporated and unincorporated businesses, from property rights not already reached by one or the other property taxes, and on salaries and *tantièmes* or directors' profits.<sup>2</sup> The system as a whole originated in France during the closing years of the eighteenth century, and spread rapidly over a large part of continental Europe. Though defective in many respects it was generally popular. Those in authority liked the system because it was reasonably productive, reasonably equitable, and very dependable. Taxpayers liked it because the payments were definite, certain, convenient, and levied without any undue prying into their private affairs.

It was this objectivity in the matter of assessment that constituted the distinguishing characteristic of the produce taxes. Assessment was against sources of revenue rather than against

<sup>1</sup> The term as used here does not coincide with the economist's use of the term, which hinges upon the debatable question of shifting. It is used in the administrative sense common on the continent. The most notable difference between the two uses is in the exclusion of the inheritance tax from the direct taxes in the administrative sense. Since administrative practice varies from country to country the technical meaning of the term in any given country can only be given by enumeration. Cf. Jèze, pp. 781, 782, 802. Also Bullock, *Direct and Indirect Taxes*.

<sup>2</sup> The names of the corresponding taxes are: 1. the land tax (*Grundsteuer*), 2. the buildings tax (*Gebäudesteuer*), 3. the corporation tax (*besondere Erwerbsteuer*), 4. the business tax (*allgemeine Erwerbsteuer*), 5. the tax on the interest (*Rentensteuer*), 6. the tax on salaries (*Besoldungsteuer*), and 7. the tax on *tantièmes* or directors' profits (*Tantièmeabgabe*).

individuals. The taxes constituted liens against property sources and not against the total wealth of the owner. Whether the owner was rich or poor, whether his property was loaded with debt or held unincumbered, was a matter of no concern to the assessors. Their concern was with the property itself and how much income it might be expected to yield year in and year out. Thus the income (*Ertrag*) was two degrees removed from net income from the owner's point of view. In the first place, it was not the income of the current year, or of the past year, or even an average of the preceding two or three years, but a sum supposed to represent what that property source and similarly situated ones might be expected to yield under average management and average conditions. In the second place there was no allowance for debt directly incurred in the acquisition of the property rights. It was net only in the sense that average expenses directly connected with the earning of the income were deductible. Here again it was not actual costs of production that were allowed, but only such expenses as might be expected under average management and average conditions. In a word, the income liable to a produce tax differed from real net income in its disregard of personal and seasonal variations and in its failure to allow for debt charges.

This characterization of the produce tax system shows that in certain respects it resembled our own general property tax. The similarities may be brought out by comparing the taxation of land income under the two systems. Under our general property tax a given plot of land must pay so many mills on the dollar of its assessed valuation. This valuation is not directly dependent on the net revenue derived from it during the past year, but rather on the revenue which an average owner may be expected to make from it over a series of years. The valuation is a social one and consequently only average capacity enters. The man of more than average ability, after paying the previous owner the capitalized value of the existing economic rent, is able to secure an additional return which represents a reward for this exceptional ability. Under the Austrian land tax average ability and long run results were specified in

the law itself, instead of being inherent in the economic processes of land valuation. Both methods were alike, therefore, in aiming, not at the actual and ever varying income of an immediately preceding period, but at an evened-out approximation to true income. Another important similarity was in the objectiveness of assessment procedures. In each case income sources and not individuals as such were aimed at. Thus it is difficult to harmonize progressive taxation with either system. The two taxes differed, however, in their treatment of future changes in land income. So far as these changes can be foreseen they are discounted in advance and enter into present land values. They are thus liable to taxation in advance of their realization under the general property tax, whereas, under the produce tax system, they remained untaxed until a general revision of the figures of land income occurred. But of this difference more will be said in the discussion of the Austrian land tax.

The income tax, which dates only from 1896, was very different from the produce taxes. It aimed at total faculty. Hence it regarded the multitude of personal elements which go into this determination: variations in productive capacity, indebtedness, family burdens, and even differences in types of income. The tax was assessed against individuals and against total net income from all sources. This assessment would obviously have been greatly simplified had it been possible to summate the incomes used as bases for the produce taxes, and to deduct from the resulting total the amount necessary to allow for indebtedness and the various personal elements affecting taxable ability. Such a procedure was impossible, however, because the several produce taxes aimed, not at real net income, but only at rough approximations. It was necessary, therefore, to have an entirely separate assessment. In Austria this assessment was undertaken by a different staff of assessors.

## 2. THE IMPERSONAL PRODUCE TAXES

In the preceding section the seven produce taxes were enumerated and briefly characterized. The oldest were those

levied on the assumed incomes from land and buildings—the land tax and the buildings tax. Together they are known as *Realsteuern*,<sup>1</sup> because of their exclusively objective character. In contrast to them are the five *Personalsteuern*. We have no good English equivalent for the first of these taxes, but in view of their oppositeness to the personal taxes, they may well be called impersonal taxes.<sup>2</sup> In the present section the development of the impersonal taxes is brought down to 1914.

#### a. *The Land Tax*

The Austrian land tax is a good example of the continental European method of taxing land income. It has the further distinction of being the first tax of its kind in modern Europe. It comes directly from the *Censimento Milanese*, which was introduced into the province of Milan (then Austrian) during the second and third quarters of the eighteenth century.<sup>3</sup> The Austrian land tax of 1812, and that of 1869 which is still valid in Austria and the Succession States, are its lineal descendants.<sup>4</sup>

The land tax of 1869 provided for (1) an accurate survey of all the lands of the Empire, (2) their classification, and (3) their assessment on the basis of the average net income of the lands of each class.

The survey called for by the law of 1869 merely involved the completion of one begun in 1812. Years had been spent in that survey, and the results are still embodied in the cadastres of the various Succession States. The triangulation system of survey was used with triangles of four sizes. The lines used in

<sup>1</sup> The business tax is classed as a *Realsteuer* in Prussia, as a *Personalsteuer* in Austria. Cf. Gruenwald, p. 41, n. 2.

<sup>2</sup> This is the way De Bordes translates the term in his recent book, *The Austrian Crown*.

<sup>3</sup> Wagner, p. 102. Professor Luigi Einaudi has informed the writer that it was an Italian invention.

<sup>4</sup> Unless otherwise indicated, the facts on the pre-war period are from Freiberger's *Handbuch der oesterreichischen direkten Steuern*, Steinitzer's *Die juengsten Reformen der veranlagten Steuern in Oesterreich*, Gruenwald's *Die Steuern Oesterreichs im Frieden und im Krieg*, or Konrad's *Handbuch des oesterreichischen Finanzverwaltungsrechtes*.



the largest triangles ran to a maximum of about twenty miles, while in the final network of small triangles the longest line did not exceed some two and one half miles. In this way a very large number of points were accurately determined and plainly bench-marked.

In each province these fixed points were next referred to a main meridian and a main perpendicular. The ground projection of the tower of the town hall in the provincial capital usually provided the intersection point for these two lines. Then on a map of appropriate scale the territory of the province was divided up in gridiron fashion into squares of approximately four and one half miles to a side. Each square in turn was subdivided into twenty rectangles. The rectangles received designations relative to their squares, and the squares relative to the main meridian and the main perpendicular. The area comprised in each rectangle was approximately 720 acres, or a little over a square mile. This area was then mapped out in detail on a scale of 1:2880.<sup>1</sup> First of all, the trigonometrically determined bench marks were entered. Then, relative to these bench marks, each and every plot of land was entered with exact dimensions, shape, and location. Boundary lines between plots were plainly marked. Exact metes and bounds were thus established. Once made, it is comparatively inexpensive and simple to keep such a cadastral survey up to date.<sup>2</sup>

The land classification was on the basis of type of cultivation and fertility. There were eight type classes and, within each of these, eight fertility classes. In 1896 provision was made for even more than eight fertility classes, wherever circumstances seemed to make it desirable. In general, then, there were sixty-four distinguishable classes.

After drawing up these ideal type-fertility classes, figures of average net income were determined for each class in each classification district. This work was done by local commissions

<sup>1</sup> For Vienna the scale was 1:720.

<sup>2</sup> The term "cadastre" is said to be derived from *capistratum* and is defined by Webster as "an official statement of the quantity and value of real estate for the purpose of apportioning the taxes payable on such property."<sup>2</sup>

composed in about equal proportions of state officials, local landowners appointed by the Finance Minister, and others locally elected. The large landowning interests predominated. The commissions worked out average net income figures for every class of land represented in their districts on the basis of price statistics. These statistics included average prices and average expenses of cultivation of a ten-year period between 1855 and 1869, after excluding the five years of highest prices. Average physical output per class, on the basis of the customary methods of cultivation in each locality, was calculated and then reduced to a money figure.

After selecting sample plots which were regarded as truly representative of the average net income figures for each class, the members of the commission broke into small committees of two or three, in order to examine and assign every plot of land in the district to its proper class. The recommendations of the committees were not final until they had been approved first by the local commission as a whole, then by a provincial commission, and finally by a central commission sitting in Vienna. The provincial commissions were to eliminate local inequalities; the central commission, provincial inequalities. Like the local commissions, these appeal commissions were composed of appointed and elected members. After their final approval or modification, as the case might be, the findings were recorded on the cadastral maps by a system of coloring and initialing. Thirteen years and about 60 million crowns (\$12,000,000) were required to complete this assessment work, despite the fact that the bulk of the surveying had been done earlier.

The table on page 9 shows the eight type classes authorized by the law of 1869; the average for all Austria of the cadastral net income figures for each class, as determined by the assessment begun in 1869; and in the last column the corresponding figures as corrected by the superficial revision of 1896, which is referred to later.

It is obvious that a considerable area did not come under any one of the eight type classes just enumerated. Such land was either entirely exempt or classed as *Parifikationsland* and taxed

## TYPE CLASSES AND CADASTRAL NET INCOMES, 1883 AND 1897

Type Class	Average Net Income per Joch (1.4 acre) in Crowns (1 Crown = \$0.20)	
	1883	1897
Crop land ( <i>Acker</i> ).....	11.08	10.14
Meadow ( <i>Wiesen</i> ).....	9.72	9.38
Market garden ( <i>Gaerten</i> ).....	20.16	19.58
Vineyard ( <i>Weingarten</i> ).....	18.82	15.34
Pasture ( <i>Hutweiden</i> ).....	1.66	1.56
Mountain pasture ( <i>Alpen</i> ).....	0.58	0.48
Forest ( <i>Waldungen</i> ).....	2.46	2.44
Lake, Swamp, Marsh ( <i>Seen, Suempfe, Teiche</i> ).....	4.46	4.72

as the immediately adjacent agricultural or forest land. Railroad rights of way, quarries, mines, and undeveloped building sites are examples of *Parifikationsland*. Unproductive land, public highways, squares, and burial grounds are examples of exempted land. The area occupied by a building, including the immediately attached courtyard, was exempted from the land tax, but not from the very much higher buildings tax.

The land tax was apportioned. That is to say, a lump sum was distributed over the provinces and townships according to cadastral net incomes, and assessed by local assessors (civil service appointees responsible to the Finance Minister) to the local landowners in proportion to the total of the cadastral net incomes of their holdings within the tax district. The state tax was fixed and unalterable until the next general revision of the cadastral figures. According to the law of 1869, such a revision was to be made in 1896 and every fifteen years thereafter. The tax for the first period (1881-96)<sup>1</sup> was fixed at 75 million crowns.

The total cadastral annual land income of Austria, according to the assessment of 1869, was 329.9 million crowns. The nominal rate, therefore, was 22.7 per cent. This was the rate of the state tax alone. The additions, which the provinces and the townships levied on the same base, amounted to about as much again. The total burden, therefore, was about 50 per cent of cadastral net income. The real burden, however, was very

<sup>1</sup> The figures arrived at in 1881 were regarded as provisional pending the final review, which was completed two years later.

much less than this, perhaps closer to 15 per cent of real land income.<sup>1</sup>

Almost coincident with the establishment of these cadastral figures in 1882, Austrian agriculture entered upon a long period of depression due to declining prices and increasing American competition. As a result the real burden of the land tax tended to increase.

As the revision year (1896) approached, therefore, the agrarian interests mobilized their forces to secure tax relief. They succeeded in abundant measure. In the first place, and even in advance of the revision of the figures of cadastral net income, they secured a continuation of the principle of apportionment and a reduction of the state tax by 5 million crowns. In the second place, they forced the substitution of a superficial reestimate for the scientific revaluation provided by the law of 1869. In effect the 5 million crown reduction in the tax was used to correct a few of the more glaring inequalities which time had revealed. The change in average figures has already been given.<sup>2</sup> The nominal tax rate remained the same since the total cadastral net income figures were reduced proportionately—to 307 million crowns. A third success of the agrarian interests was in connection with the general income tax law which was enacted in this same year, 1896, and which is described later.<sup>3</sup>

There were still other methods by which the agrarian interests secured tax relief. One effective way was through individual remissions between two general revision periods on account of damages from the elements. Prior to 1896 such claims had been granted sparingly, but after that year this door of relief was opened wider and wider by the addition of new causes of damages and by increased leniency of administration. By 1914 the list of causes included hail, floods, fire, insect and animal pests (*Mausefrass*), phylloxera, wet weather, frost, and spoilage of grain in stacks (*Getreidelagerung*). A landowner affected by any one of these risks could obtain relief proportionate

<sup>1</sup> Gruenwald, p. 151, n.

<sup>2</sup> See p. 9.

<sup>3</sup> See p. 27.

to the extent of the damages, which were determined by a formal valuation. Such damages naturally affected whole regions, so that an attempt to recoup the tax remission would have involved increased taxation of other sections and other races. In polyglot Austria the easy and the politically expedient thing was simply to let the State take the loss. This was done, with the result that the State's revenues from this source declined from 68 million crowns in 1898 to 52.2 million crowns in 1913. The real relief was even greater than these figures would indicate because of the rise in general prices after 1896, and the inauguration of high agricultural protection a few years later.

As a result of this laxity, the land tax not only declined in productiveness but became hopelessly unequal. The many landowners who had modernized their farming methods since 1880, and thus multiplied the productiveness of their lands, paid no more in taxes than those who clung to the antiquated methods current forty years earlier. Individual inequalities developed in time into territorial and racial inequalities, due to the lag of whole sections behind their more progressive neighbors. By 1914 these individual, territorial, and racial inequalities had destroyed the usefulness of the tax as a source of state revenue.

But with all its faults the tax still possessed some of the qualities of a good tax—namely, definiteness, certainty, convenience, and relative economy of collection. It lent itself admirably to the needs of the localities, and these, through higher and higher additions, gradually changed the character of the land tax from a predominantly state to a predominantly local tax.<sup>1</sup> Hence the territorial inequalities just referred to became progressively less important, since they applied only to the diminishing proportion of the state tax.

This tendency explains perhaps but does not justify the ever increasing liberality with which damages from the elements were recognized as valid claims for tax relief. Such damages had already been allowed for in calculating cadastral incomes.

<sup>1</sup> Between 1898 and 1912 the local additions to the direct taxes increased from 96.5 to 143.8 per cent of the state base (Gruenwald, p. 104, n. 1).

Moreover there were other ways in which reasonable relief could be extended to individuals without shifting the burden onto other classes and other sections. For example, a change in the utilization of land which involved its classification in a lower type class, gave relief from taxation the year following its announcement, verification, and entry on the cadastral map. A contrary change, on the other hand, did not bring an increase in the owner's tax until eleven years later. A change upward within a given type class was to be disregarded until the occasion of a general revision. A change in the utilization of forest land could only be made after express permission had been obtained. If the assessors found that such permission had not been secured, the owner could be required to replant the deforested area. Moreover, even though the change had been duly authorized, the eleven years' delay before the imposition of the heavier tax did not apply. Improvements in fertility without changes in the type of cultivation were disregarded until the next general revision.<sup>1</sup>

Before considering the other produce taxes, a few words more about the cadastre may be in place. It is important to realize that the Austrian cadastre is more than a mere tax map. It is a land economic survey. The maps and the accompanying documents reveal a large number of significant physiographic and economic facts. They show not only the metes and bounds of the several parcels of land, but also buildings and other permanent structures, railroads, roads, paths, rivers, brooks, lakes, swamps, character of the soil and subsoil, its ease of cultivation, moisture content, and so forth. The maps, upon which these facts are plainly shown by a system of coloring and numbering, are printed and sold to the general public at very reasonable prices. They are highly important documents of record, which serve a purpose, the importance of which we in this country are just beginning to appreciate. They put a stop to the unscrupulous land booming that has so often accompanied Ameri-

<sup>1</sup> These provisions afford proof of the great social importance attached to land in Austria. The regulation of forest land, especially, shows how far we may yet have to go if we are to solve a problem which grows more threatening from year to year.

can expansion. Too much is known about Austrian land to make possible such misrepresentation as has characterized American development.

Michigan, for example, has had its share of land boomers, public as well as private, and has finally developed a conscience. The authorities have decided that hereafter, in so far as it lies within their power, no innocent person shall buy sandy cut-over land and break his heart and his purse trying to farm it. In order to stop this social waste, the State has started what Austria started a little over 100 years ago—a land economic survey. To the end of 1928 ten counties had been surveyed<sup>1</sup> with a minuteness and thoroughness fully equaling that in the Austrian cadastre, and the work continues.<sup>2</sup> The land economic survey, together with land certification and a real estate license law, have put Michigan in a position of leadership in the new American movement for a public land policy. It must not be supposed, however, that the Michigan survey is a mere slavish copy of a century-old European precedent. It is more than that. It is pioneer work because it represents an attempt to classify land *in advance of settlement* on the basis of accurately established facts. The European cadastre, on the other hand, represents a classification on the basis of prevailing uses as determined by centuries of trial and error.

#### b. *The Buildings Tax*

The Austrian buildings tax was noteworthy among European taxes of this type for its sharp differentiation of buildings in country districts from buildings in larger urban centers, and its extremely heavy taxation of the latter. The tax on buildings in country districts is known as the classified house tax (*Hausklassensteuer*) and that on buildings in urban centers as the rented buildings tax (*Hauszinssteuer*).

<sup>1</sup> Personal letter of May 31, 1929, from Prof. K. C. McMurry of the Department of Geography, University of Michigan.

<sup>2</sup> See P. S. Lovejoy, "Theory and Practice in Land Classification," in *The Journal of Land and Public Utility Economics*, April 1925, for description of the work.

The classified house tax was levied only on *homes* in country districts and in smaller towns where home ownership and occupancy predominated. Assessment was according to the number of rooms. The 1914 schedule of rates was as follows:<sup>1</sup>

	Number of Rooms	Amount of Tax (In Crowns)		Number of Rooms	Amount of Tax (In Crowns)
Class I	40-36 <sup>2</sup>	440.00	Class IX	9-8	40.00
II	35-30	360.00	X	7	30.00
III	29-28	300.00	XI	6	20.00
IV	27-25	250.00	XII	5	11.00
V	24-22	200.00	XIII	4	9.80
VI	21-19	150.00	XIV	3	4.20
VII	18-15	100.00	XV	2	3.40
VIII	14-10	60.00	XVI	1	3.00

Unlike the land cadastre the house cadastre was kept up to date. The low rate made the building tax a slight surtax to the land tax with which in fact it was collected. In 1913 it yielded to the State only 10.6 million crowns, as compared with 52.2 millions from the land tax.<sup>3</sup> It was subject, however, to local additions which averaged about 150 per cent of the state tax.

In striking contrast, the rate of the rented buildings tax was oppressively high for many years before the War. It was assessed biennially on gross rentals, less a percentage reduction for expenses and amortization which varied according to the size of the locality. This allowance amounted to 15 per cent in the larger cities, and to 30 per cent (33 1/3 per cent in Dalmatia) in other places. Similarly the state rate varied according to the size of the place. In the larger cities it was 26 2/3 per cent; in other places 20 per cent. The local additions raised the rate in Vienna, for example, to about 50 per cent. This high rate discouraged building and was undoubtedly responsible in part for the congested and unsanitary dwellings of the poor.<sup>4</sup>

<sup>1</sup> Freiberger, p. 236.

<sup>2</sup> Above 40 rooms the tax increased by 10 crowns per room.

<sup>3</sup> See Appendix I.

<sup>4</sup> See the comparative statistics for Breslau and Prague in Dr. W. Mildschuh's *Mietsinne und Bodenwerte in Prag in den Jahren 1869-1902*.



The tax was so productive, however,—the State's share was 116.9 million crowns in 1913, or one quarter of the revenues from direct taxation,—that it proved impossible to secure any adequate revision prior to the War. The State contented itself with palliatives. At an early date temporary complete exemption was granted to new homes which satisfied certain sanitary and financial regulations, and which were intended for members of the laboring and lower middle classes. By 1867, these exemptions had assumed such large proportions that a 5 per cent tax on net rentals, as defined above, was substituted for complete exemption. In 1912 the State agreed to reduce its rate by the amount by which the local additions should exceed the height they had reached in 1911. Thus, by 1914, this tax, like the land tax, had passed the dividing line and had become primarily a local tax assessed and collected by central authority.

In concluding this brief survey of the pre-war Austrian impersonal taxes two peculiarities deserve a few remarks. Strangely enough they run at cross purposes. The one promoted dispersion of industry, the other urban congestion.

The classified house tax applied only to *homes* occupied by their owners and situated in rural districts. The tax on rented buildings applied to homes and to business and manufacturing premises alike, if rented, or if located in towns where renting predominated. Places of business occupied by their owners, however, and located in rural districts, or in small towns where home ownership predominated, were exempt from both building taxes, and the building site itself was not even liable to the land tax. The result of course was that a business had only to move out of the cities and larger towns in order to enjoy complete exemption from the impersonal taxes. The slight urban development of old Austria, and the surprising survival of primitive handicraft industries in the country districts,<sup>1</sup> tempts one to seek the explanation, in part at least, in this strange hiatus in the tax legislation.

In another respect, however, the impersonal taxes promoted

<sup>1</sup> Hertz, F., *passim*.

urban congestion. The land tax, it will be recalled, provided that undeveloped building sites were to be classed as *Parifikationsland* and assessed and taxed as the immediately adjacent agricultural or forest land. The resulting burden was extremely light when compared with that resting on improved property within or in the immediate vicinity of the larger cities. Such improved property was liable to a tax of from 40 to 50 per cent on its true income. Under the circumstances speculative holding of land out of use for the increment was greatly facilitated. Herein is to be found a partial explanation for the compact growth of Austrian cities and the almost wall-like frontier between the city and the outlying country.

The growth of Vienna and other industrial and commercial towns was accompanied by an increase in land values which was all the greater for this anti-social characteristic of the impersonal taxes. It is not surprising, therefore, that an agitation in favor of a state increment tax should have developed. The Finance Ministry, while opposing the introduction of a state tax, encouraged the localities by preparing and laying before the several provincial diets a model bill. Eight provinces in all had passed increment tax laws before the War—all in close conformity with the model bill. Lower Austria and Tirol were the only provinces in present Austria to do so, and in the case of Lower Austria the tax applied only to the city of Vienna. Gruenwald summarizes the provisions of the model bill as follows:<sup>1</sup>

[The tax] affects only the increase in values realized in real estate transfers. In the case of transfers caused by the death of the owner, the tax is not collected, but at the next transfer *inter vivos* the increase since the acquisition by the decedent is liable. Certain exemptions are provided, especially in the case of purchase at compulsory public auctions, because of credit considerations. The rate of the tax increases with the amount of the increment, expressed as a ratio of the sales price to the acquisition price plus subsequent investment in the property. The highest rate of 25 per cent applies quite regularly only where the increase exceeds 150 per cent and abatements apply on sales of land held more than five years. Those abatements reach 50 to 60 per cent where possession exceeds 25

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<sup>1</sup> Gruenwald, p. 103.

to 40 years. In general the values prevailing about ten years previous to the enactment of the law are taken as the basis of departure.

At the outbreak of the War this tax had been in operation too short a time to have had any appreciable effect. Moreover, in the case of Vienna, its restriction to the city itself seriously limited its usefulness. Unimproved sites within the city were few and far between. They constituted desirable breathing spaces in an already congested area, and made easier the changes which inevitably must occur from time to time in the character of a neighborhood. If the increment tax hastened their utilization unduly it probably did more harm than good. Land outside the city, on the other hand, remained liable to the low rates of the land tax. Hence there was no added inducement to earlier utilization of such areas for housing purposes.<sup>1</sup>

### 3. THE PERSONAL PRODUCE TAXES

In Austrian administrative terminology the remaining five produce taxes are known as *Personalsteuern* or personal taxes, because of the extent to which personal elements entered into the determination of the incomes against which they were levied. These elements did not, however, destroy their essentially produce-tax character. The taxes aimed at approximations to income rather than true income. Thus in general debts were disregarded, or else, as in the corporation tax, provision was made for a minimum liability, however low earnings might fall.

Their combined yield in 1913 was somewhat less than that of the taxes on land and buildings—roughly 147 million crowns as against 180 million. The table on page 18 shows the relative importance of the several taxes.

It is obvious that the two taxes on business earnings formed the backbone of the personal produce tax system. Between them they accounted for 87 per cent of the total yield.

<sup>1</sup> For discussion of the possibility of promoting wise land utilization through the combination of a produce-like tax on land with an increment tax, see the author's "Classification of Land for Taxation," in the *Quarterly Journal of Economics*, November 1927.

## DIRECT TAXATION IN AUSTRIA

YIELD OF PERSONAL PRODUCE TAXES, 1913<sup>1</sup>  
(In Millions of Crowns)

Name of Tax	Gross Income	Per Cent
Business tax . . . . .	37.0	25.2
Corporation tax . . . . .	90.6	61.8
Tax on interest . . . . .	13.5	9.2
Tax on salaries . . . . .	4.6	3.1
Tax on <i>tantièmes</i> . . . . .	1.0 <sup>2</sup>	0.7
<i>Total</i> . . . . .	146.7	100.0

a. *The Business Tax*

The business tax (*allgemeine Erwerbsteuer*) was levied on the assumed earnings of unincorporated business enterprise. Any physical person<sup>3</sup> was liable to this tax who carried on a business or a profession in Austria, the earnings from which had not already been taxed under one of the other produce taxes. The tax was apportioned and was increased by 2.4 per cent every two years. In 1913 it yielded 37 million crowns to the State.

The task of apportionment was performed jointly by state officials and representatives of the taxpayers. The taxpayers were grouped according to their last payments into four classes. The members of each class in a given tax district constituted a tax association. The four associations elected from their midst one half of the members of an assessment commission, of which the chairman and the other half were appointed by the Finance Minister. The preliminary work, however, was done by local state officials. The local assessors received the taxpayers' declarations, which contained external indicia of the profitability of their businesses or professions (rent, number of employees, amount of machinery and invested capital, character

<sup>1</sup> See Appendix I.

<sup>2</sup> Based on government estimate. The tax itself was not passed until early in 1914 (Law of January 23, 1914, R. G. Bl. No. 13, Art. III) and the War broke out before it had really come into effect.

<sup>3</sup> After 1906 the newly authorized "Gesellschaften mit beschränkter Haftung" (Gesellschaften m.b.H.) which consisted of closely held companies, formed an exception to this rule when their capitalization was less than one million crowns.

of the market, etc.).<sup>1</sup> After examining these returns and making such investigations as seemed necessary, the assessors forwarded them with accompanying observations to the appropriate assessment commissions. The commissions, in which the legal power of assessment legally rested, almost always accepted the declarations with the assessors' observations as the basis for rating the members of the several tax associations. The rating which ran in terms of relative average profitableness (*mittlere Ertragsfaehigkeit*) and was expressed in crowns, was then communicated to the local assessors. Meantime a Central Contingent Commission of twenty-six, composed of provincial representatives and appointees of the Finance Minister, reapportioned the state tax—the *Hauptsumme*—among the several tax associations on the basis of external indicia of average profitableness, after considering the recommendations of provincial commissions. The resulting quotas were likewise communicated to the local assessors. It was now their task to adjust up or down, as the case might be, the ratings communicated to them by the assessment commissions, so that the resulting total would agree with the quota total received from the Central Contingent Commission. This done, they sent out the tax bills. In addition, the local assessors assessed independently of the commissions, and outside the quota, itinerant trades (peddlers, etc.) and travelling salesmen.<sup>2</sup> They were also charged with the first assessment of new enterprises, pending their assignment to appropriate tax associations.

In all cases the assessors were supposed to use only external indicia for approximating earnings. The assessment was bien-

<sup>1</sup> The law called specifically for the following facts: 1. The nature of the business. 2. The place of business, including the location of branches, warehouses, etc. 3. Dimensions and rental value of the place of business. 4. Number and classification of employees; for example, 1 bookkeeper, 4 foremen, 40 weavers, 5 unskilled laborers, 3 apprentices, 2 travelling salesmen, whether or not the owner himself was active, and the number of his partners. 5. Nature and value of the circulating capital—for example: value of raw materials and finished products, debits, credits. 6. Description and number of machines, tools, etc. 7. Any other facts which might be called for in special orders.

<sup>2</sup> There was considerable veiled discrimination against these two groups in thus assessing them outside the protection of the quota.

nial, and applied for the current and the following year. Payments were ordinarily due quarterly. In the case of itinerant trades and travelling salesmen, however, they were due in one installment and in advance.<sup>1</sup>

This complicated impersonal method of assessment had been introduced in 1896 because of the widespread demoralization caused by the high rates and the faulty administrative machinery of the so-called income tax of 1849.<sup>2</sup> That measure had degenerated into a tax on honesty. The new measure marked a reversion to the objective method of approximating income. In return for a guaranteed sum—the *Hauptsumme*—the Government abandoned all pretense of discovering true income, leaving it in theory at least to the interested parties themselves to see that the burden of the tax was equitably apportioned. Needless to say, the *Hauptsumme* would have proved increasingly inadequate as the years passed. It was for this reason that the amount of the *Hauptsumme* was to be increased automatically by 2.4 per cent every two years. This percentage was supposed to represent the rate of increase in the general economic activity of the country. As a matter of fact the rate of increase was much greater, so that the burden of the tax on the individual business-man became progressively lighter with the passing years. In 1897, for example, the burden was estimated at 2.5 per cent of net business profits, while in 1914 it was hardly more than one half of this amount.<sup>3</sup>

Apportionment on the basis of external indicia could not possibly bring about a fair distribution of the burden among the several local assessment commissions, whatever good will the Contingent Commission might bring to its task. Good will there was in some measure, but, as is usually the case, the Commission was guided more by political than economic considerations. The resulting lack of an equitable apportionment

<sup>1</sup> The account of the provisions of this tax and of those that follow is taken directly from the law. Cf. Law of October 25, 1896, R. G. Bl. No. 220, Arts. I-XVIII, I. Hauptstueck; Law of January 23, 1914, R. G. Bl. No. 13, I. Hauptstueck.

<sup>2</sup> Steinitzer, pp. 79 ff.

<sup>3</sup> Gruenwald, p. 151, n.

of the tax in turn rendered equality between individuals in *different* tax associations out of the question, however uniformly the several commissions might have tried to assess according to external indicia. As a matter of fact, subjective and sentimental considerations played an important and disturbing rôle in the decisions of the Commissions.<sup>1</sup> But more than this, the method of assessment by external indicia could not even secure equality between different individuals in the *same* association. What really determined a taxpayer's liability was the class to which he had originally been assigned and in which inertia gave him virtually a vested right to remain.<sup>2</sup>

The State fared badly in the deal. It failed to secure its fair share of the increasing prosperity of an important class of its citizens. Furthermore it was obliged to maintain an elaborate assessment machinery which was unnecessarily costly<sup>3</sup> in view of the protection afforded the taxpayer by the amount and the slow increase of the tax. Only a small fraction of the taxpayers took the trouble to vote for the members of the assessment commissions, and they, serving unwillingly, without salaries, were generally guided by their chairman, who was usually chief of the local assessors of the business tax. Nine times out of ten they approved the chairman's recommendations. The local assessors thus continued to do the work more bureaucratically than ever behind the shelter of the commissions.<sup>4</sup>

<sup>1</sup> Schwarz.

<sup>2</sup> Steinitzer, p. 110.

<sup>3</sup> 1890 der Beilagen, 1913, II. Bericht, pp. 21-23 and *passim*, also Meisel and Spiethoff, pp. 24-25; Redlich, *Bericht*, p. 185; Steinitzer, pp. 106 ff.; Renner in Stenog. Protokoll 179. Sitzung, p. 8825; Abgeord. Tetlshik in 182. Sitzung, p. 9019. Abgeord. Dr. Lewielyj in meeting on March 9, 1910, gave an interesting account of how the commissions worked in Ruthenia. Despite all this Meyer wrote in the *Staatswoerterbuch* (p. 812) that nearly ten years' experience with the commissions had not resulted in any conflicts or any serious difficulties. Similarly Plener, one of the fathers of the Reform of 1896, expressed to the author his opinion that the system was completely satisfactory. Gruenwald was of the opinion that the way tax authorities and the commissions worked together was a happy combination suitable to the prevailing conditions. (Gruenwald, *Verwaltung*, pp. 106-107).

<sup>4</sup> 1890 der Beilagen, 1913, II. Bericht, pp. 21-23.

b. *The Corporation Tax*

The corporation tax (*besondere Erwerbsteuer*)<sup>1</sup> was levied on the profits of such companies as were required to make sworn periodical public statements either before a general meeting of members, or before some controlling public authority. Certain eighteenth century survivals, and very small concerns of a favored type, which will be described presently, were exempted entirely, while companies doing certain types of work regarded as possessing public utility enjoyed temporary exemptions. The Austro-Hungarian Bank was taxed under a special law. International double taxation was largely avoided by allowances for branches and physical equipment located abroad and for profits from sales realized abroad.

Net profits were defined—primarily by enumeration—more or less liberally according as a company did or did not belong to the category of favored institutions. For ordinary companies in business for profit, including coöperatives doing business with the general public, and provincial and municipal utilities the legal definition of profits was primarily objectionable because of the inclusion of interest on bonded indebtedness. For the favored institutions, in which mutual self-help was supposed to play the principal rôle, notably coöperatives doing business only with their own members, savings banks, mutual insurance companies, *Gesellschaften m. b. H.*<sup>2</sup> with capital of more than a million crowns, the following items might be deducted in calculating net profits: contributions to charitable institutions, losses of the preceding business year, interest payments on capital secured by mortgages, public subventions, directors' profits, foundation expenses, and unrealized exchange profits laid aside in a special reserve for exchange losses. None of these institutions enjoyed all of the above favors, but all enjoyed one or more of them, while corporations enjoyed none of them.

The rate for ordinary companies was 10 per cent of the net profits the preceding year, but in no case was it to be less than

<sup>1</sup> II. Hauptstueck in Laws of October 25, 1896 (R. G. Bl. No. 220) and of January 23, 1914, (R. G. Bl. No. 13).

<sup>2</sup> See p. 18, note 3.



one mill per crown of invested capital (or of net premiums in the case of insurance companies).<sup>1</sup> The minimum tax applied provisionally to new companies pending their regular assessment at the end of their first business year. Where earnings exceeded 10 per cent of the paid-in capital stock a surtax of 2 per cent was imposed on the sum available for paying the dividend of 11 to 15 per cent, and 4 per cent on that available for dividends of more than 15 per cent. The favored business types, on the other hand, enjoyed lower rates, ranging from 3 per cent for savings banks, 4 per cent for *Gesellschaften m. b. H.* to 8 1/2 per cent for coöperatives. A maximum of 10 per cent applied in all cases on large earnings. Mutual insurance companies were taxed .1 per cent on annual net premiums actually collected, after deduction of the bonuses or shares in profits returned to members. In the case of savings banks there was no minimum tax.

Assessment for all alike was on the basis of sworn declarations accompanied by such further information as was necessary to establish situs and the apportionment of the tax. The tax was assessed as a whole by the assessors of the district in which the head office or representative Austrian branch was located, and then apportioned to the several localities in which plants or equipment were situated. Though not affecting the state tax, this apportionment was important to the companies and the localities, because of the high and unequal local additions. The apportionment varied according to the type of company. For manufacturing and mining companies 20 per cent was credited to the place where the head office was located, and 80 per cent to the towns where the plants lay; for interstate companies the ratio was 90 to 10; for commercial, credit, and insurance companies, the head office and the branches shared equally; for railroads the apportionment depended on whether there was trackage in the province in which the head office was located. If there was, the town of the head office received 25 per cent, otherwise only 10 per cent. The allocation of the part of the

<sup>1</sup> It is this fact of a minimum tax in the absence of any profits which explains the classification of the corporation tax among the produce taxes.

tax among the towns in which the plant or equipment was located was according to the relative importance of plant. In the case of railroads, the provinces shared in proportion to length of line. Within the province, the provincial capital or the town where the main provincial office was located was credited with three quarters of the tax, and the towns through which the line ran with the remainder on the basis of their direct tax assessments.

The competent local assessors communicated the state tax and the local apportionment. The several local assessors then communicated independently the additions voted in their respective districts. The tax, with local additions, was due in four equal installments spread through the year. Appeal lay to the provincial tax authorities except against the local apportionment of the tax, in which case it lay to the Finance Minister direct. The *Verwaltungsgerichtshof* was the court of last appeal.

The corporation tax was technically and theoretically superior to any of the preceding produce taxes. It was levied on real net profits instead of on some artificial and unreal approximation, and, due to the involuntary honesty of the companies, it succeeded with reasonable accuracy. It stood first among the personal produce taxes and second to the tax on house rents as regards productivity. In 1913 the yield was 90.6 million crowns,<sup>1</sup> 20.8 per cent of that of all the direct taxes and almost two and one half times as much as the business tax. Its great defect was the high rate, especially in view of the local additions. The state tax alone was six to eight times as heavy as the tax on unincorporated businesses,<sup>2</sup> and, in the opinion of well qualified observers, materially retarded the development of corporate enterprise in Austria.<sup>3</sup> The high rate was doubly oppressive because of the inclusion of interest on bonded indebtedness in net profits. As a result corporations were obliged to pay from 20 to 25 per cent more for capital secured in this way. In view of the scarcity of capital in the county this was unfortunate.

<sup>1</sup> See p. 18 above.

<sup>2</sup> Gruenwald, p. 151 n.

<sup>3</sup> Steinitzer, p. 124.

It induced resort to short time renewable bank credits, interest on which constituted an allowable deduction. These credits necessarily had to be secured from domestic banks. Thus Austrian companies were prevented from dipping into foreign reservoirs of credit as generously as they otherwise might have done.

*c. The Tax on Interest*

The tax on interest (*Rentensteuer*)<sup>1</sup> was levied on the income from property rights not already taxed under one of the other produce taxes. The personal element here, however, was given more weight than in the case of the other taxes by the provision that only the part of such income in the hands of an individual as exceeded 1,600 crowns was liable. In general, the exemptions were determined more by the character of the recipient than by that of the source of the income. The principal exemptions were the State and the lesser political units, institutions receiving public support or devoted to charitable, religious, or educational purposes, the imperial postal savings bank, and interest on deposits therein, contributions made by parents for the support of their children or vice versa, the dividends of the Austro-Hungarian Bank, and the dividends and other revenues already taxed under the corporation tax.

The tax was assessed annually on the actual or probable net income of the preceding year. The rate varied from 10 per cent on a few public loans and annuities to .5 per cent on mortgages and bonds of certain privileged public-credit institutions. Trade leases paid 3 per cent; interest on deposits in savings banks and coöperatives and on the bonds of certain mortgage and credit institutions, which already enjoyed favors under the corporation tax, paid 1.5 per cent; all others paid the normal tax of 2 per cent.

Except for the tax on the income from state and local bonds and annuities, and corporation bonds which were collected at the source, the tax was assessed and collected on the basis of declaration, by the assessors of the district in which the taxpayer

<sup>1</sup> III. Hauptstueck.

resided. Only the part of the tax collected on the basis of declaration was liable to the local additions. Since the provisions regarding personal liability, the period of liability, taxable situs, and time and manner of payment were identical with those applied to the income tax they will be dealt with in connection with that tax.

d. *The Taxes on Salaries and on Directors' Profits*

The taxes on salaries<sup>1</sup> and *tantièmes*<sup>2</sup> may be dealt with together. The first was imposed on salaries above 6,400 crowns. The rates were progressive, rising from .4 per cent to 6 per cent on incomes above 15,000 crowns. The second was levied on directors' shares in corporate earnings at the uniform rate of 10 per cent but only when the total amount distributed by a single company in a given year exceeded 5,000 crowns. A proportionate part of the tax was to be withheld by the company upon each distribution of profits and paid over to the Treasury. Assumption of the tax by the company was formally prohibited.<sup>3</sup> Income subject to the tax on directors' profits was not liable to the tax on salaries. Salaries and directors' profits, however, were both liable to the income tax.

These taxes were utterly out of place in the produce tax system. The earnings on which they were imposed were already bearing almost 41 per cent of the income tax.<sup>4</sup> Their assimilation with the latter in the matter of assessment and collection simplified the administrative problem, it is true, but increased the inequality of the direct tax system. Taken together with the corporation tax, they afford a striking example of the hostility of the legislators toward the well-to-do and especially toward corporations and all persons connected with corporations.

<sup>1</sup> IV. Hauptstueck.

<sup>2</sup> Law of January 23, 1914, R. G. Bl. No. 13, Art. III.

<sup>3</sup> This innovation of 1914 was copied after the German *Tantièmegebuhr* (1890 der Beilagen, 1913, II. *Bericht*, p. 60).

<sup>4</sup> See p. 35 below.

## 4. THE INCOME TAX

The income tax of 1896<sup>1</sup> was avowedly modelled upon the Prussian Income Tax of 1891. It occupied a more modest place, however, in the direct tax system of pre-war Austria than did its Prussian prototype. The produce taxes continued to play the dominant rôle. The reasons for this were the lack of an independent source of revenue, such as the Prussian railroads, and the more primitive conditions of economic life in many parts of the Empire, which rendered large dependence on the income tax impossible. Accordingly, in the Reform of 1896, the produce taxes, instead of being turned over to the localities, were reduced and modified, but retained as part of the direct tax system of the central government. In this new system the income tax was designed to correct the inequalities in the produce taxes, and bring about a heavier taxation of funded income.

The income tax was strictly personal.<sup>2</sup> Concerns liable to the corporation tax were exempt. Residence or sojourn for more than one year and enjoyment of a net income of more than 1,600 crowns<sup>3</sup> established liability. Incomes derived from investment in foreign public securities, from real estate or fixed industrial plant located abroad and liable there to an income or similar<sup>4</sup> tax were exempt, providing reciprocal treatment were granted incomes from similar Austrian sources. The personal exemptions were few in number, and, on the whole, unobjectionable in character.

The object of the tax was the net *family* income of the preceding business or calendar year.<sup>5</sup> Income was defined as the difference between "gross revenue in money or in kind" and

<sup>1</sup> Law of October 25, 1896, R. G. Bl. No. 220, IV. Hauptstueck.

<sup>2</sup> The liability of inheritances as such until the inheritors came into possession formed only an apparent exception to this rule.

<sup>3</sup> Raised from 1,200 crowns to this amount in 1914.

<sup>4</sup> The English and Italian income taxes, for example, were not regarded as equivalents because not levied on a person's entire net income.

<sup>5</sup> Originally the tax had been levied on the average income of the three preceding years where the income varied from year to year, but this practice was abandoned in 1914 as needlessly complicating assessment procedure.

“the expenses necessary to earn, secure and maintain the said revenues, as well as any interest on borrowed capital even where it does not belong to the expenses just described.”<sup>1</sup> Elsewhere in the law, however, and in the accompanying “Instructions” (*Vollzugsvorschriften*) there were additional regulations, which, though purporting merely to explain, really modified the general definition of income.

The modification of agricultural income was particularly great, and was accomplished simply through reference to the cadastral net yield figures of the land tax. These figures were referred to as being either too high or too low, but as affording valuable aid in determining the relative faculties of proprietors in the same district.<sup>2</sup> Elsewhere the assessors were instructed not to enter peasants on their lists of possible taxpayers unless the cadastral net yield figures of their lands exceeded 500 to 600 crowns<sup>3</sup> according to the district. This was equivalent to an exemption of from 1,500 to 2,500 crowns at a time when the exemption limit in the law itself was still 1,200 crowns. Finally, paragraph 204 of the law relieved taxpayers with incomes of less than 2,000 crowns from making declaration, unless personally summoned to do so. This was interpreted in the rural districts as meaning 2,000 cadastral crowns, or 6,000 to 10,000 actual crowns.

The result, according to Wieser, was that about two thirds of those really liable among the agricultural population were not assessed:

In the country districts of Austria the assessment has failed. This statement applies not only to the results as a whole, but to every income bracket, especially those of the lower middle incomes and the small incomes—the very incomes that are fairly well reached in the cities. In the country, therefore, it is not only true that the assessment work turned out badly in the sense that those liable to the tax were entered in unduly low income brackets, but more important still, even the entering of persons on the tax rolls has largely failed.<sup>4</sup>

The income tax reform of 1896 represented, therefore, a signal triumph for the agrarian interests. Their contribution to

<sup>1</sup> Par. 159 of the law.

<sup>2</sup> *Vollzugsvorschriften*, 1897, Art. 55.

<sup>3</sup> *Ibid.*, Art. 41.

<sup>4</sup> Wieser, p. 67.

the income tax did not exceed 4.7 million crowns in 1898 or 6.3 millions in 1911 as a maximum<sup>1</sup> despite the fact that the land tax had been reduced by 16.5 million crowns between 1896 and 1913 as the price of their support of the income tax.<sup>2</sup> And in addition came the more generous abatements for damages from the elements.<sup>3</sup>

In general 1,600 crowns or about \$325 were exempted from the tax. In the case of incomes paid to non-residents, however, or to residents whose exempted incomes from abroad brought their entire incomes above the exemption limit, a degressive scale of rates applied, falling from 12 crowns on an income between 1,501 and 1,600 crowns, to 30 hellers on one between 51 and 100 crowns. On incomes above 1,600 crowns the rate was progressive, rising from 13.60 crowns on an income between 1,601 and 1,700 crowns, to 12,030 crowns on one between 200,000 and 210,000 crowns. From this point the tax increased by 670 crowns for every 10,000 crowns increase, in income, thus giving 6.7 per cent as the maximum rate. Progression was obtained by the Prussian system of income classes and definite rates. In 1914, for example, there were 86 classes for incomes from 1,600 to 210,000 crowns. A surtax popularly known as the bachelor's tax<sup>4</sup> increased the rate on incomes above 2,400 crowns by 15 per cent for persons with no dependents, and by 10 per cent for persons with one dependent. This surtax, which was introduced in 1914, was merely a further development of the system of abatements and deductions for unusual burdens which had been worked into the law at its inception<sup>5</sup> under the influence of the Wagnerian principle of equality.

<sup>1</sup> Calculated from Tables II and III given in 1890 der Beilagen, 1913, II. Bericht, Anlage 7, on the assumption that the average rate, obtained by dividing the actual yield by the gross assessed revenue, applied to gross agricultural revenues as well. Actually it is safe to say that the average tax paid by the agrarians was less than the average for the entire population.

<sup>2</sup> Steinitzer, ch. 2, and Law of July 12, 1896, R. G. Bl. No. 121; Meyer, p. 59; Gruenwald, pp. 81, 85-86. See also p. 11 above.

<sup>3</sup> See p. 10 above.

<sup>4</sup> Law of January 23, 1914, R. G. Bl. No. 13, IV. Hauptstueck, Sec. 172a.

<sup>5</sup> These abatements are described later in connection with the changes made after the Revolution. See p. 105 ff.

The taxable situs was the assessment district in which the taxpayer had his regular residence, or the one in which he paid the greatest amount in direct taxes. Non-resident Austrians were assessed in the district of their birth, non-resident foreigners in that in which the sources or principal sources of taxable revenue were situated.

The method of self-assessment through mixed commissions as used for the business tax was applied to the income tax with suitable modifications. The assessors made up lists of the probable taxpayers (and anyone not on the lists ran small chance of being assessed) sent out calls for declarations, and examined them with the aid of information collected at the source. Then, after consultation with elected or secretly appointed agents (*Vertrauensmaenner*), they prepared assessment rolls with the corrected incomes of all taxpayers, classified according to sources, with the proper deductions, the resulting taxable incomes, and the recommended tax. Upon completion the rolls, with all the accompanying documents, were transmitted for approval to the appropriate local assessment commissions. These commissions were composed of appointed and elected members in equal numbers, and were presided over by the chairman of the local income tax assessors. Appeal, both for the taxpayers and for the assessors representing the State, lay to provincial commissions composed equally of appointed members and members elected by the property-controlled diets from the provincial income-tax payers. Pending the result of appeal the local assessors sent out tax bills.

The results in this case were much the same as in the case of the business tax. The local assessors did the work, and shifted the responsibility onto the assessment commissions. The latter, presided over by the chairman of the local income tax assessors, and composed one half of crown appointees, perforce served pretty much as rubber stamps for the local assessors. The chairman's greater experience in tax matters, and his detailed knowledge of the particular cases over which dispute might arise, enabled him to dominate the commission and carry through unchanged the vast majority of the recommendations



of his subordinates. The influence of the commissions was too slight, therefore, to justify the outlays involved in holding the elections and paying the expenses of the members during the sessions. Indeed the whole system strengthened rather than weakened the position of the local assessors, and rendered them unduly immune from the wholesome effects of public criticism.<sup>1</sup>

Salaries,<sup>2</sup> pensions, and directors' profits were collected at the source. The local assessors annually communicated the amounts due to the withholding agencies, which retained and transmitted monthly to the public treasury the appropriate amounts from each payment. The tax on incomes not so collected was due semi-annually on the first of June and the first of December.

##### 5. CONCLUDING REMARKS

The income tax of 1896 was the culmination of years of effort. Earlier attempts to secure such a measure had failed in the face of popular distrust of increased powers of government inquisition. As long as the mounting demands of the State called for additional revenues the representatives preferred to vote increases of indirect taxes. Beginning in 1889, however, for the first time in years, the national budget was balanced. It was then possible to urge the income tax not as a source of increased revenue but as an instrument of social justice. Only the solemn assurance of the Government that the revenues from the income tax would be used for this purpose made possible the Reform of 1896.<sup>3</sup> It is interesting to examine the Reform from this point of view.

In anticipation of the income tax and as the price of their support the agrarian interests secured (1896) a reduction by

<sup>1</sup> This was the verdict of the Finance Committee which reported on the reform in 1913. See 1890 der Beilagen, 1913, II. Bericht, p. 4. See also Steinitzer, p. 168, and n. 3, p. 21.

<sup>2</sup> Wages had originally been included among the incomes liable to collection at the source. A decree of 1898 (K. V. of July 8, 1898, R. G. Bl. No. 120) however, had specifically exempted them. The amount of work involved for the employer was the reason alleged, but the real reason had been the belief that the tax would be shifted. (*Staatswoerterbuch*, Article "Personaleinkommensteuer.")

<sup>3</sup> Steinitzer, ch. i.

5 million crowns in the state land tax *contingent* and a superficial reestimate of average yield, in place of the thorough revaluation called for by the law of 1869. In connection with the income tax itself they secured a further reduction of 15 per cent of their land tax *payments* to the State. This remission was supposed to represent about what the agrarian interests would pay in income tax. As a matter of fact, however, the adoption of cadastral figures of income as the basis for assessing land income led to gross undervaluation of incomes. The contribution of the agrarian interests did not exceed 4.7 million crowns in 1898—the first year of the new tax—while they secured a remission of 16.5 million crowns in their land tax payments. And in addition after 1897 came the greatly increased abatements for damages from the elements. As so often, social justice ran parallel with political expediency. The agrarian interests had 214 out of 353 representatives in the Reform Parliament—61 per cent of the Reichsrat as against 56 per cent of the population.<sup>1</sup>

Furthermore, their political power prevented any real remedy prior to the War. The best that could be obtained was the insertion into the income tax law in 1914 of a clause to the effect that the cadastral net yield figures should be used “merely” as an aid in determining net income, and the elimination of the objectionable provision against entering peasant proprietors on the tax lists where the cadastral net yield figures of their entire properties was less than 500 crowns.

After the agrarian interests, the representatives of the “small man” in industry and commerce were far and away the strongest element in the Reichsrat. They were doubly hungry for “justice,” because of their recent emergence as a political power. Prior to 1882 the franchise was confined to the nobility, the upper clergy, the large peasant proprietors, and the urban upper middle class. In that year, however, the franchise was extended to all men paying five gulden or ten crowns in direct taxes and in 1896, on the very eve of the tax reform, the property qualification was reduced to eight crowns and a fifth curiae was

<sup>1</sup> *Ibid.*, pp. 5, 10.

created, comprising all Austrian men over twenty-four years of age.<sup>1</sup> This liberalization of the suffrage was for the avowed purpose of swamping out the German Liberal Party, which was made up of representatives of the upper middle class and the supporters of modern capitalistic enterprise. The fifth curiae gave some slight voice to the urban laborer, but his time had not yet come. Justice for the time being meant favors to the politically strong.

The favors to the "small man" in connection with the introduction of the income tax were considerable. In the first place the tax affecting him most, the general business tax, was reduced by 25 per cent. But the bias in his favor was increased by the provision that those in the first class, whose liability exceeded 1,000 crowns annually, received no reduction, while those in the remaining three lower classes received reductions ranging from 14 per cent for the second class to 28 per cent for the fourth or lowest class, whose business tax liability was less than 60 crowns annually. The members of the first class, receiving no reduction of their business tax, were members of the upper middle class. Moreover they could be and were reached with reasonable accuracy by the new income tax, because the complexity of their business operations necessitated the keeping of books. The remaining business taxpayers, on the other hand, seldom kept books and notoriously escaped the income tax.<sup>2</sup> A second favor to this class as a whole lay in the application of the inadequate 2.4 per cent coefficient of increase of the business tax contingent or *Hauptsumme*. A 5 per cent coefficient would have been more adequate.

The maintenance of the special tax on salaries above 6,400 crowns upon the introduction of the income tax is only to be explained in the light of the political helplessness of the upper middle class. Similarly with the 1914 tax on directors' profits. Finance Minister Plener had recommended the dropping of the special salaries tax during the passage of the reform, and had suggested that the immediate loss of revenue be made good

<sup>1</sup> *Ibid.*, p. 8; Kelsen, pp. 25-26.

<sup>2</sup> Wieser, p. 34.

by a temporary increase of the corporation tax by 0.3 per cent. The Reichsrat, acting upon his suggestion, voted to increase the tax temporarily by .5 per cent, introduced the principle of progressive taxation of earnings above 10 per cent, and then kept the special salaries tax. This decision illustrates more clearly than any other, perhaps, the prevailing bitterness against large scale enterprise.<sup>1</sup>

In addition to granting immediate favors to certain classes of taxpayers, the Reform of 1896 provided for the distribution of a part of any future increase in the income tax among the provinces. Immediately the provinces were to receive the first 6 million crowns over and above the revenues hitherto derived by the central government from direct taxation, and thereafter half of any further increase. This surplus was to be distributed among the provinces in proportion to their land and building tax payments.<sup>2</sup> This apportionment key represented a compromise between the urban and rural elements in the Empire, and again illustrates the strength of the agrarian party. To have distributed it according to the provincial yield of the income tax, as the urban representatives proposed, would have favored the provinces with considerable urban development. To have distributed it according to the provincial yield of the land tax alone, as the agrarian interests urged, would have favored the poorer and predominately agricultural provinces. The combination of the two taxes as the key favored the provinces with urban development much less than distribution according to income tax yield, but far more than distribution according to the land tax alone.

All authorities are agreed that the Reform of 1896 marked a great improvement over the past. Nevertheless it was still far from a satisfactory system. Some of its defects were due to the ideals of justice animating its framers. The concessions to the agrarian interests and to the "small man" through the land tax and the general business tax were indefensible, especially when it is remembered that the income tax and the prod-

<sup>1</sup> Plener, Vol. III, p. 175.

<sup>2</sup> Law of October 25, 1896, R. G. Bl. No. 220, Arts. IV-XIII.

uce taxes failed at precisely the same points. The income tax accentuated the inequalities in the produce tax system instead of offsetting them. It was only in the case of the politically weakest members of the community, the salaried and wage-earning classes, that the income tax really worked. Gross revenues from these sources increased from 34.29 per cent (in 1898) to 41.23 per cent (in 1913) of total gross revenues assessed to the income tax. The measure had degenerated into a tax on wage earners.

The relative importance of various types of income assessed to the income tax is given in the following table:

GROSS ASSESSED INCOME  
(In Millions of Crowns)

Year	From Land	From Building	From Industry	From Labor	From Capital	Miscellaneous	Total
1898 <sup>1</sup> .....	221.4	277.3	767.8	917.0	432.0	58.4	2673.8
Percent.....	8.28	10.37	28.72	34.29	16.16	2.18	100.0
1913 <sup>2</sup> .....	481.4	585.0	1931.8	2738.5	766.3	139.0	6641.9
Percent.....	7.25	8.81	29.08	41.23	11.54	2.09	100.0

It will be seen that the burden of the tax rested on the incomes from industry and labor from the very beginning, and that they alone showed a relative increase. In 1898 they bore 63 per cent of the burden, in 1913 over 70 per cent. The recipients of these incomes were for the most part members of the upper middle class, or of the politically powerless wage-earning class. The peasant and the "small man" in business for himself largely escaped.

Another defect of the direct tax system was its failure to give elasticity to the entire revenue system. To be elastic a revenue system should be capable of yielding markedly increased or decreased revenues at the will of the legislature and not according to the state of industry. Fluctuations up and down in the tow of the business cycle are not a mark of elasticity

<sup>1</sup> 1890 der Beilagen, II. Bericht, 1913, Appendix F, Table IIb.

<sup>2</sup> Meisel, p. 71.

but of instability. Mere increase of the tax yield from year to year is not elasticity but productivity. It takes care of mounting public expenditures but does not prevent the alternation of surpluses and deficits. Productivity alone encourages extravagance. When times are favorable it produces surpluses which the legislators promptly find ways to spend. Then when deficits appear the Government is forced to borrow and the oppressive burden of public debt is further increased. Controlled reduction of yield is as important as controlled increase of yield. Elasticity is an important earmark of a good revenue system.

Elasticity must largely be secured from the direct taxes. The nature of many of the other sources of revenue makes stability in them desirable. Customs duties should not be adjusted annually. Trade suffers more perhaps from instability of customs duties than from their absolute amounts. The inheritance tax may be made an important source of revenue but it would be an intolerable injustice to make the extent of the contribution depend on the date of the decedent's death. Fiscal monopolies like the tobacco monopoly might be theoretically made to contribute elasticity to the system. Yet in practice the annual change in prices would prove very unpopular. Customary prices establish themselves easily and a government does well not to change these prices too frequently. Furthermore, price changes frequently produce unexpected and disappointing results. The same thing is true of taxes on alcoholic beverages. A sharp increase in these taxes may, as the Austrian Government learned during the War, so reduce consumption as to reduce the revenues from this source. Elasticity then can best be obtained through the direct taxes.

The Austrian direct tax system failed in this important respect. The produce taxes were by their very nature stable. The rigid 2.4 per cent biennial increase in the general business tax contingent deprived this tax of all elasticity. The fixed rates of the other produce taxes prevented any quick adaptation to Treasury needs. Their yield grew with the growth of the country. They were productive but not elastic. Under the circumstances it was doubly important that the income tax

should supply the needed element of elasticity. To fulfill this function, however, two things were necessary—easily adjustable rates and relatively large yield.

The Austrian income tax was defective in both these respects. The rates were fixed in the law itself and the national and social animosities in the Austrian legislature made any annual legislative modification of rates utterly out of the question. But even had the rates been adjustable, the yield of the income tax was too slight. Out of total revenues of 1,065.6 million crowns in 1898, the income tax yielded only 35.8 millions or a trifle less than 3.4 per cent. In 1913 the corresponding figures were 1713.3 million crowns, 101.8 million crowns, and 5.9 per cent.<sup>1</sup>

Despite the defects with which the direct tax system may be charged, it was not without some sound qualities. The first of these, and a very important one, was the freedom of the income tax from local additions. The lack of uniformity in the local additions to the Prussian income tax caused serious embarrassment to the central authorities. Tax dodgers' retreats developed which made all the harder the task of assessing incomes in high rate areas. In this respect the Austrian reform was distinctly superior to its Prussian model. This superiority, oddly enough, was due to the very inferiority of the general revenue system. The lack of an important independent revenue source, such as that furnished to Prussia by its railroads, forced Austria to reserve to itself the income tax. Nevertheless, it had to pay dearly for this freedom from local additions. The price was the reduction of 15 per cent, 12.5 per cent, and 25 per cent in the land, the buildings, and the general business taxes respectively, and the grant to the provinces of the first 6 million crowns over and above the revenues hitherto derived from the direct taxes, plus half of any further surplus. In return for these favors every province in present Austria renounced for itself and for the lesser units within its jurisdiction the right of levying additions to the income tax. This agreement originally ran only until 1909.<sup>2</sup> It was later

<sup>1</sup> See Appendix I for a complete record of the state revenues for 1913.

<sup>2</sup> Law of October 25, 1896, R. G. Bl. No. 220, Arts. IV-VIII.

extended to 1914, when the situation was regulated anew for a four-year period ending in 1917. By the new arrangement the right of the provinces and the towns to levy additions upon the income tax was made conditional upon the approval of the Emperor, the coöperation of the Government, and involved the loss of grants of 12.8 per cent of the yield of the income tax in excess of 115 million crowns.<sup>1</sup>

Though the price paid was high, it was worth it in view of the lack of central control over local additions. Legally the central government could veto any provincial addition of more than 10 per cent by withholding the approval of the Emperor and the signature of a responsible minister, and even, in the case of an addition of less than 10 per cent, it could instruct the *Statthalter* or provincial governor to withhold his approval.<sup>2</sup> As a matter of fact, however, the Government seldom if ever exerted its veto. In practice, the provinces had a free hand which they laid with increasing severity upon the direct taxes. In 1862, for example, the average for Austria as a whole was 20.6 per cent. By 1912 it had risen to 57.2 per cent.<sup>3</sup>

Besides the provincial additions there were the town additions. These varied widely from town to town. The mere cataloguing of them would fill a book.<sup>4</sup> The table on the opposite page shows the limits below which certain towns in what is now Austria could levy additions without control.<sup>5</sup>

Obviously any such additions as those authorized in the Vorarlberg or Innsbruck would have undermined the income tax in those places.

The Reform involved a real hardship upon the towns. They were prohibited by provincial ordinance from levying additions upon the income tax, but, unlike the provinces, nothing was offered them in its place but the unpopular authority to levy on private salaries between 6,400 crowns and 1,600 crowns.

<sup>1</sup> Law of January 23, 1914, R. G. Bl. No. 13, Arts. IV-XIII; also Gruenwald, p. 108.

<sup>2</sup> Gruenwald, p. 21.

<sup>3</sup> *Ibid.*, pp. 66, 104.

<sup>4</sup> *Ibid.*, p. 22.

<sup>5</sup> 487 der Beilagen, Nationalrat, Appendix I.



Place	Limit Expressed as Percentage of State Tax
Vienna.....	30
Klagenfurt.....	40
Graz.....	50
Towns in Lower Austria	60
Wiener-Neustadt	
Waidhofen a.d. Ybbs	
City of Salzburg and towns in Province of Salzburg	80
Towns in Carinthia.....	100
Towns in Tirol.....	150
Towns in Vorarlberg.....	400
Innsbruck.....	500
Linz, Steyr and towns in Upper Austria.....	no control

These incomes had, previous to the Reform, been liable under the old salaries tax. Now, upon their exemption by the State, the localities were authorized to introduce their own independent locally assessed taxes on such incomes.<sup>1</sup> Very few towns took advantage of this authority—twenty-six in all by 1913—and the revenues derived therefrom were insignificant, some 95,000 crowns in 1913.<sup>2</sup>

In addition to this freedom of the income tax from local additions, the direct tax system possessed another advantage, though it may not be so considered by overenthusiastic adherents of the faculty theory of taxation. This advantage consisted in the use for the most part of crude objective approximations to net income. The use of external indicia was well suited to the primitive economic conditions prevailing over much of Austria. And once settled upon, they permitted automatic and comparatively inexpensive assessment. Furthermore the taxes were due regardless of whether any net income had been derived from the income source during the past year. This was reasonable since the produce taxes took into account average conditions only, disregarding exceptional profits of one year. It was also reasonable on the score of benefit. The protection of the sources involved public expenditures in season and out. Means of access to the property, protection against

<sup>1</sup> Gruenwald, p. 93, n. 1.

<sup>2</sup> *Ibid.*, p. 94.

fire and theft, guarantee of legal titles, and numerous other costly services had to be furnished regardless of occasional bad years. These services were primarily local services. Hence it was proper that the produce taxes should be primarily local taxes. Prussia in its reform of 1891 turned over these taxes entirely to the localities. Austria, being poorer in independent sources of revenue, kept them as state taxes but reduced them in amount. Meantime the steadily mounting local additions transferred them more and more into local taxes. Thus in time the differences between Austrian and Prussian reforms were reduced.

Though the reservation of the produce taxes as a state source of revenue was dictated by financial necessity, it had at least two advantages over its Prussian model. One was that it guaranteed a more effective administration of the taxes than they would have received if they had been exclusively under local control and local assessment. The other was that through the combination of produce taxes and general income tax Austria was able to differentiate between funded and unfunded incomes, taxing funded incomes more heavily than unfunded ones without the necessity of introducing into the income tax itself complicating provisions, which greatly increase the difficulties of administration.

The theoretical groundwork of the Reform of 1896 is worthy of respect, and it is not surprising to learn, therefore, that the two men primarily responsible for the original government bill [of 1892] were two of Austria's greatest economists—Professors Böhm-Bawerk and Robert Meyer.<sup>1</sup> Most of the defects in the law as finally passed represented political compromises. We have tried in this chapter to show that these defects accurately reflected the ideals, prejudices, and apparent interests of the then dominant classes—the agrarian interests in the country districts and the “small man” in industry and commerce in the cities. In the next chapter we shall trace very briefly the war-time modifications in the direct taxes, and then, in the following chapters, show the changes in the system brought about by inflation and the rise of new classes to power after the Revolution.

<sup>1</sup> Plener, Vol. III, p. 36.

## CHAPTER II

### THE WAR PERIOD

#### I. INTRODUCTION

THE War period is of interest not so much because of the changes made in the direct taxes, as because of the revolution which it produced in the attitude of the people toward government.

Driven by necessity the Government undertook to control the entire economic life of the nation. In its hour of supreme trial Austria definitely abandoned reliance upon the forces of individual initiative, and by so doing appeared to validate the socialists' criticism of the existing social order. Publicists proceeded to make a virtue of this necessity by heralding the state socialism of wartime as the first manifestation of "a new and better organization of society."<sup>1</sup> Socialism became respectable. What its leaders had not accomplished by decades of propaganda, a conservative government accomplished almost overnight. The socialists had struggled against the overwhelming obstacle of *what is*. For to the man on the street, what is, is right. Inertia had been on the side of private property. Now it was on the other side.

This "new and better organization of society" needs to be understood for two reasons. In the first place the direct taxes, with which we are primarily concerned, had to operate under new conditions and new limitations. In the second place we cannot understand the futile experiments under the Republic unless we are familiar with the wartime experiments and the wartime mentality.

#### 2. STATE SOCIALISM

The War and its inexorable demands necessitated a sudden revolution in the existing production and consumption of wealth. There were two methods of meeting the situation.

<sup>1</sup> Redlich, pp. 228-229.

The Government could leave adjustments to private initiative, or it could undertake the adjustments itself. Under the first method soaring prices would automatically and promptly reduce civilian consumption as a whole, while the huge profits in war industries would cause a rapid conversion of peace time plant to wartime purposes. The State's expenditures would be swelled enormously in terms of money, but might conceivably be met by normal methods of finance: a general advance in existing taxes, an excess profits tax, and borrowing. Under the second method the Government could direct production and consumption by a system of rationing and price control, and where need be, by production on its own account.

The second method is known in German as *Planwirtschaft* or again as *Zwangswirtschaft*, according to one's point of view. It has certain psychological and theoretical advantages. The morale of the masses is undoubtedly improved by the knowledge that not only lives but property are being conscripted, that no one behind the lines is making a fortune out of the general misfortune. It has the theoretical advantage of bringing about a prompter adjustment of activities and a juster distribution of the necessities of life.

In any case the Austrian Government elected the second alternative. Indeed, such a course had been decided upon even before the outbreak of the Great War. The Balkan War of 1912 had convinced the military observers of the dual monarchy that, in the event of a general European conflagration, the State should assume direction of all the main activities of the country. Early in 1913, accordingly, the Austrian and Hungarian Parliaments had passed identically worded laws authorizing the conscription of property in time of war. The maintenance of private property rights was left pretty largely to the discretion of the military authorities.<sup>1</sup>

At the outbreak of the Great War these powers were promptly invoked. Maximum prices were established, existing supplies were seized, and in the *Zentralen* and *Kriegsverbaende*, or war boards, a new machinery of distribution was introduced. These

<sup>1</sup> *Ibid.*, p. 85.

boards were vested with sovereign powers of compulsion and usually contained a liberal representation of public officials in their directorates. At the close of the War there were ninety-one such boards, if we include an association of organized consumers and the *Devisenzentrale*, which centralized all dealings in foreign exchange.<sup>1</sup> Of these boards

- 20 pertained to agriculture and trade in agricultural products;
- 15 to the textile and knit goods industries;
- 8 to the paper and printing industries;
- 13 to the chemical, oil, and fat industries;
- 6 to the leather industry;
- 13 to the metal industry and allied branches;
- 4 to building materials and building construction;
- 3 to the wood and cork industries;
- 7 to trade in general.

Where a place was left in the general scheme for the profit motive the rate of earnings was strictly limited. And when excessive profits nevertheless emerged, the State attempted to reach them through taxation. Its avowed intention was to reduce the business-man to a state official on a fixed income. He was expected to direct business with his wonted acumen and vigor, despite the fact that, with all the risks of loss, no chance of gain, and little authority, the basis for his activity was gone.

Opinion is still divided as to the wisdom of the Government's *Planwirtschaft*. According to Dr. Meisel,

The man with money could get anything he wanted through underground channels, not even excepting the products of the government enterprises. Only the government was in ignorance of the location of the supplies which it demanded under penalty of confiscation and heavy fines. The penalties themselves fell only on the little fellow—never on the man higher up. The régime of compulsion, where it did not destroy, remained merely paper law.<sup>2</sup>

Professor Redlich, on the other hand, quotes with approval the less derogatory verdict of von Wittek, a former cabinet minister and the recognized historian of the *Planwirtschaft*. Von Wittek enumerates at length the shortcomings of the system only to conclude that the boards were nevertheless essential

<sup>1</sup> *Ibid.*, pp. 180-181.

<sup>2</sup> Meisel, p. 160.

and prevented the economic collapse of the State during the War.<sup>1</sup>

The truth seems to be that as a matter of allocating the supplies on hand at the outbreak of the War, the *Planwirtschaft* secured better results than the untrammelled forces of supply and demand could have secured. It failed, however, as a method of stimulating the increased production which a prolonged war imperatively demanded. The supplies at the disposal of the various boards sank rapidly as the War progressed. Thus the grain supply fell from a pre-war average of 10.9 million tons to 5.3 million in 1916-17; available fats and oils dropped to from a tenth to a fifteenth of the pre-war quantity; raw cotton to an eighth.<sup>2</sup> The blockade and the withdrawal of men from productive labor were responsible for much of this decline, but the policy of maximum prices must share the blame.

This short-run success and long-run failure of the *Planwirtschaft* are precisely what one might expect from its origin. It represented the extension to an entire nation of a policy very properly adopted in a besieged city, where the only object of the military authorities is the longest possible defense on the basis of a given supply of food and materials. Had the War lasted less than a year this extension of the policy would probably have justified itself. As it turned out, however, the *Planwirtschaft* weakened the Empire politically, economically, and financially.

The political aspects of the problem are not pertinent here, save as they promote an understanding of the post-war situation. It suffices, therefore, to point out that the habit of looking to the Government became so deeply ingrained in the population during this period that they continued to look to the government of the young Republic to solve the terrific tasks left by the War and the peace treaty. The resulting inflation of functions proved to be one of the biggest obstacles to post-war financial recovery.

The principal economic effects of the *Planwirtschaft* have

<sup>1</sup> Redlich, pp. 238-240.

<sup>2</sup> *Ibid.*, p. 239.

already been mentioned. Production was discouraged; private enterprise, while not destroyed, was crippled and driven underground. *Schleichhandel*, or, as we would say, bootleg trade, flourished. Probably one quarter to one third of the peasants' products were sold in *Schleichhandel* at high prices.<sup>1</sup>

This brings us to the financial consequences of the *Planwirtschaft*. The *Planwirtschaft* crippled normal methods of finance in a number of ways. In the first place it inspired a mistaken and costly belief in the needlessness of drastic increases in existing taxes. Two years passed before any change in the direct taxes was made and even longer before an excess profits tax was introduced. In the second place, it rendered the successful taxation of profits under either the ordinary direct taxes, or the excess profits tax, next to impossible. Since excessive profits were almost wholly illegal, their recipients dared not declare them. And finally it reacted unfavorably on the borrowing policy of the Government. The latter was obliged to have undue resort to paper money, for lack of a sound and productive revenue system adequate to guarantee the service of the debt. Thus, at the end of October 1918, 25,600 million crowns or 31 per cent of the entire national debt represented advances from the Austro-Hungarian Bank, whereas the entire pre-war debt of 13,000 million crowns had been wholly funded. The total note circulation meantime had risen from 3,100 (million crowns on July 31, 1914) to 31,500 million crowns on October 31, 1918, and other demand liabilities of the bank had increased during the same period from 467 to 4,362 million crowns.

Inflation in turn reacted unfavorably on the foreign exchange value of the crown, but less than would have been the case had extensive trade with foreign countries been possible. For while the note circulation increased about tenfold, the dollar rose only about 140 per cent above par. The real depreciation of the crown of course is to be found in the rise of domestic prices. The cost of living, after excluding housing, which a rent law had reduced to a purely nominal figure, increased sixteenfold during the same period.<sup>2</sup> It is plain therefore that

<sup>1</sup> Hainisch, p. 163.

<sup>2</sup> De Bordes, p. 82.

the increase in the cost of living was somewhat more rapid than the increase in the monetary circulation. This was due to the increased rapidity with which a dubious money circulated, and to the shortage of all sorts of goods, especially foodstuffs.<sup>1</sup>

### 3. THE DIRECT TAXES

The conscription of property in wartime has received much commendation in the United States since Mr. Barney Baruch established his fund of \$50,000 for the investigation of wartime profits. Mr. Coolidge as President gave the proposal the stamp of his approval as a measure likely to dampen war ardor. There appears to be little realization that the policy was established in advance by the Central Powers and that it did not sensibly alter the popular attitude in those countries toward war. There is also little popular realization of the implications of such a policy. It involves an unprecedented centralization of authority and responsibility. It is an assertion that a few men from their central offices can plan the activities of a nation, and galvanize millions into activity and keep that activity at a high pitch. It may mean a permanent change in the economic order, for it is not probable that public opinion will ever tolerate a restoration of the old order. Too many would appear to have stakes in the new order. Finally the policy of conscription of property is a great gamble. It undermines the basis of orthodox taxation so that if the policy fails there is no falling back upon the taxing power. By outlawing private activity the State has destroyed all tax honesty, all possibility of collecting from the war profiteer, (whose profits frequently are quite beyond his control), the heavy taxes which he might otherwise have paid promptly and gladly. By putting too great a strain upon the patriotism of its people, the State may well find that later it cannot make even reasonable demands upon their patriotism.

Such was Austria's experience. In the beginning the State relied upon conscription of property—*Planwirtschaft*. And then, when that failed, it fell back upon taxation. Even then it did

<sup>1</sup> The figures quoted here are from Table II in the Appendix.



not shape its revenue system with revenues alone in mind. Instead, and in utter disregard of the confusion and demoralization involved in the continuance on the statutes of the dead letter of the *Planwirtschaft*, the Government insisted upon mixing social and financial considerations. It attempted to secure through taxation that equality of sacrifice which it had failed to secure through direct action.

We are concerned here with the direct taxes only. Fortunately the other revenue sources may be disregarded, since it was primarily through the direct taxes that the desired changes were attempted. In the summer of 1916 they were increased by the simple process of adding extraordinary surtaxes to the existing rates. These surtaxes, or *Kriegszuschlaege*<sup>1</sup> were reserved entirely to the central government. Even a cursory examination of these extraordinary surtaxes reveals evidences of the discrimination against certain classes and certain types of business organization which first became apparent during the Revision of 1896, and which was to become far more conspicuous after the Revolution.

Thus the building tax and the tax on salaries were unjustifiably exempted from the war additions on the ground that persons on fixed incomes had already been hard enough hit by the War. The income tax was increased and made more sharply progressive on larger incomes. The increases did not begin, however, until incomes of 3,000 crowns had been passed. On incomes above this amount the increases began with 15 per cent and rose to 120 per cent on the fraction above 200,000 crowns. The so-called bachelor's surtax applied to the increased totals. As a result the maximum tax on a bachelor without dependents stood at 16.9 per cent as against the 1914 maximum of 7.75 per cent. The corporation tax was increased by one fifth. More significant, however, were the progressive additions levied on profits<sup>2</sup> above 6 per cent of capital and reserves. These additions carried the state tax to a maximum of

<sup>1</sup> Gruenwald, pp. 142-154.

<sup>2</sup> The term "profits" as used here meant the ratio of net profit, less corporation tax and interest on borrowed capital, to invested capital.

20 per cent where profits exceeded 14 per cent, and the local additions frequently enough brought the total rate to well over 30 per cent.

The tax on most types of interest, on directors' profits, and on the first two classes under the business tax was doubled. The increase on the two lower classes was 60 per cent. The discrimination between the small and the big business man was really greater, however, because the largest taxpayers were assessed outside the contingent, legally on the basis of external indicia, but actually at as near 5 per cent of net profits as untrained assessors could approximate. This extra-contingent tax was made retroactive to the beginning of the War. From 1915 on, the commissions were more and more disregarded, and, after that year, the assessment both within and without the contingent was annual. The reason advanced by the Government for this change was that, in a period in which many businesses showed sudden and great increases in earnings, their assessment within the contingent at anything like a reasonable figure would have reduced unduly the amounts due from others. There is much truth in this reason and it constitutes a valid criticism of the whole method of assessment under the business tax. Nevertheless the result of the change was to increase still further the discrimination against large scale production. Henceforth unincorporated businesses of any size were assimilated with corporations though taxed at a lower rate.

Contrary to the expectations of the Government, however, the net effect of this taxation outside the contingent was much less than had been expected. The tax itself, plus the exorbitant local additions, was liable to deduction from the exclusively state income tax and the war profits tax, to be described presently. As a result the yield of these taxes was often reduced by more than the State received from the business tax. Furthermore it added enormously to the burdens resting upon the reduced staff of business tax assessors, untrained in assessing income and specifically prohibited from consulting the records of the income tax assessors. Grave inequalities resulted from which there was no appeal, since there was no legal tax basis.

A final unfortunate result was the sudden increase in the basis for the local additions, which encouraged many of the smaller towns to reckless extravagance. They enjoyed an embarrassment of riches and yet almost uniformly refused to lower the general rate of their additions.<sup>1</sup>

A flat 80 per cent addition was added to the land tax. This figure was fixed upon as equivalent to the average of the 60 per cent and the 100 per cent additions to the business tax. The added burden on the larger business concerns involved in the extra contingent assessment was conveniently overlooked. Thus the large landowner, in view of his political influence, was treated with the same consideration as the peasant and the small man in the towns. At the same time, however, the abuse of abatements for damages from natural causes was curtailed. This was accomplished by the provision that 2 per cent<sup>2</sup> of the amount of the base tax (19.3 per cent) should be set aside as a provincial fund out of which successful claims in the future should be met. Any surplus was to go toward local improvements. Thus an expensive procedure, which was invariably successful, and against which reformers had long protested, was at last remedied.<sup>3</sup> The increase in the tax, however, was utterly inadequate. It did not even make good the long standing undertaxation of agriculture.

#### 4. THE EXCESS PROFITS TAX

There were no further changes in the ordinary direct taxes during the War period. Indeed even these inadequate changes were enacted by imperial decree.<sup>4</sup> It was not until 1917 that

<sup>1</sup> Demmer, in *Mitteilungen*, April 10, 1922; Loewenfeld in *Oe. V.*, 11. Jahrgang, No. 27.

<sup>2</sup> This had been the average amount of the abatements in recent years. See Gruenwald, pp. 148-150.

<sup>3</sup> See p. 10; also Redlich, *Bericht*.

<sup>4</sup> Par. 11 of the fundamental law of 1867 vested in Parliament the right to vote annually the budget of expenses and revenues (Kelsen, p. 33). Par. 14 of the same law, however, gave the Government the right to continue existing laws in force in the event that the Parliament failed to vote the budget before the close of a session, and also to enact new legislation while Parliament was not in session. Such legislation had to be approved by the entire cabinet, signed by the Emperor and

Parliament was convened, and thereafter disagreements between the two houses, and between the houses and the Government, blocked further legislation in the field of direct taxation. A contemporary writer described the deadlock in this wise:

It was soon evident that the huge profits which industry, the banks and many private individuals were deriving from the War, had unloosed a movement designed to secure through taxes all such war profits. But even this was not enough. The anti-capitalistic spirit which was steadily growing in Austria soon went a step further. It demanded the introduction of taxes, which were designed to take the largest part of all war profits, but which also threatened to undermine productive capacity and destroy the possibility of all saving. In this question a difference of opinion developed between the upper and lower houses, and the Finance Ministry found itself in the peculiar position of being obliged to reject the taxes offered to it because so high as to threaten the entire economic life of the nation. For many weary months tax bills were passed back and forth between the two houses; the most divergent amendments were introduced and rejected. Temporarily, therefore, the entire tax machine came to a standstill.<sup>1</sup>

The public took this sterile debate lightly, however, because it had already been quieted by the passage early in 1916<sup>2</sup> of an extraordinary and exclusively state tax—the War Profits Tax (*Kriegsgewinnsteuer*). War Profits Tax is a misnomer. The tax was levied on all increases of income, whether directly connected with the War or not. In recognition of this fact the name was later (1918) changed to War Tax (*Kriegsteuer*).<sup>3</sup> At the same time (1918) the law itself underwent various changes.<sup>4</sup>

The tax distinguished between individuals and companies. In the case of individuals it linked up with the machinery of the income tax. The assessed income of 1914, or the average

laid before Parliament within four weeks after its convening. Upon the failure of either House to approve it, the Government had to repeal the provisional legislation. But the Government might dissolve Parliament at will and assemble it at will. Hence in reality there was no democratic control of the budget. The Government was supreme (Kelsen, p. 40; Gruenwald, p. 20). Public opinion nevertheless continued to exert a powerful influence even in the absence of Parliament, as is abundantly shown by the character of the financial legislation of 1916.

<sup>1</sup> Mueller, pp. 158-159.

<sup>2</sup> Decree of April 16, 1916, R. G. Bl. No. 203, and the Administrative Ruling of August 8, 1916, R. G. Bl. No. 247.

<sup>3</sup> Gruenwald, pp. 129-142.

<sup>4</sup> Law of February 16, 1918, R. G. Bl. No. 66.

of the three years 1911-13, was taken as the basis from which to measure increases in income. Incomes of less than 10,000 crowns were valued at that figure, and increases of less than 3,000 crowns (increased to 5,000 in 1918) were in general disregarded. Public employees were entirely exempted from the tax, as were private employees, in so far as their earnings had not increased by more than 4,000 crowns (raised to 20,000 crowns in 1918). The members of *Gesellschaften m. b. H.*, whose number did not exceed six, were exempted from the personal tax. In the 1916 version the rate rose from 5 per cent on the first 10,000 crowns' increase of income, to a maximum of 45 per cent on the increase over 500,000 crowns. The real burden on certain definite increases in income over and above the 3,000 crown exemption is shown in the following table:

Increased Income	Rate of Tax (Per Cent)
10,000 Crowns	5
30,000 "	10
60,000 "	14.2
100,000 "	19.5
300,000 "	29.8
1,000,000 "	39.4

In 1918 the progression was made sharper, reaching 60 per cent as a maximum on 300,000 crowns, and in addition there was a surtax of 20 per cent on earnings on war contracts and other dealings directly connected with the War, and on occasional sales (*Gelegenheitsgeschaeft und Vermittlungen*), which were regarded as especially unearned.

The war profits tax on corporations was originally (1916) levied on *relative increases* of earnings. The average earnings of the period 1909-14, after excluding the highest and the lowest figures, were taken as the base from which to measure increases. In no case, however, was this base to be less than 6 per cent of capital and reserves. Six per cent was thus taken to represent normal pre-war profits. Departing from this base, the tax rose from 10 per cent, where the increased revenues were less than 5 per cent of capital and reserves, to 35 per cent where they exceeded 30 per cent of the same.<sup>1</sup> An increase of less than

<sup>1</sup> Foreign companies were taxed on the basis of absolute increase in earnings.

10,000 crowns was disregarded. A company holding not less than one-fifth of the stock of another company was not liable on this stock. This method of taxing the relative increased profitableness of an enterprise, rather than its absolute increase in earnings, was contrary to the practice in the case of individuals and, in that it frequently favored the large company against the small one, contrary also to the prevailing spirit of Austrian tax legislation. The explanation appears to be found in the fact that the measure was enacted by royal decree in the absence of Parliament.

After the expiration of the decree of 1916 the Government drafted a new measure, modelled on the old lines, but with heavier rates, steeper progression, and applicable only to 1917. Since Parliament was in session the bill had to go before it. The lower house modified the measure by increasing the exemptions, the rate of progression, and, true to form, by subjecting companies, other than coöperatives, to the rates and figures of *absolute* increase of the personal war profits tax. This modification introduced a new and flagrant discrimination against big business into Austrian tax legislation by carrying over the idea of the protection of the small man, to the company with small capital.<sup>1</sup>

The upper house revised the bill back in the direction of the original government measure. A long drawn out conflict ensued, out of which the law only emerged in February 1918. The tax, which was made retroactive to 1916, embodied a compromise on the taxation of companies. They were assimilated with individuals but taxed at a lower rate—one half the rate for coöperatives, two thirds for others—and, for the latter only, an additional tax on profitableness (*Rentabilitaet*),<sup>2</sup> varying from 3 per cent of the base tax, where the increased yield amounted to 2 per cent of capital and reserves, to a maximum of 60 per cent, where the increase exceeded 20 per cent. In no case, however, could the combined base tax and the surtax exceed 60 per cent of the increased revenues. The war tax was

<sup>1</sup> Gruenwald, p. 140.

<sup>2</sup> See n. 2, p. 147, above, for meaning of this term.

not deductible from either the income or the corporation tax, so that increased profits were liable, in addition, to the high rates of these taxes.

It is evident that the direct taxes had again become the football of politics, and that, as usual, the dominant classes had shaped legislation to suit their interests. The small man, the laborer, the peasant, and the feudal landlord were treated with the greatest consideration. Large scale business, on the other hand, came in for harsh treatment. Where unincorporated, it was deprived of the protection of the "contingent," and assessed on actual earnings—a practice not objectionable in itself, but one which nevertheless increased greatly the discrimination against big business. This discrimination culminated in the provisions of the 1918 war tax on corporations. Not content to hit the excess earnings of the corporation double when they should come into the hands of the shareholders, first under the income tax, and then under the personal excess profits tax, Parliament insisted upon a highly progressive tax on the *absolute* increase in corporate earnings, as though there were any connection between the size of earnings and the absolute income received by the several stockholders.

This subordination of revenues to class interests usually reacts unfavorably upon the treasury. Austria's experiment offers no exception to the general rule. While no statistics are available<sup>1</sup> to show the actual wartime yield of the direct taxes, there is nevertheless sufficient indirect evidence of their failure to provide the amounts expected of them. This failure arose partly from the assessors' inability to discover true income, but more from the lag between the earning of income and its assessment and collection. With the rapid rise in domestic prices this lag amounted to a very considerable remission of taxes. The evidence is to be found in the very great increase in the per capita yield of the direct taxes in 1919 over 1913<sup>2</sup>

<sup>1</sup> The final accounts for 1917 and 1918 were never closed, and the subsequent breakdown rendered it impossible to get figures for the territories that fell away. (From personal conversation with Dr. Gruenwald.)

<sup>2</sup> Figures for intervening dates are not available.

and their abrupt fall in 1920. The per capita burden of the direct taxes in old Austria in 1913 was 14.95 gold crowns, in 1919 it was 36.76 gold crowns without the war profits tax, and 79.67 with it. The corresponding figures for 1920 are 6.37 and 8.79 gold crowns. Again the percentage of the tax revenues borne by the direct taxes rose from 29.4 in 1913 to 77.5 in 1919 only to fall to 32.5 in 1920. These figures indicate that the greater part of the direct taxes of the war period were first collected after the Armistice—and in greatly depreciated crowns.<sup>1</sup>

How greatly this lag relieved the taxpayer and the way in which taxpayers prolonged the lag may be illustrated by the following episode: Mr. X was the principal owner of a prosperous private construction firm. During the War the firm was busy, but exclusively on private contracts. Profits were naturally larger than peace time profits in view of the steadily rising prices, but they were not excessive. Mr. X was liable to the personal war profits tax, but, Austrian fashion, made no declaration. At the close of 1918 the firm was wound up. Late in 1920 Mr. X received a tax bill for the three years 1916–18, amounting to 355,000 crowns. He immediately protested that the tax was too high, that he had never enjoyed the income assessed to him, which was the fact. His lawyer proceeded to drag the matter out over two years, adding a document from time to time to the growing pile in the “dossier” of the *Steuerreferent*. Finally, in the late spring of 1922, Mr. X was obliged to go to Paris. He could only get a visum by presenting a certificate that he had paid all his taxes. Accordingly he authorized his lawyer to settle with the tax office, and pay the tax. The result was that on February 26, 1922, he paid 85,000 crowns. Had the tax been paid in crowns of the value of those of 1916–18 the tax would have been the equivalent of about \$12,000. At the time the tax bill was first presented 85,000 crowns still represented about \$175; at the time it was paid about \$8.50. The lawyer informed Mr. X that he could have done very much better had it not been for the unfortunate trip to Paris. Naturally it would not have paid to drag the matter

<sup>1</sup> Gruenwald, *Nachfolgestaaten*.



out so long had it not been that the lawyer had been given a lump sum in 1918 to settle all future legal matters.<sup>1</sup>

Due thus to the failure to tax adequately, Austria, in common with all the continental countries, was obliged to finance the War primarily by borrowing. The public debt rose from 13,000 million crowns on June 30, 1914, to 83,000 million at the time of the Armistice. Of this, 25,400 millions represented advances from the Austro-Hungarian Bank, 35,200 public internal loans, 4,500 loans from private Austrian banks, and 3,300 foreign loans, the bulk of which came from Germany. The note circulation had swelled from a trifle over 2,000 million to 30,700 million crowns.<sup>2</sup> With defeat and the breakdown of the Empire the little Republic of Austria was left to shoulder the lion's share of this debt and indefinite reparations. Its taxing machinery was badly damaged, and the bulk of the taxpayers had become accustomed rather to receiving public largess than to paying their due share of public expenses.

<sup>1</sup> Related to the author by Mr. X.

<sup>2</sup> *Oe.V.*, February 22, 1919, quoted from the official *Wiener-Zeitung*. These figures vary a little from those given on page 45 because of the slight difference in date.

## CHAPTER III

### THE NEW AUSTRIA

#### I. INTRODUCTION

THE post-war situation cannot be dealt with as briefly as the wartime situation. It is more complicated, because peace is more complicated than war. Peace lacks that unity of aim and singleness of purpose which distinguish war. Its goal is vague and shifting. It is the resultant of the conflicting desires of multitudes of human beings, as these desires find expression through the defective medium of political representation. Similarly vague and uncertain is the question of the best means of attaining this goal. In the post-war period taxation loomed up as a possible means, and, once that was recognized, tax legislation became the object of passionate political strife.

The rapidity with which conditions changed in the years following the War makes it advisable to subdivide this period into two shorter ones, each of which has certain characteristics clearly distinguishing it from the other. The first period begins with the Armistice and properly ends with the return of the Social Democrats into the ranks of the opposition in October 1920. It lasted approximately two years and may well be called "The Period of Socialist Supremacy." The second period dates from October 1920 to the fall of 1922, when League of Nations' control of Austria's finances was initiated. The period marks the political supremacy of the peasant on the land, and the "small man" in the towns and cities. Since these two elements in the electorate are largely enrolled in the Christian Socialist Party, this may be called "The Period of Christian Socialist Supremacy."

#### 2. THE PERIOD OF SOCIALIST SUPREMACY

OCTOBER 1918—OCTOBER 1920

In October 1918 few could have foreseen the difficulties ahead of the new Austria, and their views would have received

scant attention. To the man on the street, peace meant the cessation of killing and of the countless privations and strains which the War had imposed. Yet anyone who was in Vienna during 1919 or 1920 will testify that, save for the men who were actually in the trenches, the sufferings of the first two years of peace were no whit less than those of the last two years of the War.

The failure of peace to bring its expected blessings was due to the completeness with which the old Empire was disrupted and the violence with which nationalism asserted itself in the Succession States, and throughout the world.

The Treaty of St. Germain is a matter of history now. Its shortcomings are known. In drawing frontiers, national allegiance weighed little against strategy or historic claims. The South Tirol, with its German majority, went unconditionally to Italy; similarly, northern Bohemia, with its prosperous industries, its rich natural resources, and its German majority, was included in polyglot Czechoslovakia. It is true that the fate of the Germans in the Burgenland and South Styria was left subject to the vicissitudes of a plebiscite. This method of settling frontiers, fair in itself, was only invoked, however, where the Entente had no objections to the results that might ensue. Even this verdict may be too favorable, at least as regards the Burgenland plebiscite. That territory had been under Hungarian rule for a thousand years, and many Austrians believe today that the Entente's sudden tenderness for the principle of nationality was inspired by the desire to create dissension between these remnants of the old dual monarchy. Certainly the resulting bitterness partially explains the disastrous embargoes and prohibitive tariffs which straightway replaced the free-trade regime of generations.

But the frontier regime here was simple compared to that which existed between Austria and the other Succession States. The brutal surgical operation upon the territories of Austria-Hungary was followed by equally brutal operations upon the trade connections, which had given reality to the old territorial unity. The persistence of government control of production

and trade in the several States after the Armistice undoubtedly increased the tendency to national retaliation. Trade was a matter of international diplomacy.<sup>1</sup> At first it was shipment against shipment, virtually on government account. It was not until after the final allocation of the rolling stock of the old Austrian lines among the Succession States that physical transshipments at every frontier were done away with. Later special bargains gave way to general bargains in the form of contingent treaties. Each of the parties to such a treaty agreed to allow definite quantities of enumerated commodities to be imported or exported within specified periods of time. Each tried to secure a balance of gain from such an agreement by foisting upon its neighbor a maximum of its superfluities in return for a maximum of essentials. Naturally the two countries often worked at cross purposes. All this, be it remembered, was in an area where, for generations, no barriers whatever had existed. Here was mercantilism run mad.

Such a regime put innumerable obstacles in the way of trade and commerce on individual account, and vested enormous powers in government bureaus. Yet international trade slowly grew in volume, and with it grew the volume of protest against this complex, time-consuming, inefficient, and corrupting regime. Finally, towards the close of the period of Socialist Supremacy, trade under contingent treaties gradually gave way to trade under high general tariffs. Multiples of the old peace time rates were established. Nevertheless, this substitution marked an important advance toward normal conditions, and helped greatly to revive private enterprise, which the *Planwirtschaft* of wartimes had prostrated. Henceforth business-men across the new frontiers could agree on the terms of contracts and carry them out without the necessity of an import or export permit, or other application to public authority. But otherwise conditions were still far from normal. The new rates would have proved prohibitive under less troubled conditions. Depre-

<sup>1</sup> In December 1918, the Foreign Minister reported that five diplomatic exchanges with the Czech Government had been necessary to obtain the passage of a single coal train through Czech territory. Bauer, *Revolution*, p. 118.

ciating currencies, however, and the insatiable demand for peace time products, enabled trade to surmount every barrier. There was a sort of commodity vacuum in Central Europe into which commerce penetrated despite every obstacle which chauvinistic mercantilism and bureaucratic stupidity could devise.

In a country so dependent on foreign trade as Austria, the internal situation was necessarily determined by the state of its foreign trade. For many months after the Armistice, therefore, the internal situation remained desperate. Munitions factories had closed down with the cessation of hostilities, and lack of coal, raw materials, and foreign markets made any rapid transition to peace time production impossible. Thousands were thrown onto the streets<sup>1</sup> just when the soldiers were returning from the front. Properly speaking they were no longer soldiers. They were but part of a mob—famished, half-naked, penniless, and desperate. Many of course returned to the country districts, where their assimilation into the working population was a relatively simple matter. The danger points were the larger urban centers—and above all Vienna. Unless the hordes returning to Vienna could be fed, clothed, housed, and put to work, a violent revolution was generally, and probably correctly, believed to be inevitable.

In this desperate situation statesmanship and patriotism were urgently needed and conspicuously lacking. The old leaders were gone with the Empire and the Emperor to whom they had given allegiance. The new leaders were comparatively unknown and inexperienced. But above all there was everywhere a lack of faith in and of affection for this new Austria. It was but a remnant, the creation of a victor's fiat, popularly deemed incapable of an independent existence. There was thus nothing to appeal to, no way of justifying the great sacrifices, which the situation demanded of the people. And the people were sick to death of sacrifices for the old conventional ideals.

<sup>1</sup> Between the beginning of December 1918 and the beginning of February 1919 the number of unemployed receiving relief jumped from 46,203 to 162,104. See Appendix III.

Conservative leaders tried to enthuse the multitude with the ideal of a great union of all the German peoples—"Union with Germany" became their cry. Statesmanship for them consisted merely in keeping the people quiet until Austria could take its place in a greater Germany. This was a temporizing policy, uninspiring and incapable of realization as long as the Entente remained intact. And meantime Austria had to live.

There were leaders pressing up from the people, however, who saw in the situation an opportunity to accomplish a great reform. Though possessed of no greater belief than their more conservative fellows in Austria's capacity to lead an independent existence, they nevertheless saw in the prevailing chaos the ideal opportunity to realize their dream of the new State—the Socialist State. They too favored union with Germany, especially after Germany had gone socialist, but, in addition, they had a positive program and one capable of kindling enthusiasm.

The general situation was in some ways favorable to their plans. Social life was for the moment in flux. If they could but organize and control the returning soldiers, in whose souls four disillusioning years in the trenches, and an even more disillusioning homecoming, had planted deep the seeds of discontent, they would have the power to shape the new society. In still another way the situation was ripe for their efforts. Even before the War the people had been docile and obedient to authority. The War period had advanced their schooling. They had become accustomed to government fiat, such as no pre-war government would have dared to issue. The bureaucracy too—more permanent than governments and regimes—had become accustomed to directing all the activities of the people. To the Austrian bureaucrat the propriety of keeping a tight rein upon the profit-seeking individual seemed axiomatic. Thus the governing and the governed alike had come to take state interference for granted. In these respects the internal situation was favorable.

In some ways the foreign situation also seemed favorable. Bolshevism was unmistakably consolidating itself in Russia. Disciples of this doctrine had seized power in Hungary and

Bavaria, and were strong in the rest of Germany. Discontent was rife in France, Italy, and England, so that Revolution threatened those countries, should Bolshevism advance to the Rhine. Austria's position between Hungary and Bavaria was strategic. If it should go Bolshevist there seemed good ground for believing that Germany would follow.

On the whole, however, the foreign situation was against the plans of the extreme radicals in the Social Democratic Party. In the first place, Austria was dependent for its daily bread upon the outside world, and notably upon the United States, where enthusiasm for the principles of Bolshevism was conspicuously lacking. Consequently the plans of the radicals received a bad setback when it was learned that, in the note accompanying the first relief shipment, President Wilson had stated very clearly that further shipments depended upon the preservation of law, order, and established property rights.<sup>1</sup> Otherwise there is little doubt that the communist element among the laboring population would have induced the Government to proclaim a Soviet Republic and to declare common cause with the communist leaders, Kurt Eisner in Munich and Bela Kun in Budapest. An unfavorable domestic factor was the geographical position of Vienna, at once the seat of government and the center of radical disaffection. It lies on the easternmost periphery of the State. This excentricity weakened very considerably the political influence of the capital in the provinces, where communist sentiment was insignificant. The proclamation of a Soviet Republic, therefore, would very probably have led to secession and the virtual blockade of Vienna.

Nevertheless, the seething discontent in that city made an experiment in some sort of modified socialism inevitable. It was only a question which party should guide these forces of discontent and prevent them from doing irreparable damage.

Political power was divided among three parties at the time of the Armistice: Christian Socialists, Pan-Germans, and Social Democrats. The Christian Socialists represented primarily the

<sup>1</sup> Bauer, *Revolution*, p. 117.

peasant in the country, and the shopkeeper and independent craftsman in the towns and cities—the “little man.” The Pan-Germans drew for the most part from the intellectuals in the urban centers. The Social Democrats were the party of the laboring classes in Vienna and its industrial suburbs. The Christian Socialists and the Pan-Germans had a large majority in the self-appointed Provisional Assembly, which took over power at the close of the War. This majority, however, was not indicative of the existing temper of the community, since the mandates dated from a pre-war election. The true temper of the population was revealed in the elections of February 1919, when the Social Democrats secured 43.4 per cent of the representation in the Constitutional Assembly, against 39.6 per cent for the Christian Socialists and 15.7 per cent for the Pan-Germans. The once dominant German Liberal Party secured but a single representative.<sup>1</sup>

The Social Democrats were even stronger than their numbers in the Assembly would indicate: they had behind them the strongly organized and militantly socialistic trade unions, and the new Republican army, which was largely recruited from trade union ranks. The leaders of the party realized, however, very clearly the limits on their power set by their dependence on the Entente and the provinces. And yet they could only prevent control of the party from falling into the hands of the communist wing by the promise of sweeping changes in the social order.

Fortunately for the party, it had in its ranks one of the most versatile politicians in all Austria. This was Dr. Otto Bauer, a lawyer of Jewish extraction, who had served as an officer in the Austrian army and had been a prisoner in Russia. As secretary to Dr. Viktor Adler, the unquestioned leader of the Social Democratic Party, and the first Foreign Minister of the Republic, Bauer immediately made his influence felt. So much so indeed that at the death of Adler, a few weeks after the Revolution, Bauer succeeded to Adler's post and his position as leader of the party. Though sympathetic with Bolshevism,

<sup>1</sup>*Ibid.*, p. 127, also Kelsen, p. 115, n. 1.



he realized the impossibility of its successful introduction into Austria. In its place he drafted a first approximation to Bolshevism.

Bauer's program was published in the *Arbeiter-Zeitung*, the official newspaper of the party, late in 1918 and later appeared in pamphlet form under the title *Der Weg zum Sozialismus*. It became the official program of the party. It proposed, of course, the socialization of the means of production, but, in addition, it made concrete recommendations as to procedure. The starting point was to be the purchase of the heavy industries of the country and their management by boards composed of representatives of the State, of the employees, and of the consumers, organized into coöperatives.<sup>1</sup> The remaining industries were to be grouped compulsorily into "cartels," which were to be managed by representatives of the same three bodies, and of the owners as humble fourth partner. The landed estates of the Crown and of the Church were to be nationalized, and turned over on long lease to the small peasant. Small holdings were to be permitted, but all products were to be sold to state buying organizations. Methods of farming were to be determined by democratically elected agricultural boards.<sup>2</sup> Prices and profits were to be based on the cost of living of the small peasant. The price of bread for the urban population was to be fixed at such an intermediate point between the cost of domestic and foreign grain, that the public grain organization would derive no profit. The means for buying out the capitalists were to be obtained by a progressive capital levy and heavy property and inheritance taxes, rather than by direct confiscation—a method which Bauer recommended as more "refined," less disturbing to credit, and therefore more effective.

It is highly improbable that Bauer expected to carry out all of this program. He realized, however, that the price of retaining leadership was at least its partial realization. Accordingly

<sup>1</sup> Partially realized later under the name "Gemeinwirtschaftliche Unternehmen."

<sup>2</sup> Compare the proposals of the English Liberal Land Committee, in their Report, *The Land and the Nation*, London, 1926.

he was forced to look for allies in the conservative camp. He found such allies in the peasant wing of the Christian Socialist Party, where bitterness against the price control and the military requisitioning of the old military regime rankled, and where suspicion and hostility towards the financial, commercial, and big business interests of Vienna were traditional. The peasants were quite willing, therefore, to support measures aimed at these interests, providing their own were duly respected.

With the consummation of the peasant-socialist alliance the way was cleared for the execution of a very considerable part of the Social Democratic program. The exultant editorial in the *Arbeiter-Zeitung* seemed hardly an exaggeration:

The much laughed at, much scoffed at future state is to become a reality, and a reality of the present. . . . Even the bourgeoisie feel that they can no longer oppose the inevitable iron "must" of the times.<sup>1</sup>

More convincing still is the following citation from the pen of Walther Federn, one of the editors of *Der Oesterreiche Volkswirt*, a liberal economic weekly paper:

It is difficult in this period of fearful crisis, which, it is to be hoped, marks not only the end of an outworn economic epoch, but the beginning of a new period of sensible organization and just distribution of the products of human labor, to turn one's attention to this focus (i. e., the stock exchange) which the old capitalistic system has created.<sup>2</sup>

The existing situation was so untenable that the socialist assertion, that it was the logical product of capitalism, carried weight in circles which had hitherto shown small sympathy for socialist doctrine. Thus there was surprising unanimity in favor of the program upon which the Government now entered.

In November 1918, an unemployment insurance act was passed. In December, a limited eight-hour law was enacted, which was later generalized and made into a fundamental law of the land. Employers were required to reemploy their former workers among the returning soldiers, and, in addition, those employing more than 15 had to increase by 20 per cent the number on their pay rolls on April 26, 1919. This number could

<sup>1</sup> Quoted in article in the *Oe. V.* 12. Jahrgang, No. 8, p. 143.

<sup>2</sup> *Ibid.*, 11. Jahrgang, No. 29, pp. 517-518.

only be reduced thereafter by permission of political authority. Compulsory holidays with pay were introduced, and a very heavy schedule of bonuses on discharge prescribed. A law of March 1919 authorized the expropriation, with compensation, of any private enterprise in favor of the State or the localities; while without compensation castles, palaces, and similar luxury dwellings might be confiscated for the purpose of creating public health establishments. In May, a system of workmen's councils was enacted, which restricted appreciably the authority of the employer.

Simultaneously with the presentation of the Workingmen's Councils Bill, Dr. Bauer laid before the Assembly a bill authorizing the creation of the new "socialized enterprises"—*die gemeinwirtschaftlichen Unternehmungen*—which have already been described. The measure passed on July 29, 1919, and forthwith began the conversion, at great expense, of the state munition and other war plants into socialized enterprises.

The socialized enterprises were not a success. The overcrowded board of directors (which enjoyed great freedom of action), conducted the enterprises in a most unbusinesslike manner. The selling apparatus was inadequate; there was a complete lack of coöperation between departments; and there was no single guiding will. Impossible contracts were made which were later voided at heavy cost to the State. The lack of cost accounting led to the sale of goods below bare labor costs. Allowing for all the difficulties of adjustment to a peace basis, the conclusion nevertheless holds that all positive financial accomplishments were almost wholly offset by the losses caused by the extremely unbusinesslike conduct of the enterprises by the board of directors.<sup>1</sup>

Two other measures should be mentioned here, although they dated from the War period. The first of these was the Rent Control Law (*Mieterschutzgesetz*), which prevented any increase in rents over those prevailing in 1917. Due to the subsequent rise in prices houseowners, as such, were reduced to pauper-

<sup>1</sup> This was the verdict of the Court of Accounts. See 700 der Beilagen, Nationalrat.

ism. Meantime the standard of living of the majority of the urban population was artificially raised, or at least protected from the full effects of inflation. This was accomplished, however, at the expense of all mobility of labor. The establishment of new enterprises was rendered difficult and sometimes impossible, where any considerable movement of workers was involved. No recovery of the building trades, of course, was possible as long as the Rent Control Law remained in force.<sup>1</sup>

The second measure was the policy of food subsidies, and as a corollary, though not a necessary one, the practice of requisitioning local food supplies at less than world prices. This policy greatly reduced agricultural production, exercised the same artificial influence on standards of living, and incidentally broke down the coalition between the Social Democrats and the peasant wing of the Christian Socialist Party.

The same reasoning that led men to justify the feeding and housing of the population below cost, was also responsible for the unwillingness of the politicians to increase railroad, telegraph, and telephone rates, and the prices of monopoly articles, to cover costs. Public opinion had come to regard the Government as the supporter of the people instead of the people as the supporters of the Government.

The proponents of this program had supposed that, once inaugurated, it would in large part pay its own way, so that

CONSOLIDATED 1919-20 BUDGET  
(In Millions of Crowns)

	Original Estimate	First Supplement	Second Supplement	Third Supplement	Total
Expenditures . . . . .	6546.9	4350.7	2381.4	3594.4	16873.4
Revenues . . . . .	2548.3	1082.0	807.7	1856.6	6294.6
<i>Deficit</i> . . . . .	3998.6	3268.7	1573.7	1737.8	10578.8
<i>Ratio Deficit to Expenditures</i>	61%	75%	66%	48%	63%

<sup>1</sup> The extensive building program of the municipality of Vienna, which was begun in 1923, necessitates some qualification here.

beginning with the fiscal year 1919-20 the State's budget would be balanced. But in this they were disappointed, as the 1919-20 budget figures show.<sup>1</sup> (See table on opposite page.)

It will be seen from these figures that, at the presentation of the original budget, the Finance Minister estimated revenues at only about 40 per cent of expenditures. Even this proved too optimistic. Three supplementary estimates had to be brought in during the year to regularize expenditures in excess of estimates. The budget for the year showed total expenditures of 16,873.4 million crowns, and revenues estimated at 6,294.6 million crowns, or a deficit of 10,578.8 million crowns. To meet this defect there was no alternative but to borrow. But ordinary long-time borrowing was impossible for reasons that are discussed later. The only other method of borrowing, therefore, was through compulsory advances from the bank—i. e., inflation. Between the close of 1918 and mid-September 1919 note circulation increased from about 4,500 million to 9,383 million crowns.<sup>2</sup>

In September 1919 a modification became necessary in the political alliance whereby the Social Democrats controlled the State. A number of factors were responsible for this change. In the first place, the terms of the Peace Treaty had become known late in the summer and naturally shook the prestige of the party in power. Secondly, the cost of living, which had remained fairly constant from the middle of January to the

<sup>1</sup> 516 and 667 der Beilagen, K.N.V.

<sup>2</sup> It is impossible to give an exact figure for the earlier date because of the fact that the notes of the Austro-Hungarian Bank still circulated at that time through the Succession States. The total circulation on January 7, 1919 was 35,717 million crowns. Ordinarily about one fifth of this would circulate within the present Austria. This would give a figure of about 7,000 million. Against this larger estimate, however, is the fact that a stamping of the notes of the several States was expected, and already notes were moving toward those States whose credit was popularly believed to be the strongest, and whose stamp therefore would give the greatest value to the notes. The Jugo-Slav Government carried out a defective stamping between January 8 and 20, 1919. The Czeck Government followed suit between March 3 and 9, and the Austrian Government between March 12 and 24 of the same year. The bank Statement of March 31, 1919 showed a circulation of 4,678 million stamped crowns. On the impossibility of determining the exact circulation at this time consult De Bordes, ch. iii. See also Appendix IV.

middle of July, despite the large increase in the note circulation, began to mount alarmingly, and, with more justice than is usual in such popular judgments, the party in power was held responsible. But the determining cause for the modification of the alliance lay in the dissatisfaction of the members of the peasant wing of the Christian Socialist Party with the treatment their interests had received from their allies. Despite their vigorous protests, the Government had persisted in the policy of requisitioning food supplies at artificially low prices. Powerless to protect themselves, the peasants turned again to their more natural allies, the shopkeepers and artisans in the towns. Christian Socialist unity was thus restored. But the united party was still too weak to govern against the Social Democrats, and the Social Democrats just lacked the votes necessary to govern alone. Accordingly, a Second Coalition was formed between the Social Democrats and the Christian Socialists, in which a larger place was made for the conservative party. No great change in policy, however, could be looked for. The increased importance of the peasant and "small man" in the councils of the coalition insured better protection of the rights of the small property owner, while their prejudices against big business and finance, when added to that of the laboring classes, indicated the program of the Second Coalition: maintenance of the existing social expenditures in favor of the poor, a balanced budget at the expense of the wealthy, no further structural changes.

Increased emphasis was to be laid upon taxation—notably direct taxation. This period witnessed the introduction of a heavy capital levy and large increases in the taxes on general incomes, on corporations, and on interest. Though agreed in principle upon their line of conduct, the two allies could not agree in detail, so that it was not until the summer of 1920 that these measures were passed. Meantime continuing deficits were met as before by the issue of paper money. Between June 30, 1919 and June 30, 1920 the State's budget deficit amounted to 10,579 million crowns, while the note circulation increased from 7,398 to 16,971 million crowns, or by 9,573 million crowns. Be-

tween June 30, 1920 and September 30, 1920 the circulation increased by a further 5,300 million crowns. The cost-of-living index jumped from 31.02 in July 1919, to 63.76 in July 1920, and to 69.60 in October 1920, while the dollar rose in Vienna from 31 to 255 during the same fifteen months' period.

The inflation of the period of Socialist Supremacy is shown in the following table.<sup>1</sup>

Date	Circulation (Millions of Crowns)	Price Index Number	Dollar Exchange
1919			
January 7	4,500	28.37	16.2
June 30	7,398	31.02	29.6
September 15	9,383		60.7
November 15	11,034		101.1
1920			
January 15	12,308	49.22	204.
April 15	15,380	58.42	201.
July 15	17,451	63.76	148.
September 15	20,566		238.

Just as the sharp rise in prices in September 1919 ended the First Coalition, so that of September 1920 paved the way for the period of Christian Socialist Supremacy.

### 3. THE PERIOD OF CHRISTIAN SOCIALIST SUPREMACY OCTOBER 1920—OCTOBER 1922

On October 1 the Constitutional Assembly ratified the permanent constitution<sup>2</sup> which had been under preparation for nearly two years past. Immediately thereafter elections for the new parliament (*Nationalrat*), were called for October 17. These resulted in gains for the Christian Socialists at the expense of the Social Democrats and the Pan-Germans.<sup>3</sup>

As in the earlier election, the once dominant Liberal Party gained but a single representative in the person of Count Otto

<sup>1</sup> See Appendix IV.

<sup>2</sup> Kelsen, p. 163.

<sup>3</sup> *Ibid.*, p. 160, n. 1.

Parties	Relative Strength in	
	Constitutional Assembly	Nationalrat
Christian Socialists . . . . .	39.62	46.86
Social Democrats . . . . .	43.40	37.72
Pan-Germans . . . . .	15.72	14.28
German Liberals . . . . .	0.63	0.57
Jewish Nationals . . . . .	0.63	0.57

Czernin, who had been Foreign Minister under the Monarchy in 1917 and 1918.

The Christian Socialists proceeded to form a *new government*, to which the Pan-Germans and the German Liberal representative pledged benevolent neutrality. The period of Socialist Supremacy was over. Henceforth the Government was in the hands of the conservative classes. Their power was so precarious, however, in the face of the organized strength of the Social Democrats and they themselves were so imbued with prejudices against large scale enterprise, that no fundamental change in policy could be expected. Indeed the only accomplishment of the Christian Socialists during their first year of control was to limit somewhat the extent of the State's interference in business.

The new policy contributed greatly to the recovery of private enterprise. For this very reason it was bitterly attacked by the opposition and yet, curiously enough, its best defense is quite unintentionally given by Dr. Bauer himself:

Only in one field did the conservative government develop a definite and active policy: gradually but according to a definite plan it reduced the system of war control (*Kriegswirtschaft*), the public regulation of economic life. When one remembers that during the last years of the war illicit trade (*Schleichhandel*) had taken on ever greater dimensions, it is not surprising that, after the collapse of the military power, the far weaker republican government was not able to enforce the war control measures against the passive resistance of the trading and peasant interests, against the anarchy of the provincial governments, and against the corruption by profiteers of a considerable part of the badly paid public officials. With the entire system thus undermined, new difficulties arose after 1920 out of the gradual resumption of trade with foreign countries. Import and export prohibitions, without which a central control is impossible, now appeared as fetters upon reviving commerce. The law of July 6th had al-



ready broken with the policy of public control of the grain trade. The conservative government, under pressure from big commercial interests and the peasantry, next proceeded to repeal one war measure after another and thus restored liberty of trade.<sup>1</sup>

In describing the changed attitude of the provinces towards Vienna, Bauer gives the following picture of the results of this break with the policy of control:

The new attitude was facilitated by economic developments. During 1918 and 1919 the scarcity of food was one of the strongest factors making for provincial particularism; the struggle to prevent the export of food and raw materials from the province was the most popular provincial activity. With the beginning of the world depression in 1920, Austria was able to get as much food, coal and raw materials from abroad as it could pay for, and thus the economic basis for provincial particularism was destroyed. During 1919, when Vienna's industries were at a standstill on account of lack of coal and raw materials, the provinces regarded Vienna as a prisoner would regard the ball and chain around his ankle. She took their insufficient food supplies without offering them anything in return. Beginning in 1920, however, Vienna ceased to be the ball and chain, and became the great source out of which the Federation drew four-fifths of its revenues, and all the foreign moneys so essential for the purchase of the grain and the coal which the Alpine provinces also needed.<sup>2</sup>

The upward swing of private enterprise is evidenced by the following figures of coal, coke, and cotton imports:<sup>3</sup>

	Coal and Coke	Cotton
	(In Tons)	(In Tons)
Second half of 1919 .....	1,200,000	13,265
1920 (one half) .....	2,000,000	31,615
1921 (one half) .....	2,920,000	65,255

The recovery of Vienna as a transit point was even earlier, as is shown by the fact that in 1920 the weight of goods passing through the great municipal warehouses had increased three and one-third fold over 1913.<sup>4</sup> The Vienna banks too had regained their dominant position in the Succession States and the Balkans. Unemployment had sunk from 186,000 in May 1919,

<sup>1</sup> Bauer, *Revolution*, p. 226.

<sup>2</sup> *Ibid.*, pp. 233-234.

<sup>3</sup> *Ibid.*, p. 202.

<sup>4</sup> Strakosch, p. 99, n. 2.

to 46,000 a year later, and to an insignificant figure (16,500) by the end of 1920. Throughout 1921 there was little unemployment.<sup>1</sup>

Yet this recovery of private enterprise seemed only to hasten the deterioration of the State's finances. The 1920-21 budget developed even more disastrously than had its predecessor.<sup>2</sup>

CONSOLIDATED 1920-1921 BUDGET  
(In Millions of Crowns)

	Original Budget	First Supplement	Second Supplement	Total
Expenditures.....	33,194.5	37,395.7	10.6	70,600.8
Revenues.....	20,655.1	8,828.2		29,483.3
Deficit.....	12,539.4	28,567.5	10.6	41,117.5
Ratio Deficit to Expenditures.....	38%	76%	—	58%

As before, this huge deficit was met by the issue of paper money. Between June 30, 1920 and June 30, 1921 the circulation increased threefold, from 17 billion crowns to 50 billion crowns, in round numbers; by the end of October 1921 circulation had nearly doubled again. The foreign exchanges meantime registered the esteem in which the crown was held in Vienna. From 145 on June 30, 1920, the dollar rose to almost 800 during January 1921, and then, after a temporary decline, it climbed into the thousands during the late summer and the early fall. The cost of living increased almost fourfold during the same sixteen months. The discontent in laboring circles increased ominously during this period. Though their every wage demand was met, their wages nevertheless melted away between pay days.

The following table shows the development of inflation during this period:<sup>3</sup>

<sup>1</sup> See Appendix III.

<sup>2</sup> 230 der Beilagen, Nationalrat.

<sup>3</sup> See Appendix IV.

Date	Circulation (Millions of Crowns)	Price Index Number	Dollar Exchange
<b>1920</b>			
June 30	16,971	62.87 <sup>1</sup>	145
October 15	23,540	69.60	310
<b>1921</b>			
January	32,506	92.18	704
February	36,590	99.56	665
March	38,774	111.74	682
April	42,395	111.34	636
May	44,274	118.80	584
June	47,209	118.95	675
July	50,435	124.66	775
August	55,248	123.52	1,020
September	61,321	150.61	1,600
October	79,292	237.76	2,637

Despite this debacle the recovery of private enterprise was important in more ways than one for the State's finances. In the first place it furnished the foundation on which a sound financial policy could be built; and in the second place it revealed the absurdity of the existing policy, and thus, by implication, the elements of a sound policy.

The absurdity of the situation only became apparent when unemployment had practically disappeared. Then it became plain to all thoughtful people that the State was attempting the impossible task of taxing away the larger part of the profits of business-men in order to supply the employees of these same business-men with food, transportation, telephone, telegraph and postal services, tobacco, etc., *at less than cost*. Under the resulting strain fiscal administration of necessity broke down. Back taxes accumulated which inflation promptly robbed of all significance. The only recourse then was to the printing press and to a new round of inflation. The pitiless logic of this situation gradually drove home the unpopular truth that the only real remedy lay in the protection of property rights, reasonable taxation, and above all, a radical reduction in expenditures.

<sup>1</sup> This figure estimated by interpolation. See Appendix IV.

Economy was the first and most important element in any real reform of Austrian finances. No adequate economy was possible, however, unless the food subsidies could be abolished, the deficits from the public utilities and monopolies wiped out, and the number of state employees radically reduced. Food subsidies were responsible for almost 30 per cent of the deficit—21,700 millions in a budget of just over 70,000 million crowns.<sup>1</sup> The Finance Committee recognized this fact and yet could propose no remedy:

The item public food subsidies bears down upon the budget like a leaden weight yet we are absolutely helpless because it increases automatically with the depreciation.<sup>2</sup>

The deficit from public utilities and monopolies came to about 4,250 million crowns.<sup>3</sup> Of almost equal importance as a source of deficit were the salaries paid to unnecessary personnel in the public services. There were some 250,000 in the employ of the State over and above those in the employ of the provinces and localities towards whose salaries the State contributed. Together with their dependents there were thus from 10 to 12 per cent of the entire population directly dependent on the State. Altogether the Federal Government disbursed 17,154 millions on salaries and pensions, or 24.5 per cent of total expenditures. At least one third of the employees in the active service could have been dispensed with at once, as far as their utility was concerned. Although the retirement of some of them would have added to the permanent pension burden, it is probably safe to say that at least 3,500 million crowns could have been saved here.<sup>4</sup>

Such economies, however, required a stronger government than Austria could boast. Public opinion took it for granted that the State should supply semi-gratuitously the daily needs of its citizens. Yet in the end Necessity teaches her lessons and

<sup>1</sup> 230 der Beilagen, Nationalrat.

<sup>2</sup> 168 *Ibid.*

<sup>3</sup> 230 *Ibid.*

<sup>4</sup> The figures used here are from 594 der Beilagen, Nationalrat. The League of Nations experts later recommended that 100,000 be dropped from the pay roll of the State.

man slowly changes his laws and institutions to conform. So it was in this case. And it was the sudden rise of the cost of living during August and September of 1921 that finally drove home the lesson.

It is to the credit of the Social Democrats that they were the first to come out officially with a project for the abolition of the food subsidies and the reduction in the number of state employees.<sup>1</sup> They tied so many strings to their proposal, however, as to rob it of much of its usefulness. The following reservations were of this character:

1. That representatives of the state employees should be on the committee recommending reductions in the civil service;
2. That the capital levy should be adjusted to the new value of the crown and energetically enforced;<sup>2</sup>
3. That the number of state monopolies should be increased;
4. That all existing public industrial enterprises should be socialized, and that henceforth the directors should share the profits—though not the losses;
5. That all foreign moneys and securities should be surrendered under penalty of their confiscation and the imprisonment of the recalcitrant owners. Persons complying with the law were to receive state bonds redeemable by lot within ten years in the currency originally surrendered, and with interest payable in crowns at the current rate of exchange.<sup>3</sup> The first of these reservations was likely to preclude any real reduction in personnel. The last four reveal the same faith in strong measures, the same dogmatic adherence to the idea of socialization, the same blind refusal to limit desires to the means of accomplishment, which had characterized the policies of the Social Democrats from the very beginning. They had learned nothing and forgotten nothing.<sup>4</sup>

<sup>1</sup> *Arbeiter-Zeitung*, October 1, 1921.

<sup>2</sup> See Chapter VI of this book.

<sup>3</sup> This proposal bears a close resemblance to Caillaux's proposed funding bond issue of 1924.

<sup>4</sup> One of the reservations, not mentioned in the text, raises an interesting point of theory. The reservation in question was that with the gradual reduction in food subsidies the employers be required to increase *pari passu* the wages of their

Yet the new attitude of the Social Democrats was of great importance. It at last made politically possible some modification of the food subsidies, and it galvanized the Christian Socialist Party into activity. The majority party now definitely announced a program of internal reform, calling for far-reaching economies, notably through reductions in the civil service, and abolition of food subsidies, and increased revenues, through an adaptation of the direct taxes, public utility rates, and monopoly prices to the facts of depreciation. These reforms were to be carried out, not at the expense of the well-to-do, but in part at least in their interests. In return the well-to-do were expected to subscribe to a stabilization loan, which would render further resort to the printing press unnecessary.

Important parts of this program were carried out. The food subsidies were done away with. Unfortunately for the Treasury, however, it proved politically necessary to reduce them gradually and postpone their final abolition to the end of April 1922.<sup>1</sup> The State thus secured little relief at this critical time, and, such as it was, it was in part offset by the accompanying increase in civil service salaries. This increase made a reduction in the civil service more important than ever, yet no reductions were made. Better success was scored in the adaptation of the direct taxes to depreciation by the introduction of a

employees. The iron law of wages apparently underlies this reservation. The employer was supposed to pay his laborers only enough to live on. The advantage, therefore, of the food subsidies and also, of course, of the rent control, presumably went to employers. Evidently, however, the socialist leaders were not very sure of their theory, else why did they object so strenuously to any tampering with rent control, and so long to any modification of the food subsidies? As a matter of fact, with the virtual disappearance of unemployment, competition forced employers to pay wages considerably above the subsistence level. That these wages were lower in gold than before the War was due to (1) the inevitable lag in a period of rapidly rising prices; (2) the low productivity of industry, due to lack of capital and the breakdown of international trade; (3) the reduced effectiveness of labor, which was due in turn to these very subventions, which provided the worker with necessities at far less than cost, thereby increasing the disutility of labor and the utility of leisure. Employers very generally testified at this time to the difficulty of keeping their men steadily at work.

<sup>1</sup> Law of December 21, 1921, B. G. Bl. No. 716.

flexible tax unit—the *Steuereinheit*. Income, and the corresponding taxes on income, were alike expressed in multiples of this tax unit, which the Finance Minister, with the approval of the Main Committee of the *Nationalrat*, was authorized to alter as often as changes in the price level should justify.<sup>1</sup> Measures were taken to hasten the collection of back taxes and to increase them so as to offset the loss in their purchasing power. Monopoly prices and utility rates were generally increased.

These measures were all helpful, but they could not accomplish miracles. Their mere pronouncement brought in no immediate revenues and secured no immediate economies. The internal loan was designed to bridge the gap. Unfortunately it could not be floated, despite the new Finance Minister's proud declaration that Austria had always paid her debts punctually and fully.<sup>2</sup> Such a statement somehow failed to reassure a public which found that the interest on its war and pre-war bonds was no longer sufficient to pay the carfare spent in collecting it. The Government was therefore forced to borrow from the Bank in the old way, and with the familiar accompaniments of rising prices and skyrocketing foreign exchanges.

Date (1921)	Circulation (Millions of Crowns)	Price Index Number	Dollar Exchange
October 15	79,292	237.76	2,637
November 15	103,129	374.37	5,950
December 15	142,872	661.00	6,450

The rise in the cost of living caused general consternation. If such a thing could take place even before the abolition of the food subsidies, what might not be expected after their inauguration, asked the man on the street. On December 1, rioting occurred in Vienna. Masses of hungry men and women from the slums marched on the Inner City, where they plundered food and luxury shops and wrecked the fashionable hotels.

<sup>1</sup> See p. 110 ff.

<sup>2</sup> *N.F.P.*, November 9, 1921.

The Social Democrats were quick to seize this occasion to renew their demand for a compulsory loan and the confiscation of foreign moneys and securities, and the Government yielded as was its wont. Indeed it had virtually capitulated even earlier. On November 9, Finance Minister Guertler, whose policy was to be one of moderation, had warned the possessing classes that, if they did not subscribe voluntarily to the approaching loan, some other way would be found to reach their foreign holdings.<sup>1</sup> And then, on the day following the riots, he announced that if the wealthy could not be reached by measures of a private capitalistic nature, it might be necessary to adopt other measures.<sup>2</sup>

What Dr. Guertler meant by these vague threats was revealed by two government bills introduced early in December. The first provided for a heavy tax on speculative earnings, over and above that levied upon them through the exorbitant rates of the income tax. The object of the proposed tax was to be the profits of Austrian citizens derived from dealings in securities and foreign moneys, and the profits of authorized dealers, whether citizens or not. Profit was defined as the difference in crowns between purchase and selling price, less expenses. As a matter of fact such a profit was usually a loss, when measured in a sound currency. The following exemptions were granted: (1) foreigners, other than authorized dealers, because control was difficult, and foreign capital was needed; (2) importers and exporters, whose dealings formed an essential part of their regular business, and where speculative profit was not the primary aim; (3) the State; (4) the State Bank; (5) the *Devisen-Zentrale*; (6) profits from the sale of state and local bonds; and, (7) profits from the sale of money and securities generally where they had been in the owner's possession for more than one year. The proposed rate was 10 per cent on the profits from sales of foreign moneys, and securities which had been in a person's possession less than six months, otherwise 5 per cent. The authorized dealer was taxed 10 per cent on

<sup>1</sup> *Ibid.*

<sup>2</sup> *Ibid.*, December 3, 1921.



his profits, and, in addition, was required to collect the tax due from his clients. For this purpose he was obliged to keep books and records and maintain intact all documents for a period of three years for the inspection of the assessors. The methods of enforcement were draconic. Evasion was punishable by a heavy fine, payment of nine times the amount originally due, and eventual imprisonment. Anyone might be required to give information; *voluntary* evidence, leading to the conviction of a third party, entitled the informer to 20 per cent of the additional revenues thereby secured.<sup>1</sup> The measure died in committee, but the second measure, which was of even more demagogic character, was actually passed.

This measure required all owners of foreign moneys to declare them by December 31, under penalty of confiscation of their holdings and imprisonment to a maximum of ten years where the undeclared amount exceeded 500,000 crowns, or less than \$100.00. A reward of 33 $\frac{1}{3}$  per cent was offered for information leading to discovery. In an attempt to unite this policy of violence with the original pledge of conciliation the Government guaranteed the further undisturbed possession of their foreign moneys to those who announced *all* their holdings. In addition, it offered far-reaching amnesty for all past infractions of the numerous tax laws and regulations to those individuals who would turn in to the Government, as a loan, all their holdings not absolutely needed in their businesses.<sup>2</sup> Despite Dr. Guertler's recent boast that the credit of the State was above suspicion, few indeed believed in the State's guarantee. Yet all were exposed to the danger of secret denunciation. As a result hundreds of timid people hurriedly sold their small hoards of foreign money. These sums must have been considerable in the aggregate because the dollar was driven from almost 8,600 to 5,275 by the end of the year. No foreign money was loaned to the Government, however, and altogether the following ridiculously small sums were announced:

<sup>1</sup> 682 der Beilagen, Nationalrat.

<sup>2</sup> Law of December 21, 1921, B. G. Bl. No. 705.

14,636.21	dollars
16,315.5	pounds sterling
64,343.13	Dutch gulden

The country was none the better off for this speculative recovery. By the third week of January 1922 the dollar had touched the 10,000 crown mark.

In May the entire cabinet was reorganized on the basis of a Christian Socialist-Pan-German coalition. The union of the two conservative parties was designed to give stronger support to a government pledged to a policy of moderation. The leader of the coalition was Msgr. Seipel, the strongest and most astute of conservative politicians. He was absolutely convinced that only a policy capable of enlisting the confidence of the possessing classes within and without the country could possibly prevent disaster. In his program speech he stressed this note of moderation, and yet, within a month, he too was obliged to capitulate.

How this capitulation was brought about is graphically told by Dr. Bauer in his history of the Revolution:

The Seipel Government took office at a time when the depreciation was more rapid than ever before. During the first twelve days of June the Swiss franc rose on the Vienna exchange from 2,151 to 4,110 crowns. During the second week of June there was difficulty in obtaining the foreign exchange necessary to pay for our most urgent coal requirements. There was obvious danger that coal imports might cease for lack of funds, although the banks had at their disposal at the time tremendous sums of hoarded exchange. On June 13 leaders of the Social Democratic faction in the House appeared before the Chancellor and declared that the party could no longer take responsibility for the attitude of the laboring masses, driven to desperation by the soaring cost of living, if the government did not force the banks, within twenty-four hours, to disgorge their foreign moneys in one form or another, and to place them at the disposal of the State. The threat was effective. On the same day Seipel and his Finance Minister Segur persuaded the banks to use part of their foreign moneys to found a new bank of issue, and a week later the Finance Minister laid before the House a hastily drafted finance program.<sup>1</sup>

The program, though constructive in a number of respects, was unfortunately marred by the inclusion of a compulsory

<sup>1</sup> Bauer, *Revolution*, p. 258.

loan. Yet so completely had reason abdicated that there was no vocal opposition whatever in the Council to this demagogic measure. It was passed on July 24, 1922.

The foreign exchanges registered the same vote of no confidence against this program that it had registered against every other hybrid compromise since the Armistice. On June 30, 1922, the dollar had been quoted on the Vienna market at 18,900, and one month later it stood at 42,350. This collapse in the foreign value of the crown dragged domestic prices up in its train and created a demand for more money from both business and Government. Currency inflation which had initiated the decline in the exchange value of the crown had now become rather a consequence of the foreign exchange situation.

The currency, price, and exchange developments since the beginning of the year 1922 are given in the following table:

Date (1922)	Circulation (Millions of Crowns)	Price Index Number	Dollar Exchange
January 15	193,749	830	6,875
February 15	238,666	980	6,300
March 15	271,758	989	8,050
April 15	321,326	1,089	7,625
May 15	351,461	1,364	10,000
June 15	439,464	2,339	19,400
July 15	616,861	3,308	29,875
August 15	913,932	7,422	58,400
August 25	1,147,587		83,600
September 15	1,700,865	14,153	74,450

From the Armistice to the fall of 1921 the Austrian Government had placed its chief reliance upon foreign financial aid as the means of balancing its budget. In its internal financing its goal had been to keep the deficit in some reasonable relationship to expenditures. The foreign aid had not been forthcoming and as a result the crown had fallen from 11.8 to the dollar at the end of October 1918, to 2,637 on October 15, 1921, and the cost-of-living index had risen from 16.40 to 237.76.<sup>1</sup> From November 1921 to the end of July 1922 the policy of the Govern-

<sup>1</sup> See Appendices II and III.

ment had been directed chiefly at self-help with foreign financial aid as a by-product of such a policy. The policy was partially successful. On the strength of certain reforms, England lent Austria almost \$10,000,000 early in 1922, and France, Italy, and Czechoslovakia promised further sums, yet during this period the crown fell from 2,637 to the dollar to 29,875, and the cost-of-living index rose from 237.76 to 3,308. The State and the population alike faced disaster. Public opinion was at last ready to welcome foreign control of the public finances. How foreign control came about, and some of its results, are told in the concluding chapter.

After this somewhat lengthy description of the political, social, and economic situation in post-war Austria, we are at last in a position to resume our study of the direct taxes and other extraordinary levies entrusted to the direct tax administration. Knowing something of the chaotic conditions in the young Republic, we shall not be surprised to find more changes in the tax laws during the three years under review than had occurred in the century preceding the Revolution. Knowing the economic ideals of the two dominant political parties, we shall not be surprised to find these ideals reflected in the direct tax legislation of the period. We shall find the imprint of the class struggle upon the direct taxes to a degree as yet unknown in our own country.

## CHAPTER IV

### THE DIRECT TAXES IN REPUBLICAN AUSTRIA

#### I. INTRODUCTION

IN THIS chapter the many changes made in the direct taxes during the period of inflation are discussed with two questions always in mind:

(1) To what extent were considerations of revenue subordinated to the desire to accomplish social changes?

(2) To what extent did this new factor of depreciation influence the legislation of the period? It will be convenient to change slightly the order in which the direct taxes are discussed. The changes in the impersonal, or real, taxes and in the business tax are dealt with separately as was done in the opening chapter. The remaining taxes, however, can best be treated together, because they were all designed to reach ability through true income, instead of some rough external approximation to income. Consequently they were all affected very similarly by the fact of depreciation. The corporation tax, the taxes on interest, on salaries and directors' profits, and the income tax are in this category.

#### 2. THE IMPERSONAL TAXES

Originally the land tax had been apportioned. In January 1914, however, it had been changed into a rated tax, and the rate reduced from 22.7 to 19.3 per cent of the assumed yields of individual plots of land. These assumed or cadastral figures had been determined in 1896, and were lower than those of 1883. The local additions continued to be expressed as percentages of the old state tax with its 22.7 per cent rate, presumably in order to keep down the nominal rate of the local additions. In August 1916 the rate of the land tax had been just about doubled by the imposition of the 80 per cent war surtax, plus the flat 2 per cent tax, to provide a fund to meet

the extraordinary claims for damages from natural causes. The local additions, however, continued to be levied on the lower nominal rate of 22.7 per cent.<sup>1</sup>

No further change was made until early in 1919. Then, as one of its last acts, the self-appointed Constitutional Assembly revised the land tax. This was on February 6, 1919, when it raised the normal rate to 25 per cent. Since this figure included the 2 per cent for damages from the elements, the absolute increase was only 3.7 per cent.<sup>2</sup> More important, however, was the attempt to adopt this objective type of tax, based on assessment *in rem* rather than *in personam*, into a subjective tax capable of discriminating between large and small holdings. This was done by the simple device of making the extraordinary surtax to the normal tax progressive. Accordingly the rate of the surtax was stepped up from 80 to 150 per cent according to the cadastral net income from a person's total holdings within the comparatively small *Steueramtsbezirk*.<sup>3</sup>

The significance of this change lies in the fact that it constituted an announcement on the part of the small peasant proprietors that they would no longer be led by the large estate owners as they had always been in the past. Defeat and the disappearance of the monarchy had produced a social revolution in the country districts. Henceforth the large proprietors, who were mostly of the old nobility, were to be taxed more heavily than the peasantry. This was a far cry from the days of Marie Theresa and Joseph, whose abortive attempt to make the clergy and the nobility pay something on their landed properties almost caused a revolution.

The Social Democrats applauded and voted with their peasant friends for this innovation, but, when they urged the substitution of a progressive tax on the real land incomes of properties as a whole, the peasant representatives would hear none of it. The cadastral figures were too effective a protection

<sup>1</sup> See p. 49.

<sup>2</sup> Law of February 6, 1919, St. G. Bl. No. 149, Art. II, and 94 der Beilagen, P.N.V.

<sup>3</sup> *Ibid.*, 150, and 99 *ibid.*

of peasant interests to be lightly abandoned. Indeed they managed to keep upon the statute books the cadastral figures of 1896 until the fall of 1921, despite the fact that agricultural prices had nearly doubled between 1896 and 1914 and then gone up three hundredfold between 1914 and 1921. In 1920, it is true, the normal rate was increased from 25 to 40 per cent, and the surtaxes of 1919 were reenacted,<sup>1</sup> but this was nothing in view of the rise in prices. Then in 1921 the sacred cadastral figures themselves were finally changed. The increases, however, were nominal. Their chief significance again lies in the evidence they give of the growing hostility to the large landowners, whose holdings were overwhelmingly in forest.<sup>2</sup> The cadastral figures for forest land were increased fortyfold, as against thirtyfold for vineyard and garden, and only twentyfold for all other classes. In the same spirit the progressive surtaxes were applied to total holdings within the *politischer Bezirk*, instead of the much smaller *Steueramtsbezirk*. These new cadastral figures were first to go into effect in 1922; meantime nine times the amount of the 1920 tax was due for 1921.<sup>3</sup>

These changes did not exercise any great influence at the time, because the land tax had been reduced to the vanishing point by the currency depreciation. This statement holds despite the fact that the provincial additions alone, not to mention those of the townships, ranged from 100 to 800 per cent in 1921. The change revealed a spirit, however, which may ultimately prove inimical to wise forest utilization. Unless the old income relationship was unnecessarily favorable to forest land, it can hardly be doubted that the doubling of its assumed income, relative to crop land and meadow, when cou-

<sup>1</sup> Law of July 23, 1920, St. G. Bl. No. 365, Art II, and Law of July 23, 1920, St. G. Bl. No. 366.

<sup>2</sup> Only 6.1 per cent of agricultural land is in holdings of more than 250 acres, while 47 per cent of forest land is in holdings of more than 1250 acres. Seven and one half million acres, or about 38 per cent of Austria's land surface, is in forests. Of the large holdings of more than 250 acres 28 per cent are federal property, 20 per cent municipal, and the rest private property (Hudeczek, pp. 10, 15).

<sup>3</sup> Law of November 23, 1921, B. G. Bl. No. 663, Art. II, and 914 der Beilagen, Nationalrat.

pled with the progressive surtaxes, will discourage large holdings. And it is doubtful whether small forest holdings are economically profitable. Fortunately forest cutting is strictly regulated. But should there be any relaxation, either of the law or its enforcement, there may be grave danger of forest devastation as a result of this tax policy.

These speculations cannot be verified for two reasons. In the first place the changes are of too recent date to permit their effects to be seen. In the second place they were too short-lived. In 1922 the land tax was assigned entirely to the localities<sup>1</sup> (this was little more than the recognition of the existing situation), and considerable local option was granted to these bodies. They are at liberty to retain the tax unchanged, to reclassify lands, to convert the tax into one on capital value or on real land income, subject always to raising a certain minimum from this source. The author is not aware whether the localities have availed themselves of their new freedom. It is reasonable to suppose, however, that they will continue the policy of discrimination against large holdings, since their representatives in the National Council were responsible for the introduction of the policy. If they do, the discrimination will become more marked, since heretofore the progressive surtaxes applied only to the relatively unimportant state levy. The effect upon forest land utilization may prove very harmful.

The buildings tax, like the land tax, was turned over to the localities in 1922 in connection with the reorganization of federal and local taxation described later. Between the Revolution and that date there was no formal change in the law. This type of property was exempted from the increases to which the other produce taxes and the income tax were subjected. This exemption represented solicitude for the peasant proprietors, not for urban landlords. They were reached in other and more effective ways. Inflation and the ruthless rent control law had effectually destroyed private property rights in leased urban real estate. Henry George's ideal was realized, though

<sup>1</sup> See Chapter V of this book, for an account of the reorganization of state and local taxation effected in 1922.



in a very different way from that proposed in *Progress and Poverty*. The empty shell of private property has been left, but the substance has been destroyed. The unfortunate real estate owner might assess his tenants for the maintenance of his building, but he might demand in paper crowns as rent exactly what he received in gold crowns, after paying taxes, before the War—that is to say, virtually nothing at all.

The problem of restoring private property rights has been tremendously complicated, in Vienna at least, by municipal action. After depreciation had reduced rentals to a nominal amount, the municipal authorities introduced a special graduated tax on tenants. From time to time the tax has been increased, so that today the city of Vienna has effectually substituted itself as the real beneficiary of these properties. The old owners have been reduced to the recipients of nominal quit rents. The sums raised from this tax on tenants are used in part to build municipal tenements which are said to be architecturally and structurally admirable. They are planned for families in which both husband and wife work out. Each tenement has its playground and its children's caretaker. The municipal authorities are convinced Marxian socialists and are frankly trying to make Vienna a model socialist city. They will, therefore, resist to the last ditch all attempts to restore private property in Vienna real estate.

Rent control, naturally, could not stand by itself. It had to be supplemented by a public rationing policy to protect vast numbers of sub-tenants who were threatened with ejection now that their contributions to the landlords' rents were no longer needed. Accordingly a house control law was passed to regulate the amount of space an individual might occupy. The city was then combed to discover homes in which congestion was less than the legal limit of tolerance. Every tenant was required to announce the number of inmates of his apartment. Landlords were required to confirm these declarations. The result is that today freedom of movement within the city has virtually ceased. A person seeking living quarters must secure municipal approval. A young couple who desire to marry, and

who are without money or political influence, may wait years for as little as a room and kitchenette. The establishment of new industries is rendered very difficult because of dependence on the labor supply of the immediate neighborhood.

Henry George claimed that the State could take the income from land without taking the title or affecting the utilization. His critics have claimed that the confiscation of the income would inevitably involve state tenancy and state control. At first blush Vienna's experience would seem to bear out the claim of George's critics. It must be remembered, however, that the municipality has outdone Henry George. It has taken not only the income from the land but also the income from the capital invested on the land. The experiment, therefore, is not conclusive one way or the other.

### 3. THE BUSINESS TAX

The old Austrian business tax, it will be recalled, was levied on the earnings of small, or at least unincorporated, businesses and professions according to external indicia of profitableness. The Government protected itself against loss by assessing a lump sum or contingent, and then left it to a central and to district and local commissions to apportion this contingent among those liable to the tax. Such a procedure made strict equality impossible. There was little active discontent, however, because the slow increase of the contingent—by 2.4 per cent every two years—made the burden steadily lighter. Larger concerns in the first class no doubt felt the discrimination in favor of the smaller concerns in the lower classes, but since the tax discriminated even more in their favor, as against their incorporated competitors, who were taxed on real net earnings, they were content to let well enough alone.

During the War a number of changes in the tax had occurred. The most important and significant of these was the withdrawal of the largest taxpayers from the protection of the contingent, and their assessment at as near 5 per cent of net profits as officers trained only in the use of external indicia could approximate. This change was due to the State's urgent need of funds

and unwillingness to make all concerns contribute adequately to wartime needs. The singling out of the larger concerns reflected the temper prevailing both in the legislature and in the permanent personnel of the Finance Ministry. The 100 per cent and the 60 per cent increases in the tax liability of the remaining taxpayers, according as they belonged in the two upper or lower classes, were slight compared to this taxation of ex-contingent concerns on the basis of real income. Quite aside, however, from the discrimination involved, the new departure was of great significance. It marked the first step in the breakdown of the old method of taxation according to outward evidences of earnings. The complete breakdown occurred during the period here under review.

During the confusion immediately following the Revolution, however, the Finance Ministry preferred to hang on to the old system. Accordingly, while recommending the retention of the extra-contingent assessment of larger concerns, it proposed merely to increase the contingent from 37 million crowns, the 1913-14 figure for old Austria, to 50 millions, and to leave it to the Central Contingent Commission to determine what portion of this should fall on the Austrian remnant of the old Empire. The amount so determined was then to be distributed among those liable to the tax in the old and approved fashion. It was to represent their liability for 1919 and retroactively for 1918. The Finance Committee approved the government bill which became law early in February 1919.<sup>1</sup>

In view of the prevailing business stagnation the proposed tax seemed indeed heavy. It obligated the business-man to pay a tax whether he could show any profit or not. In most cases he would have to pay out of liquid capital, which was sorely needed in the business itself. At the same time the Government was energetically and fairly successfully collecting the arrears of wartime taxes. The reporter of the bill admitted that the measure was "likely to demoralize business without procuring any funds for the state. . . . Nevertheless the Finance Com-

<sup>1</sup> Law of February 6, 1919, St. G. Bl. No. 149, Art. II, and 94, 99, and 135 der Beilagen, P.N.V.

mittee recommends its passage because of the desperate situation. It is like a drowning man catching at a straw."<sup>1</sup>

As a matter of fact the fears of the business class on this score were groundless because the tax was never enforced. The failure was due to the inability of the Central Contingent Commission to carry out with mathematical nicety its task of reducing the 50 million crowns' contingent to fit the new Austria. To do this it was first necessary to know the new boundaries. At the end of 1919 these were still indeterminate in a few places. Though the amount of territory in dispute was insignificant, the Commission did nothing at all. The local commissions, meantime, had worked out their relative figures and only awaited the announcement of their total liabilities to send out their tax bills. But the announcement never came.<sup>2</sup> Thus, at the beginning of 1920, the assessments for 1918 and 1919 were still incompleting, and, according to the strict letter of the law, incapable of completion. But in any case it was not worth while proceeding with the assessment, because of the intervening depreciation. Since, however, the local assessment commissions' figures of relative taxable ability were already fixed and were known to amount to about 39.5 million crowns more than the approximate "contingent," the Government recommended (January 1920) that these figures be accepted as the final 1918 and 1919 assessments. The taxpayer might appeal only if the tax exceeded 5 per cent of his net profits of the preceding year. The Government further proposed that, for 1920, the local commissions be definitely authorized to assess net earnings at as near 5 per cent as the use of external indicia would permit, and that for 1920 the taxpayer be afforded the additional protection, over and above that for 1919, of the right of appeal, where he could show, by reference to changes in his business conditions (*Betriebsverhaeltnisse*), that his 1920 tax bore no reasonable relation to that for 1919.<sup>3</sup> This proposed change in the business tax was accepted by the Committee<sup>4</sup> and passed without amendment.<sup>5</sup>

<sup>1</sup> 135 der Beilagen, P.N.V.

<sup>2</sup> 742 *ibid.*

<sup>3</sup> 914 *ibid.*

<sup>4</sup> 743 der Beilagen, K.N.V.

<sup>5</sup> Law of July 23, 1920, St. G. Bl. No. 365, Art. I.

It had taken more than six months, from January to July 1920, to secure the passage of the government bill, and then only that part relative to back taxes ever went into effect. Due to a popular misunderstanding, which was later confirmed by court interpretation, an increase of the 1920 tax over that for 1919 could only be made where there had been a change in external indicia, or in the relationship of earnings to turnover. A mere increase in money earnings did not permit increasing the tax.<sup>1</sup>

This decision would have been tenable if profits and taxes had been measured in gold crowns. Given the existing depreciation, however, and the fact that taxes were paid in paper crowns, the decision was equivalent to virtual exemption of small scale enterprise from the business tax. Nevertheless it was not until late in 1921 that effect was given to the intention of the law of 1920. The amendment of 1921 specifically stated that a decline in the purchasing power of the crown justified an increase in the tax over that of the year before. As before, appeal was only permitted if the tax exceeded 5 per cent of the net profits. The extraordinary state surtaxes of 100 per cent and 60 per cent imposed during the War were retained. In addition came the heavy levies by the provinces and localities on the state tax.<sup>2</sup>

With this revision the business tax was at last transformed into a tax on real instead of approximate net profits. The criticism made in describing the war change, however, namely that the business tax assessors were not qualified for their new task, held in even larger measure now. In fact it is difficult to see any reason for the maintenance of the tax associations, for the requirement of declarations containing external indicia, and for the assessment by commissions and assessors not practised in dealing in income figures. It would have been more sensible to have turned the whole thing over to the local income tax assessors, and to have required the assessment of both the income and business taxes on the basis of identical

<sup>1</sup> 599 der Beilagen, Nationalrat.

<sup>2</sup> See p. 127 below.

declarations. As it was, the definition of net profits was the same as for the income tax, except for a few more liberal provisions. Thus for example the interest on foreign capital, payments for rights, good will, etc., and a wage allowance for the personal work of the owner of a small handicraft shop not employing more than ten helpers, were liable to deduction from gross income. Identical declarations would have had the further advantage of removing a new discrimination against corporate business which had been produced by the revision of the corporation tax in 1920. At that time the profits of the current year had been made the object of taxation for corporations,<sup>1</sup> while those of the previous year had been retained for the business tax. Due to the rapid depreciation, this time difference constituted a tremendous favor to unincorporated business, which amounted virtually to tax exemption.

And yet this attempted discrimination in favor of the "little man" had elements of a boomerang in it, because of the income tax. Beginning in 1920 the income tax, as well as the corporation tax, had been levied on current earnings. The business tax paid on current earnings could be deducted, but since it would not be assessed until the following year, the right of deduction could not be availed of. The result was that, in the event of stabilization, the combined income-and-business tax would have proved uniformly confiscatory. This may be illustrated by the case of a 1920 Viennese net business income of 10,000,000 crowns. On the assumption that the ordinary state business tax actually reached 5 per cent of net profits, the total rate, including the state surtax and all the local additions, was 33.49 per cent in 1920 and 34.59 per cent in 1921. The 1920 income tax rate on an income of 10,000,000 crowns was 58.04 per cent. Altogether, therefore, such 1920 income was liable to a 34.59 per cent business tax, plus a 58.04 per cent income tax, or a total of 92.63 per cent. Had the 1920 business tax been levied on 1920 earnings it would have been an allowable deduction from gross income. This would have reduced the total liability of the income in question to 38.50 per cent.

<sup>1</sup> See p. 100 below.

This hardship would only apply of course to the first year of stabilization. Once prices had attained a fair degree of stability, it would ordinarily be a matter of no great importance to a person liable to the business tax whether he deducted his current business tax, or his tax of the previous year, from his gross income liable to the income tax. But for the first year of stabilization the existing provisions of the law spelled confiscation. And since the taxpayer lived always in the hope of stabilization he was virtually forced to make false tax statements as a necessary insurance against that desired eventuality. All that was needed to remedy this situation was to make the business tax and the income tax apply to the earnings of one and the same year.

Still another change was necessitated by the abandonment of assessment according to external indicia for assessment according to net earnings—namely some limitation upon the freedom of the provinces and the towns to levy additions. Now that the State had abandoned the protection of the contingent, there was the same danger as in the case of the income tax that high and varied local additions would render assessment and collection difficult, if not impossible. That this danger was not remote is shown by the range of the local additions actually in effect in 1921. The provincial additions ranged from 40 per cent in Lower Austria to 600 per cent in Vorarlberg, while the towns and municipalities levied additions of anywhere from 50 per cent in the case of towns in Lower Austria, to 500 per cent in Innsbruck. In some places the local right was subject to no control.<sup>1</sup> The confiscatory character of the resulting tax is shown by the rates which prevailed in the following places:<sup>2</sup>

<i>Place</i>	<i>Per Cent</i>
Hainburg.....	101.2
Retz.....	106.4
Korneuburg.....	108.0

<sup>1</sup> 487 der Beilagen, Nationalrat, Appendix VII.

<sup>2</sup> Director Demmer of the Anglo Bank, in *Mitteilungen*, 4. Jahrgang, Nos. 9, 10, p. 221; also 93rd Session, Nationalrat, pp. 3182-3183; and *Oe.V.*, 13. Jahrgang, No. 38, pp. 713-715.

<i>Place</i>	<i>Per Cent</i>
St. Poelten.....	109.0
Schwechat.....	112.2
Laa.....	121.5
Kufstein.....	124.0
Moedling.....	125.0
Horn.....	127.9
Gmünd.....	135.2
Lustenau.....	283.5

The whole subject of the financial relations of the federal, provincial, and local units of government is reserved for special treatment. It suffices here to note that the danger of excessive local additions to the business tax was met by a law of March 1922. This law deprived the provinces and towns of their right to levy any additions, and in return the Federal Government agreed to levy a special state surtax of 480 per cent of the 5 per cent ordinary tax, and to distribute one half the yield of the tax to the localities—that is, the total state tax was raised to 29 per cent and the territorially unequal local additions were abolished.

These changes marked a big step forward. The rate was still too high, however, and the differences in tax year between the business tax and the income tax still constituted a serious obstacle to honest tax declaration as long as inflation persisted. It was not until Austria's finances passed under League of Nations control that these defects were remedied.

#### 4. THE INCOME TAXES<sup>1</sup>

In the general overhauling of the direct taxes in February 1919, the corporation tax underwent but slight change. The normal rate and the schedule of surtaxes introduced during the War were retained. The surtaxes, however, were made applicable on earnings which had hitherto been exempt.<sup>2</sup> The maximum rate of 100 per cent, for example, applied to earnings exceeding 8 per cent of capital and reserves, instead of 14 per cent as heretofore. Inasmuch as capital and reserves stood

<sup>1</sup> The remaining direct taxes are included under this title. See p. 83, above.

<sup>2</sup> Law of February 6, 1919, St. G. Bl. No. 150, Art. II, par. 3.



booked for the most part in gold crowns, while profits were figured in greatly depreciated paper crowns, this change was really a change upward of an already oppressive tax. That the lawmakers were under no illusion on this point is shown by their careful exemption of the favored coöperatives and other "non-capitalistic" enterprises from the full surtaxes. Only one fifth to one half the ordinary rates applied to them.

The tax on interest<sup>1</sup> was widened in scope by the inclusion of hunting leases—an indication of the passing of the old privileged landed aristocracy. They were made liable to a 5 per cent tax. At the same time the exemption limit on assessed incomes, as distinguished from those collected at the source, was increased from 1,600 to 3,000 crowns, on the ground that small savings came from wage incomes.<sup>2</sup> Collection at the source was extended to cover demand deposits in banks without any offset for borrowed money, except where the deposit was made by one bank in another. This exception was in order to prevent double or triple taxation.

The variations in rates in the original law of 1896, reflecting the prevailing prejudices of that period, were increased by the substitution of variable state surtaxes for the flat 100 per cent surtax of 1916. The table on page 96 recapitulates the classification of incomes according to the rates at which they were taxed.

It is apparent from this table that the introduction of variable surtaxes was actuated by hostility to the business-man and to banks. Indeed the business-man was discriminated against in three distinct ways in this revision of the tax on interest. First of all, collection at the source was substituted for the previous defective collection on the basis of declaration. Secondly the tax was made applicable to the total interest received on such deposits during the year without any offset for interest paid on bank loans during the same period, though the negative interest may often have been larger than the positive interest. And thirdly this type of income was singled out from all other

<sup>1</sup> *Ibid.*, Art. I.

<sup>2</sup> 94 der Beilagen, P.N.V.

## CHANGES IN RATES OF THE TAX ON INTEREST, 1896-1919

Types of Income	1896 Rate	1916 Rate	1919 Rate
		Including State Surtaxes	
1. Certain public loans and annuities . . . . .	$\left\{ \begin{array}{l} 10 \\ 16 \\ 20 \end{array} \right.$	no increase	no increase
2. Hunting leases . . . . .	exempt	exempt	10
3. Trade leases . . . . .	3	6	6
4. <i>a.</i> Bank deposits, domestic . . . . .	2	4	8
<i>b.</i> Bank deposits, foreign . . . . .	2	4	2
<i>c.</i> Loans of local units . . . . .	2	4	4
<i>d.</i> Others, not otherwise specified . . . . .	2	4	4
5. Interest on deposits in savings banks and coöperatives and bonds of certain favored mortgage and credit institutions . . . . .	$1\frac{1}{2}$	3	3
6. Interest on bonds and mortgages of certain privileged public credit institutions (Law of June 26, 1901) . . . . .	$\frac{1}{2}$	1	1

similar incomes and subjected to a 300 per cent surtax. Only hunting leases, and certain public loans on which high taxes of long standing had been fully amortized, were taxed more heavily. This discrimination is a very clear revelation of the popular hostility toward banks and the business classes generally. The exemption of foreign deposits apparently did not reveal the absurdity of this legislation: Here were deputies legislating ruthlessly against their own capitalists, and then, recognizing the necessity of capital for the reconstruction of the country, proceeding to offer favorable terms to foreign capital, over which they could exercise little or no control.

The salaries tax was left unchanged. With inflation this was equivalent to lowering the exemption minimum to the point where the bulk of the population was within its scope. The tax on directors' profits was changed by the substitution of progressive surtaxes, ranging from 100 to 300 per cent, for the flat 100 per cent surtax of 1916. Moreover the progression was now made according to the total amount in bonuses paid out

by a given company, instead of according to the profits received by an individual director. Such a tax, of course, could not be shifted onto the directors, as the old flat tax probably was despite the formal prohibition against shifting.<sup>1</sup> It now had to be borne by the companies, and constituted a new and unjustifiable discrimination against large scale enterprise.

The nominal schedule of the income tax was left unchanged but, through the device of state surtaxes, the effective rates were increased and made more sharply progressive, especially on the income brackets above 100,000 crowns. These surtaxes raised the maximum rate from 14.7 to 33.5 per cent,<sup>2</sup> the highest at the time in continental Europe. Their enforcement supposed an excellence of administration that Austria had never possessed even in the pre-war period of stable prices and stable government. Their enforcement now was an impossibility.

The legislation of February 1919 was the last act of the Provisional National Assembly. The immediately ensuing elections witnessed the triumph of the Social Democrats in the cities and of the peasant wing of the Christian Socialists in the country districts, and the formation of a coalition government based upon a working agreement between these two parties. This agreement, it will be recalled, gave the Social Democrats a free hand to experiment in structural changes, providing peasant interests were protected. The result was the social legislation that has been described earlier,<sup>3</sup> and the alarming growth of uncovered public expenditures which, in view of the situation abroad and at home, could be met only by the issue of paper money. This coalition gave way in October 1919 to a broader coalition which included the representatives of the "small man" in the urban centers. The working agreement of the new coalition was designed to reshape society through taxation instead of direct social legislation.

The legislation of July 1920 was the product of this coalition.

<sup>1</sup> See p. 26 above.

<sup>2</sup> Law of February 6, 1919, St. G. Bl. No. 150, Art. II, par. 5.

<sup>3</sup> See pp. 63 ff.

Part of it has already been described—that pertaining to the taxes on land, on buildings, and the enterprises of the small man. Another part, the capital levy, is dealt with in a later chapter. Here we are concerned with the effort to accomplish social ends through changes in various taxes on the incomes of the possessing classes.

There are curious cross currents in this legislation, and in the subsequent amendments. On the one hand, there is clear evidence of the unabated hostility to the capitalist element in the community. On the other hand, there is equally clear evidence of the growing realization of the need of protecting Austrian industry and commerce against the destructive effects of inflation and the chauvinistic hostility of her neighbors. These cross currents can be brought out most clearly by discussing these two aspects of the legislation of the period separately—first the evidences of hostility to the well-to-do and to big business, then the evidences of the new spirit.

The evidences of hostility are to be found almost entirely in the changes in the income tax.<sup>1</sup> In July 1920 the exemption limit was raised from 1,600 crowns to 8,600 crowns, and the maximum rate was increased to 60 per cent on the fraction of incomes above 1,200,000 crowns—i. e., above about \$6,000. The progression first became sharp on incomes of more than 146,000 crowns, a figure which was regarded as the dividing line between labor incomes and the incomes of the well-to-do. These rates included a 100 per cent extraordinary addition, which was to remain in effect until revised. To all intents and purposes, therefore, the state additions to the income tax disappeared at this time into the ordinary tax.

The rate on medium and large incomes had now reached an absurd height, as is evident when incomes are reduced to a sound currency. Figuring the dollar at 200, its value in March 1920 when the bill was under discussion in committee, an income of \$3,000 was liable to a tax of 34.8 per cent; one of \$10,000 to

<sup>1</sup> 740 der Beilagen, K.N.V. contains the Government's proposed bill and supporting arguments. 950 der Beilagen, K.N.V. contains the bill as amended in committee. The final law as passed on July 23, 1920, is to be found in St. G. Bl. No. 341.

a tax of 50 per cent. It is true that the purchasing power of the crown within the country was two to three times greater than its purchasing power abroad, but offsetting this was the fact that the tax was levied not on true but fictitious income (*Scheingewinn*). The defectiveness of assessment should have been a further reason for not attempting the impossible. Here again the bow was stretched too tight, simply to satisfy public opinion.

If the new maximum is an evidence of the class prejudices of the Second Coalition the exemption limit of 8,400 crowns—a sum way below the earning capacity of even an ordinary workman<sup>1</sup>—would seem to tell another story. This low exemption limit was increased somewhat, it is true, by the increased deductions and allowances for various expenses, and the increased abatements for family dependents.<sup>2</sup> These did not, however, materially change the situation.

Why, then, was it possible to enact such a low minimum? The explanation is probably to be found in an administrative change adopted at this time and effective in 1921, whereby wages were made liable to collection at the source. This change affected both the rate and the incidents of the tax. It affected the rate because, in order to secure a simple method of assessment, wages were exempted from the heavy progression of the ordinary schedule. It affected the incidence, because it increased the probability that the tax would be shifted in whole or in part to the shoulders of the employer. The interests of the laborer being thus provided for, it only remained to see that the peasant and the "small man" did not suffer. The notorious under-assessment of their incomes was probably considered a sufficient guarantee.

The raising of the rate was only one way in which the burden of the tax was increased. Another way was to change the basis of the tax from the income of the preceding year to that of the present year. In order not to exempt 1919 incomes entirely, the average of 1919-21 incomes was exceptionally to be

<sup>1</sup> He was getting about 50,000 crowns at the time.

<sup>2</sup> See p. 105 below.

the basis for the 1920 tax. In view of the depreciation, this change constituted a very considerable increase in the tax. In itself, however, it is to be approved, but it is to be remarked that, while the same principle was applied to the corporation tax and the tax on interest, it was not applied to the business tax.<sup>1</sup>

In connection with the above change a practice was abandoned which had caused much trouble to all parties concerned, and injustice to taxpayers. Heretofore the tax had been based on the income of the preceding year according to the several income sources, providing these sources or any part of them were still extant and in the taxpayer's hands on the first of January of the next year. Otherwise the basis of the tax was the probable future<sup>2</sup> income. The following example will illustrate the injustice of this rule: Mr. A owned a butcher shop on January 1, 1919, and sold it on December 20, 1919. He was not assessed on the income from the butcher shop, but on the probable interest received on the proceeds of the sale. This might or might not work hardship on Mr. A. Where hardship was bound to result, however, was in cases where an income source did not cease to exist, but was greatly reduced. For example: Mr. B had 100,000 crowns on deposit with a bank on the first of January, 1919; on December 29, 1919, he withdrew 99,000 crowns and invested them in shares. In 1920 he was liable to a tax on the deposit valued at 100,000 crowns, because the account still existed at the end of the year, and in addition to a tax on the probable return from the stock—i.e., he was liable on

(a) Interest on the deposit at 2 3/4 per cent	2,750 crowns
(b) Probable interest on the stock at 4 per cent	<u>4,000 crowns</u>
<i>Total</i>	6,750 crowns

whereas his real income from the sources in question was only 2,750 crowns, and might be 4,000 crowns for 1920. By this advance of the tax year only the income actually received during a given year would be liable, and subject naturally to final assessment at the end of the year.

<sup>1</sup> See p. 92 above.

<sup>2</sup> Law of January 23, 1914, R. G. Bl. No. 13, par. 156.

Still another way of increasing the tax was by making the so-called unearned increment a regular object of taxation. Heretofore profits from sales of property had only been reckoned as income, if the sale was a part of the regular business of the tax subject (stock broker, real estate dealer, etc.), or if all the accompanying circumstances showed that the purpose of acquisition was purely speculative.<sup>1</sup> Henceforth, however, all such gains were expressly liable, regardless of the speculative element. The original bill mitigated the harshness of this change by providing that the difference between purchase and sale should be added to the regular income at one fifth of its value, or, if the disposed-of property had been in a person's possession less than five years, at its value divided by the number of years it had been in his possession. If property had been acquired before this law should go into effect, the valuation set upon it for the capital levy was to constitute the purchase price. In committee this concession was restricted to non-speculative sales.

It is very questionable whether the income tax is the proper vehicle for catching the so-called unearned increment, because of the administrative burdens involved. Certainly it would have been unwise to place this burden on the Austrian administration even in a period of price stability. In July 1920, in the midst of depreciation, it was indefensible. It represented the taxation of purely fictitious profits—*Scheingewinn*. Moreover, it imposed upon the assessors the impossible task of discriminating between speculative and non-speculative sales. The lawmakers, however, were undeterred by the facts of enforcement. They were legislating for the street, not for the Treasury.

The absurd height to which the rates of the income tax had been raised, and the attempt to catch the fictitious and illusive gains from the Stock Exchange, made necessary an increase in the powers of investigation conferred on the assessors. Accordingly banks were now required to reveal certain information

<sup>1</sup> Law of January 23, 1914, R. G. Bl. No. 13, pars. 159 and 175. Cf. also statement of Finance Minister Reisch in 64. Sitzung, K.N.V., p. 1840.

regarding the business of their clients.<sup>1</sup> The information sought was little enough—a list of clients and their addresses, semi-annually corrected—yet it raised a storm of protest.<sup>2</sup> It was alleged, for example, that the measure had encouraged hoarding, promoted cash transactions, directed speculation toward the foreign exchanges (in which no identification requirement existed at the time) to the detriment of the Austrian Crown, fostered the emigration of capital to the Succession States,<sup>3</sup> overburdened the banks and savings banks, dealing to the latter a deathblow, and finally it had swamped the tax officials with an unserviceable mass of information. The disastrous effects upon the savings banks and farm-loan banks (*Raiffeisenkassen*) were made much of because of the well-known solicitude of the Assembly for these institutions of the “small man” and of the peasant. Grossly exaggerated though these complaints were, they nevertheless led to the repeal of the publicity requirement in 1922.<sup>4</sup> This episode is significant as a revelation of the taxpayers’ deep-seated distrust of the authorities. A measure which would be accepted as a matter of course in many other countries led men to abandon the use of a very valuable institution rather than to give the State the slightest evidence from which to deduce their true incomes.

A change made at this time in the income tax commissions is further evidence of the prevailing hostility toward the well-to-do. Instead of allowing the income taxpayers to elect their representatives on the commissions directly, the local political representative bodies were to elect them on the basis of proportional representation. The change was doubly significant because of the broader basis of representation introduced after the Revolution. Prior to that time heavy property qualifications for voting guaranteed the conservativeness of the local representative bodies. Since the Revolution, however, they

<sup>1</sup> 302, 518, and 675 der Beilagen, Nationalrat.

<sup>2</sup> *Oe.V.*, 13. Jahrgang, No. 36, pp. 662–665, and 37, pp. 685–689.

<sup>3</sup> A more cogent reason for this emigration was of course the desire to escape from the effects of inflation.

<sup>4</sup> Law of December 20, 1921, B. G. Bl. No. 713.



were elected by universal suffrage with the result that they were dominated by the non-property holders. The election of February 1919 had been a notable triumph for the Social Democrats. That which followed hard on the passage of this law represented the triumph of peasant on the land, the "small man" in the towns and the "small man" and the laborer in Vienna. This change thus made the commissions the football of politics, and increased the probability that, in the country districts, the peasants would see to it that the income tax and the capital levy (for the commissions were also to assess that measure)<sup>1</sup> were satisfactorily "interpreted," and that, in the towns and cities, those not liable to the tax would determine what those liable should pay. Though this change unfortunately increased distrust, it was on the whole justified because of the doubtful value of the commissions and the heavy special election expenses necessitated by the liability of almost the entire population to the income tax.

Another innovation made at this time showed that high taxes are not the only way of burdening industry. Another way is to shift upon certain taxpayers the duty of calculating and collecting the taxes due by others. Professor Bullock has written very pertinently on this aspect of taxation in his paper on the Federal Income Tax of 1913:<sup>2</sup>

The third objection to collection-at-source is that it is inconvenient and expensive. If the tax applied to incomes, whatever their amount or nature and without exemption or abatement, no difficulty would arise except in cases where incomes pass through several hands on their way from the source to the final recipient. But when exemptions and abatements are granted,—and this is the usual practice,—the difficulties multiply and soon become serious, because in the natural course of things many incomes will be taxed at the source although the recipients are exempt or entitled to allowances. The practice in Great Britain seems to be to collect the tax at the source and then permit the taxpayers to apply for refunds; and in 1909 it was stated that the Inland Revenue Department had to deal with 450,000 repayments and nearly 700,000 abatements. Even then it seems that many persons entitled to refunds did not receive them, either because they were ignorant of their rights, or because the

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<sup>1</sup> See Chapter VI of this book.

<sup>2</sup> Bullock, *Selected Readings*, pp. 435-437.

amount involved was not large enough to justify the trouble and expense of making application.

The British method has at least the merit of placing upon the government the trouble and expense of dealing with exemptions and abatements; our own income tax for the most part places the burden upon those persons who handle incomes either at the source or on their way to the recipient. The right of the government to collect taxes at the source, if it prefers to adopt that method, is doubtless unassailable; but if such collection involves much trouble and expense, common fairness requires that proper compensation be made for the service. The situation is aggravated by the fact that a large part of the work is not in collecting the tax but in dealing with incomes entitled to exemptions and abatements. In effect the United States has granted to certain persons exemption from an income tax collected at the source, and has thrown upon certain other persons, without compensation, the greater part of the work resulting from claims to exemption. Whether this amounts to taking private property for public use without compensation is a question I am content to leave to the lawyers, but it certainly is unjust and vexatious.

The difficulty is greatest in the case of interest upon corporation bonds and other obligations, since a very large proportion of these securities consists of coupon bonds and the tax must be deducted from all payments, whatever their amount. In some sections of the country the larger city banks have made arrangements by which country banks have been relieved of trouble and expense in connection with the tax, but this concentrates the burden rather than diminishes it. I am informed that one banking institution has been put to an additional expense of \$15,000 per annum, and another to an expense of \$20,000. These figures are exclusive of the heavy initial cost the system entailed, and represent what is likely to be the normal annual outlay for these institutions. If data could be secured for the entire country the total burden would surely be impressive.

Even worse than the absolute amount of the expenditure is its relation to the amount of tax actually paid the government. The institution that is spending \$15,000 will have collected at the end of the first year \$53,000 of income tax upon corporation bonds, the cost of collection amounting to nearly 30 per cent. A traction company collected \$8200 of tax between November 1, 1913, and February 1, 1914, and spent \$3299 in performing this service. Here the cost of collection rises to 40 per cent. Another public service corporation collected \$9821 of tax up to August 1, and expended \$7011 in so doing, the cost of collection amounting to over 70 per cent; but these figures may include initial outlays that will not recur. I can find no reason for thinking these cases exceptional, and they merely confirm the general opinion prevalent among those conversant with the facts, that the cost of collecting the tax on bond interest at the source is preposterously high. The cost of collecting the customs revenue of the United States is about 3½ per cent, and the internal revenue in 1911 cost but 1½ per cent. The Wisconsin income tax showed a net cost of collection of 1.28 per cent in its first year. In general, any tax that costs more than 5 or 6 per cent to collect is uneconomic, and most taxes cost

much less than this figure. But in respect of bond interest the government of the United States is now collecting an income tax at an expense of from 30 to 40 per cent—to other people.

The more complicated the abatements and exemptions of the law the more costly—to others—will this method of collection prove. It is interesting therefore to examine these provisions of the Austrian law.

The Austrian income tax is a marvel of complexity. In addition to allowing all the expenses directly connected with the earning of income, it attempts to make allowance for a variety of special expenses and special burdens. In the 1920 revision of the law, a deduction of not to exceed 600 crowns was permitted for insurance premiums paid on the life of the breadwinner. This deduction might be increased to 1,200 crowns where wife and children were also insured. Similarly, contributions of 600 to 1,200 crowns to social insurance funds paid by a taxpayer for the benefit of himself, his family, and his employees were permissible deductions. A laborer whose wage did not exceed 40,000 crowns<sup>1</sup> might deduct his actual expenses of acquiring and maintaining his tools and working clothes, of travelling to and from his work, and of insuring himself or herself against sickness, motherhood, unemployment, and other risks.<sup>2</sup>

The above expenses constituted deductions from gross income. Even more complicated were the abatements of the tax on account of family dependents. In 1920, for the first time, the wife was included among the list of dependents, and three possibilities were provided for: (1) two dependents; (2) three or four dependents; and (3) five or more dependents. The allowance took the form of a percentage reduction of the tax due, varying according to the number of dependents and the amount of the taxable income. Incomes not exceeding 52,000 crowns received the maximum allowance; incomes between 52,000 crowns and 132,000 crowns received half the maximum, while incomes above 132,000 crowns received no allowance for

<sup>1</sup> The original maximum had been 3,000 crowns.

<sup>2</sup> Law of October 25, 1896, R. G. Bl. No. 220, as amended by the laws of January 23, 1914, R. G. Bl. No. 13, and of July 23, 1920, St. G. Bl. No. 372.

family dependents. The following table summarizes the abatements:

ABATEMENTS IN PERCENTAGES OF THE NORMAL TAX

According to Number of Dependents	According to Size of Taxable Income		
	Less than 52,001	52,001-132,000	above 132,000
Two	20	10	none
Three or four	32	16	none
Five or more	40	20	none

A family member could not be counted as a dependent, however, where regularly employed in the business of the taxpayer, inasmuch as his maintenance was already an allowable deduction from gross income.

Lest the above deductible expenses and abatements should not protect the taxpayer of moderate means against undue hardship, the law contained a waste-basket clause which authorized the assessment commissions to make a further tax reduction under exceptional circumstances of not more than three brackets in the income tax schedule. In general this amounted to about a one-third reduction of the tax, though in the very lowest brackets the percentage reduction was even greater. Indeed, incomes not exceeding 14,000 crowns might be exempted entirely. Between 14,000 and 60,000 crowns the general rule applied, while above 60,000 crowns special considerations were excluded. The following circumstances were enumerated as justifying special consideration: unusual burdens involved in the education of children, the obligation to support poor relations, lasting sickness, indebtedness and special misfortunes (not otherwise defined) and finally military service.<sup>1</sup>

The income tax was thus a very complicated measure. Yet in the original 1920 bill the Government proposed to put the burden of assessment and collection upon the employers, including all the complicated deductions for family dependents, outlay for tools, carfare, social insurance, etc. Where such wage was the employee's sole income a complicated method of res-

<sup>1</sup> § 174.

titution for overpayments was provided for the event of subsequent unemployment or reduction of wages. Where the employee enjoyed a subsidiary income the assessment by commission was to continue, and the wage income was to be reckoned into the family income. Shifting was to be a punishable misdemeanor, in order that all might be conscious that they were paying taxes.

This proposal placed a very heavy burden upon the employer. Moreover, it exposed the employee, who enjoyed even a very small subsidiary income, to a tax which might frequently more than eat up this entire outside income, because of the reckoning of his principal wage into family income. The prohibition against shifting was opposed by the Social Democrats as impracticable, inconsistent with the practice of the State towards its own employees, as limiting the freedom of action of the trade unions, and as liable to initiate a general strike movement for higher wages.<sup>1</sup>

These criticisms led the Government to propose a number of changes which were adopted in committee and embodied in the bill as finally passed. The employer remained charged with the task of assessing, collecting, and paying over monthly to the Federal Treasury the tax of his employees. But instead of a complicated calculation of abatements, etc., a flat deduction of 20 per cent of total wages (10 per cent where employment was on six months' contract) was to be made. Official tables were to be published to aid the employer. Collection at the source applied even where the employee enjoyed a subsidiary income, or drew a wage from more than one employer, but the percentage deduction only applied where income was derived exclusively from one employer. In no case was such subsidiary income liable to be entered into family income, and the limit below which income of other members of the family was to be separately assessed was increased to 20,000 crowns.

The employer was required to furnish the assessors of the district with a list containing the tax deductions, the taxable incomes from which the deductions were made, the circum-

<sup>1</sup> 950 der Beilagen, K.N.V., and 99. Sitzung, K.N.V., p. 3313.

stances pertinent to the question of taxation, the amount of social insurance, and was responsible for any loss of taxes arising out of his failure to observe the instructions or the objections of the tax authorities. The employee might be called upon to confirm or complete this information, and he, as well as members of the workingmen's council, might inspect the lists prepared by the employer and appeal to the provincial tax office. The prohibition against shifting was dropped.

The bill passed in this revised form and went into effect in 1921. The writer has no figures, but it was a general complaint in the conservative press that the law put an expensive burden of assessment upon private employers, involving frequently the full time services of one or more clerks. It is fairly safe to say that Professor Bullock's conclusion as regards the collection of interest on bonds under our own Income Tax Law of 1913 will hold here for collections at the source in general—namely, that it involved "an expense of 30 to 40 per cent—to other people."

A number of minor changes made in the income tax in 1920 may well be enumerated here. The so-called bachelor's tax was repealed in connection with the increase in the abatements for family dependents. The objectionable special salaries' tax was also repealed. This had become politically possible since depreciation had brought the laborer and the "little man" within its scope. The equally objectionable tax on director's profits, however, was retained. The exemption of the Emperor and the members of the royal household had ceased with the proclamation of the Republic, but the formal repeal first occurred at this time. The same is true of the active pay of the military.

There were no further changes in the income tax during 1920 despite the fact that the dollar value of the crown fell from 145 in June 1920 to 358 in October, and to 654 by the opening of 1921. During the same period the crown lost one third of its purchasing power at home. By January 1921, therefore, a revision of the tax was imperative. Literally the entire population had become liable and the administration was swamped under a

flood of petty tax bills. Accordingly a law of January 14, 1921<sup>1</sup> reduced the tax on incomes below 200,000 crowns by one third. The increased tempo of inflation during 1921, however, necessitated revisions of the income tax schedule at shorter and shorter intervals. A decree of March authorized the reckoning in of overtime pay to wage earners at one half its value because of the alleged discouraging effect upon industry.<sup>2</sup> The legislators were sensitive to the danger of discouraging incentive on the part of labor but strangely indifferent to the still more serious danger of discouraging saving and *entrepreneur* incentive.

In July the bankrupt State assumed the income taxes of its active and pensioned employees, to whom, it is true, it was paying starvation wages.<sup>3</sup>

A law of April<sup>4</sup> raised the exemption limit on 1921 incomes from 8,400 to 30,000 crowns, and fixed the minimum tax at 468 crowns or about one and one half per cent. From this point the tax increased gradually to 15 per cent on 500,000 crowns. Incomes above this amount were regarded as middle class (*burgerliche*) and were taxed at rates beginning with 45 per cent and rising to 60 per cent on the fraction of income above 1,200,000 crowns. The loss involved was to be made good by changing the basis of the 1920 income tax from the average of 1919 and 1920 incomes to that for 1920 alone. Where the income was less than 2,000,000 crowns the tax base was to be reduced by one quarter. This change involved a considerable increase in the tax base but a very great saving in assessment work, since 1919 income did not have to be assessed at all. An increased reduction for dependents of persons having incomes of 500,000 crowns or less was allowed, and, as a further relief to workers earning less than this amount, pay for overtime work was entirely exempted.

In October<sup>5</sup> and again in November<sup>6</sup> partial relief was granted by flat reductions of taxes on smaller incomes. The reductions

<sup>1</sup> B. G. Bl. No. 67.      <sup>2</sup> 281 der Beilagen, Nationalrat.

<sup>3</sup> Law of July 13, 1921, B. G. Bl. No. 376, par. 30.

<sup>4</sup> Law of April 12, 1921, B. G. Bl. No. 232, Art. V.

<sup>5</sup> Law of October 21, 1921, B. G. Bl. No. 575, and 571 der Beilagen, Nationalrat.

<sup>6</sup> Law of November 30, 1921, B. G. Bl. No. 673.

were greater on incomes collected at the source than on assessed incomes, because of their greater exposure to the effects of depreciation. Thus the wage of a skilled metal worker had increased by only 62 per cent between May and October, while his tax had increased by 193 per cent in the same period<sup>1</sup> and there was no lag between assessment and collection. The law of November, accordingly, provided that the tax on salaries and wages collected at the source should be reduced by 50 per cent, while that on assessed incomes should be reduced by only 15 per cent. Wages on which the tax was less than 1,456 crowns were to be entirely exempted, and the limit of income below which overtime was exempted was raised from 500,000 to 800,000 crowns. The rates nevertheless remained exorbitant. Thus fractions of income above 1,200,000 crowns, or approximately \$200, paid 51 per cent, whereas, before the War, incomes of this amount were entirely exempted.<sup>2</sup>

Finally, in December 1921 the Government abandoned the confusing and hopeless task of periodically revising the income tax to the falling value of the crown by adopting the principal of an elastic tax-unit. A law of December 20, 1921<sup>3</sup> provided that, retroactively for 1921 and for the future, incomes were to be expressed in tax-units rather than in crowns. The Finance Minister, with the approval of the Main Committee of the Nationalrat, was authorized to alter the number of crowns in a tax-unit according to changes in the internal purchasing power of the crown. Rates were to be expressed in percentages of these tax-units. A special schedule, worked out for 1921 on the basis of a tax-unit of 200 crowns, superseded all the measures so laboriously worked out and described above. The exemption limit was raised from 30,000 to 60,000 crowns, and the rates on small and even moderate incomes were very much reduced. An income of \$2,000, for example, on the assumption that it was received in twelve monthly installments and at the exchange rate of the middle of each month, was liable to a tax of

<sup>1</sup> Cf. 571 der Beilagen, Nationalrat.

<sup>2</sup> Cf. 657 *ibid.*

<sup>3</sup> B. G. Bl. 713, Art. III, par. 2.



about 10 per cent, instead of the 40 per cent to which it would have been liable according to the April 1921 law, when the dollar was worth 700.

The rates for 1922 and the following years<sup>1</sup> varied from that for 1921 both as regards the schedule of rates and the value of the tax-units. An income of more than 400 tax-units and less than 1,501 tax-units paid 1 1/3 per cent; of more than 1,500 tax-units and less than 3,501 tax-units paid 2 2/3 per cent; of more than 3,500 tax-units and less than 6,001 tax-units paid 3 3/4 per cent. Thereafter the tax rose to 5 per cent on the next 2,000 tax-units or fraction thereof; 6 per cent on the next 4,000 tax-units or fraction thereof; 9 per cent on the next 4,000 tax-units or fraction thereof, etc., to 60 per cent on all incomes above 500,000 tax-units.

The abatements, deductions, etc., for special burdens were expressed in tax-units, and in general represented a more generous allowance. The 10 per cent deduction from the salaries of persons on six months' contract was now dropped, but characteristically, however, the deduction for persons on less than six months' contract was increased in committee from 20 per cent to 25 per cent. The Government, more logically, had recommended a reduction to 9 per cent.<sup>2</sup>

The original tax-unit for 1922 was fixed at 600 crowns, but the rapid depreciation during the year caused frequent changes.<sup>3</sup> The tax-unit for the year was obtained by taking the average of the several tax-units, weighted by the length of time each had remained in force. The result was a tax-unit of 4,466 crowns for 1922.

For salaries and wages, collected at the source, tables were

<sup>1</sup> Law of December 20, 1921, B. G. Bl. No. 713, Art. III, par. 2.

<sup>2</sup> 665 der Beilagen, Nationalrat.

<sup>3</sup> The following is the list of tax-units and their durations:

January 1 to May 21	600	(1)	B. G. Bl. No. 731, ex 1921
June 1 to July 31	1,200	(2)	<i>Ibid.</i> , No. 313 ex 1922
August 1 to August 31	3,000	(3)	<i>Ibid.</i> , No. 486
September 1 to September 20	6,600	(4)	<i>Ibid.</i> , No. 643
September 21 to November 31	12,700	(5)	<i>Ibid.</i> , No. 691
December 1 to December 31	10,000	(6)	<i>Ibid.</i> , No. 834

worked out in connection with each change of the tax-unit to enable employers to determine the amount to withhold. The following were the tables effective September 1, 1922:<sup>1</sup>

Day Wages (Crowns)		Tax Per Cent	Weekly Wages (Crowns)		Tax Per Cent
from	to		from	to	
9,645	36,164	1	67,695	253,848	1
36,165	84,383	2	253,849	592,310	2
84,384		3	592,311		3
and over			and over		

By an oversight the tax-unit principle was not applied to the tax on interest, with the result that the exemption limit remained 8,400 crowns, whereas the exemption limit for the income tax at the beginning of 1922 was 240,000 crowns. The tax on directors' profits remained unchanged throughout this period. A number of minor changes in the tax on interest and the corporation tax were made. These are dealt with in the next chapter, which is concerned with concessions to capitalistic enterprise made necessary by the virtual boycott which foreign capitalists placed upon Austrian investments.

<sup>1</sup> B. G. Bl. No. 643. Similar tables were given for bi-weekly and monthly wages as well.

## CHAPTER V

### CONCESSIONS TO CAPITALISTIC ENTERPRISE

THE concessions discussed in this chapter are of three kinds: 1, those made necessary by excessive state taxes; 2, those due to depreciation; and 3, those due to maladjustment in federal and local taxation.

#### I. RELIEF FROM EXCESSIVE STATE TAXES

Relief from excessive state taxes was first granted in the case of the tax on interest. In the revision of 1919 the rate on foreign deposits had been reduced from 4 to 2 per cent, while that on domestic deposits had been increased from 4 to 8 per cent.<sup>1</sup> In connection with the July 1920 tax revision, non-resident persons and corporations were entirely exempted from the tax on interest on their accounts in foreign moneys with Austrian banks.<sup>2</sup> At the same time, new capital invested in *manufacturing companies* at a fixed rate of interest was entirely exempted from the tax on interest for a period of 25 years.<sup>3</sup> A year later, the same concession was extended to bonds issued by *electrical development companies*. It was good for the life of the bond, but not to exceed 50 years.<sup>4</sup>

It is interesting here to note the effort to favor particular types of business enterprise and a particular class of investors. Thus manufacturing and electrical development companies were singled out, as against banking or commercial companies. Persons investing money at a fixed rate of interest were preferred to persons who sought a speculative investment.

In this same spirit temporary relief was granted from the high rates of the corporation tax. In 1920 manufacturing com-

<sup>1</sup> See p. 96, above.

<sup>2</sup> Law of July 23, 1920, St. G. Bl. No. 372, Art. V, par. 4.

<sup>3</sup> *Ibid.*, Art. V, par. 1.

<sup>4</sup> Law of July 13, 1921, B. G. Bl. No. 409.

panies,<sup>1</sup> and in 1921 electrical development companies<sup>2</sup> were granted an 80 per cent reduction of the corporation tax which they were obliged to pay on the interest on new bond issues.<sup>3</sup>

This effort to encourage investment in Austria without encouraging speculation inevitably defeated the primary purpose of the law, for no one was going to put money into Austrian industry at a fixed rate of interest in times of depreciation.

Another concession to corporate enterprise was due to the break-up of the Empire. Prior to the War most Austrian companies had their head offices and their selling offices in Vienna, and their plants scattered through the country. Bohemia, especially, was a great manufacturing center. The breakdown, therefore, of the old customs and currency unity seriously dislocated Austrian industry. The chauvinism of the new Succession States threatened to make the dislocation complete. They early required the formal dissolution of such companies and the formation of national companies. The stockholders on the other hand were anxious to maintain the old community of interest. Accordingly the practice developed of exchanging stock between Austrian companies and their former branches in the Succession States. From the point of view of taxation, however, the new situation was highly unsatisfactory. Austrian companies were now liable not only to taxation on their profits earned in Austria, but also on the dividends on the stock (*Portfeuilleaktien*) which they held in their former branches, although these dividends had already been heavily taxed in the Succession States. With the prevailing high taxes this situation was untenable. If the Austrian

<sup>1</sup> Law of July 23, 1920, St. G. Bl. No. 372, Art. V, par. 1. Originally this concession applied only if the borrowed capital did not exceed the amount of domestic capital already invested. This limitation was designed to prevent Austrians from losing control of such industries. Even this limitation, however, did not hold for "*gemeinwirtschaftliche Unternehmungen*" and for publicly owned utilities. Two years later the limitation was dropped for all companies because it was seen to have no significance. New capital was expressed in depreciated crowns, while the original capital was expressed in crowns of far greater value (786 der Beilagen, Nationalrat).

<sup>2</sup> Law of July 13, 1921, B. G. Bl. No. 409.

<sup>3</sup> Interest on bonded indebtedness being included in net earnings.

Government wished to see any community of interest maintained it had to modify the existing law.

No less untenable and hardly less detrimental to the future of Austria's industrial development was the double taxation of the *Portfeuilleaktien*<sup>1</sup> of strictly Austrian concerns. This double taxation represented a real hardship because inter-company holdings had always been widespread. There are a number of causes for this, but the principal one is due to the position of the banks in Austrian economic life. Austrian banks are more than commercial banks extending short time credits. They are also investment houses. They gather together savings for the support of new enterprises, and hold permanently important blocks of shares in these new enterprises. Their representatives sit on the boards of directors of all important concerns. The banks are really the managers of industry, and an important part of their earnings is made up of the dividends of the companies in which they are interested. The corporation tax, therefore, with the growing local additions, became increasingly oppressive. It stimulated tax evasion, but, more important, it discouraged new investment. Moved by this latter consideration, the legislators were also prepared to make some slight concessions to Austrian capitalists.

The first measure of relief came in 1920.<sup>2</sup> It provided that Austrian companies acquiring stock in their former branches in the Succession States prior to the end of 1924 (or which had retained uninterruptedly stock in such branches), were to be granted a reduction of their taxable profits by an amount equal to the ratio of the capital of the formed branches to their total capital. To encourage the foundation of new Austrian enterprises, an equal reduction was granted to Austrian companies holding unissued shares in domestic companies founded before the end of 1924. In both cases the concession was limited to stock in manufacturing companies. The duration of the tax reduction was limited to 5 years in the case of exclusively Austrian companies, whereas it was for 25 years in the case of former branches in the Succession States.

<sup>1</sup> The German term is used here for brevity to indicate the securities of one company held by another.

<sup>2</sup> Law of July 23, 1920, St. G. Bl. No. 372, Art. V, par. 2.

The time limit of 5 years was too short to make this any adequate inducement to found new Austrian companies. Moreover the exclusion of banks from the benefits of the law hindered the efforts of Austrian capitalists to maintain their connections in the Succession States. Since the banks in the Succession States were equally the directors of industry, the end which the Assembly had in view could have been attained most effectively by facilitating the efforts of the Viennese banks to maintain their connections with their former branches. Instead, branch banks were expressly excluded from this privilege. As a result, therefore, little was accomplished.

In 1922 the treatment of *Portfeuilleaktien* was considerably liberalized. Banks were included within the scope of the law as far as their former branches in the Succession States were concerned. No concession was made, however, as regards an Austrian bank's holdings of shares in Austrian companies. But within Austria, vertical and horizontal combinations between manufacturing companies, or between trading companies (but not between banks) were henceforth to be favored by a considerable reduction of the tax on *Portfeuilleaktien*. This concession applied not only to the combination of an existing company with a newly created company, but also to combinations of existing companies.<sup>1</sup>

Hand in hand with these concessions, designed to ward off the worst effects of excessive rates, went others to mitigate the hardships of depreciation upon reserves for the replacement of fixed capital or for the payment of debts payable in gold. Relief from the taxes on the fictitious profits arising from the increase of paper crown inventory values was as urgently needed but was refused throughout the period of inflation. One reason for this refusal was that depreciation had not been an unalloyed hardship on business. In so far as it had debts to meet in Austrian crowns it had benefited. While there was some truth in this argument, it is safe to say that for most Austrian concerns with

<sup>1</sup> Law of February 17, 1922, B. G. Bl. No. 117, Art. V. This concession did not apply to the dissolution and complete absorption of one company by another, but merely to the holding of stock in one company by another.

little long-time indebtedness the hardship of taxing paper inventory profits far outweighed the relief from debt through inflation. Nevertheless concessions were confined to fixed capital replacement reserves and gold crown debt reserves. The hardship in these two cases arose from the fact that with depreciation the annual tax-free payments into such reserves proved hopelessly inadequate. Replacement or repayment involved expenditures of many times the book values of these items, yet payments into reserves over and above the inadequate annual allowances were subject to heavy taxation as profits.

Despite the obvious injustice of the situation it was long before any real effort was made to remedy matters. The Administrative Court of Justice had apparently opened the way for the proper handling of tax-exempt reserves in a decision of November 1918, in which it approved extra payments to reserves as a protection against further depreciation of the crown. The Finance Ministry, however, promptly objected on the ground that a future increase in the value of the crown was as likely as a further fall in value. The attitude of the Finance Ministry was decisive since a verdict of the Administrative Court was not binding upon it. Strangely enough the court later (1920) concurred in the Finance Ministry's decision, despite the fact that events had borne out its earlier view.<sup>1</sup> Its 1920 expression of confidence in the crown was probably due to the approaching enactment of the capital levy,<sup>2</sup> one of the purposes of which was to improve the value of the crown.

It was in preparation for this unrealized improvement in the value of the crown that one of the first measures was passed, the avowed purpose of which was to encourage capitalistic enterprise. This was the law of July 15, 1920. It was based on the assumption that, following the expected permanent fall in prices, reserves for the amortization of high-priced capital investments would prove excessive. Any surplus remaining after replacements would be liable to taxation. It therefore

<sup>1</sup> 683 der Beilagen, Nationalrat.

<sup>2</sup> See Chapter VI of this book.

permitted certain approved types of companies—mining, oil producing, and electrical development enterprises—to amortize this excess value. The improvements in question, however, had to be made between 1920 and 1924 and the reserves completed within 3 to 15 years.<sup>1</sup>

This law was designed not to mitigate the injustices of the past, but to encourage corporate exploitation of natural resources in the future. It naturally failed of its purpose when the crown depreciated further instead of improving. It was therefore revised in 1921 for electrical development companies—this time on the less sanguine assumption of no further fall in the crown. Such companies were authorized to amortize tax free within the short period of from 3 to 15 years, three quarters of any investment made between 1919 and 1924. This concession thus offered merely temporary relief from the heavy burden of the corporation tax and accomplished nothing.<sup>2</sup> Despite the futility of the law another was passed early in 1922 granting the Finance Minister authority to extend this same concession to unincorporated enterprises with respect to their income taxes, “where important public interests seemed to justify it.”<sup>3</sup>

Except for these very inadequate concessions to a limited group of industries no real progress was made until early in 1922. Then, in February of that year, the whole problem of equipment and debt reserves was frankly faced and very considerable relief was granted. Corporations were authorized to amortize, tax free over a period of 10 years, their losses on foreign debts incurred prior to the end of 1918, or on crown debts incurred prior to the end of 1919 and subsequently declared by the Treaty of St. Germain to constitute gold crown debts. Unincorporated businesses might enjoy the same relief from the income tax, if their bookkeeping methods offered a suitable basis for control. Corporations, and unincorporated businesses which kept suitable books, were further authorized

<sup>1</sup> Law of July 15, 1920, St. G. Bl. No. 313.

<sup>2</sup> Law of July 13, 1921, B. G. Bl. No. 409.

<sup>3</sup> Law of February 17, 1922, B. G. Bl. No. 117, Art. IV.



to make such payments during 1920-25 to reserves as they thought necessary to cover the costs of replacement of equipment acquired before the end of 1920. Only half of such payments, however, were to be exempted and only then if they were disbursed for new equipment before the end of 1930. Any unexpended surplus after replacement, or after 1930, was liable to taxation. If, however, the reserve should prove inadequate, the excess expense could be deducted from the profits of the years during which the reserve had been accumulated and the assessed taxes of those years would then be suitably reduced.<sup>1</sup>

All these measures mentioned in this section were so slight, required such complete inquisition into the affairs of the beneficiary, and were administered in such a narrow way, that few cared to make use of them.<sup>2</sup> Though they accomplished little, they are nevertheless indicative of a slow change which was taking place in the attitude of the legislative and executive branches of the Government. Austria's leaders were still hostile to big business, but they were beginning to realize that modern labor saving methods of production and distribution were essential to even the tolerable support of the country's six and a half million inhabitants.

How much further they were finally prepared to go is revealed in the passage of a private member bill which gave the Finance Minister authority to grant complete tax exemption to power companies "when important public interests seemed to justify it."<sup>3</sup> The explanation of this overgenerous treatment of capital is to be found in the statement of the sponsor of the bill that private capital was willing to undertake a power development project on the swift flowing Mürz River on condition of full tax exemption for a period of 20 years.

<sup>1</sup> *Ibid.*, Arts. I and II. Previously the amount of such excess expense was limited by the amount of the profits of the year in which the excess expense was actually incurred.

<sup>2</sup> Cf. testimony of Professor Mises at the "Handelskammertag" as reported in the *N.F.P.*, April 22, 1923; also article by Dr. Gustav Weiss-Wellenstein in the *N.F.P.*, February 24, 1923.

<sup>3</sup> A law of February 17, 1922, B. G. Bl. No. 113, to be found undated in the Revised (1923) Text of the Direct Tax Laws, B. G. Bl. No. 336.

## 2. THE REORGANIZATION OF STATE AND LOCAL TAXATION

In the preceding section attention has been centered on the efforts made to protect from excessive state taxes and from depreciation the industrial hen that laid the golden eggs. Though these efforts were in the right direction, they were inadequate and were doomed to futility as long as the State insisted upon keeping up the fiction that one paper crown was worth one gold crown, and as long as the provinces and the lesser political units could levy additions at will upon the state produce taxes. This section deals only with this second problem—the financial relations existing between the federal, provincial, and local political units.

The seriousness of the situation created by the freedom of the localities to levy additions on the state produce taxes is revealed by the following generalization: "In the majority of places the (1921) corporation tax with all additions amounted to more than 100 per cent of net profits; in a number of places the tax on rents amounted to more than 100 per cent of gross rents, and in a few places the business tax alone amounted to more than 100 per cent of net earnings."<sup>1</sup>

It was this situation that the Austrian Parliament finally remedied by an Act of March 3, 1922. This Act is easily the most constructive piece of financial legislation of the inflation period. On the surface it appears to be a radical break with the past. As a matter of fact, though, it was an outgrowth of the past, which increases the likelihood that it will prove a reasonably permanent and satisfactory settlement of the financial relations of the State and the localities. To appreciate its significance a short review of the preceding situation is essential.

### *a. The Pre-war Situation*

The decentralized federalism legally established by the constitution of October 1, 1920 was in line with forces which had long been at work in old Austria. They date back at least to the abortive Revolution of 1848. From that date onward, despite

<sup>1</sup> Demmer, in *Mitteilungen*, 4. Jahrgang, Nos. 9, 10, p. 221.

occasional setbacks, provincial rights and duties grew slowly but steadily, and save for the larger towns, at the expense of both the political units above and below them. It is important to note in this connection that the functions of the provinces grew on the whole faster than the available means of defraying the resulting expenses. Provincial representatives were insistent, therefore, that more productive and independent revenues be assigned to them. Prior to the War, however, no thoroughgoing reform was accomplished, with the result that the provinces were forced to lean more and more heavily on existing revenue sources—which for the most part were already being exploited by the central government. To only a lesser degree the towns and the intermediate units, the counties, were in the same situation as the provinces. Altogether a most unfortunate situation existed: the central government found itself charged with the administration of taxes that were too high to be enforced and that varied so widely from province to province as to induce an uneconomical distribution of industry.

On paper at least, the central government appeared to be clothed with the powers necessary to correct this situation. It possessed exclusive control over certain taxes, and a general right to withhold approval of local revenue measures which threatened the essential interests of the State. But as a matter of fact it found itself comparatively helpless in the face of the urgent needs of the localities.

The central government possessed relatively few resources exclusively reserved to itself. First and most important, it possessed the revenues from customs, but these were definitely earmarked for the support of the functions which Austria and Hungary under the constitutional laws of 1867 performed in common: foreign affairs, army and navy, and the ministries charged with their administration. The same was true of the powder monopoly and a few insignificant administrative revenues. These revenues paid less than one quarter of the common expenses, so that the central government was obliged to cover its share of the difference, as well as its own strictly na-

tional expenses, from other sources. And for this it had only the following resources upon which it could rely exclusively:

1. Certain indirect taxes upon consumption upon which, for administrative reasons, it is most effective to levy at some early stage of production;
2. Monopoly profits on tobacco and salt;
3. Railroads, post office, etc.—which yielded little or no net revenue.

All other revenue sources were open to all units of government, in varying degrees and in different ways. Local taxes were either "independent" or "dependent." In the case of the dependent taxes the lesser political units could not undertake separate assessment or collection. They could, however, levy additions upon the state tax as a base, which it was the duty of the central officials to collect and transmit to the local treasuries. Additions beyond certain specific heights required superior approval<sup>1</sup> which was invariably granted. In the case of the "independent" taxes the local units possessed the powers of assessment and collection. Here too the central government might object but seldom did, even though some of these local taxes competed very directly with corresponding state taxes.

In general the localities could levy additions upon the direct taxes, upon certain state consumption taxes, and upon the periodic state tax upon legal corporations levied in lieu of the personal inheritance tax. These constituted the principal "dependent" taxes. Among the independent taxes which were similar to and therefore competed with the corresponding state taxes were the provincial wine, beer, and brandy taxes,<sup>2</sup> and the municipal wine taxes. In addition to these independent concurrent taxes there were a number of purely local taxes.

<sup>1</sup> More specifically as regards the direct taxes; the provinces could levy additions of less than 10 per cent by simple decree, which, however, required the approval of the "Statthalter," who could be instructed by the central government to withhold his approval. Where additions exceeded 10 per cent a provincial law was necessary, which required the sanction of the Emperor and the counter signature of a responsible minister (Gruenwald, p. 21). See p. 38 above.

<sup>2</sup> Prior to 1901.

Such were provincial increment taxes and license taxes on hunting, fishing, etc; municipal taxes on amusement, on gas and electricity, on street railway tickets, on alcoholic beverages, and on house rents. The last two are only to be distinguished from similar state taxes by certain technical differences in assessment. From an administrative point of view only are they to be regarded as "independent" local taxes.

Although the exclusively local taxes were large in number they were of small significance in comparison with those upon which central and local governments alike relied. The following figures show this very plainly:<sup>1</sup>

## STATE REVENUES (1913)

	In Millions of Crowns
Direct taxes (incl. the military tax) . . . . .	432.9
Stamp taxes, fees, etc. (incl. the inheritance tax) . . . . .	258.9
Monopolies . . . . .	254.0
Consumption taxes . . . . .	400.7
Customs . . . . .	191.2
<i>Total</i> . . . . .	1,537.7

## PROVINCIAL REVENUES (1911)

Additions to the direct taxes . . . . .	160.4
Additions to state consumption taxes and independent consumption taxes . . . . .	47.0
Taxes on savings banks, fire insurance companies . . . . .	1.2
Additions to the periodic state tax on corporations and independent taxes on inheritances . . . . .	5.4
Independent luxury taxes and fishing and hunting licenses . . . . .	1.2
Miscellaneous . . . . .	0.1
<i>Total</i> . . . . .	215.2

## COUNTIES AND SPECIAL DISTRICTS (1910)

Additions to the direct taxes . . . . .	77.9
Taxes on inheritances . . . . .	2.8
Miscellaneous . . . . .	0.5
<i>Total</i> . . . . .	81.2

Gruenwald, pp. 116-117.

## DIRECT TAXATION IN AUSTRIA

## TOWNS AND CITIES (1910)

Additions to the direct taxes . . . . .	147.9	
Additions to the state tax on betting and independent taxes on betting . . . . .	0.8	
Tax on inheritances . . . . .	3.3	
Additions to the state tax on real estate transfers . . . . .	1.8	
Additions to the state taxes on consumption and independent taxes on meat and drink . . . . .	50.7	
Taxes on rent . . . . .	43.0	
Miscellaneous . . . . .	3.0	
<i>Total</i> . . . . .	250.5	
<i>Grand Total</i> . . . . .		2,084.6

While these figures, which are the only ones available, are for different years, they nevertheless give a fairly accurate picture of the pre-war situation. They show the overwhelming and embarrassing interdependence of state and local taxation. Well over four fifths of local tax revenues were derived from additions to a few state taxes, or from taxes which, from a narrow administrative view only, could be regarded as independent. Seventy per cent of local revenues came from additions to the state direct taxes. Gross territorial inequalities resulted which necessarily complicated efficient administration.

Serious as the situation was in 1913, it was nevertheless an improvement over the past. By the Reform of 1896 the provinces had relinquished their right to levy additions on the new income tax against a share in its yield and in the yield of the taxes on land and buildings.<sup>1</sup> In this way the State in effect purchased the income tax as an exclusively state tax. In 1901 a state whiskey tax was introduced, and again relief from local additions was obtained by granting the provinces a share in the proceeds of the new tax.<sup>2</sup> The Revision of January 1914 merely confirmed the existing practice,<sup>3</sup> but limited the arrangement to 1917. Thus before the War the Government appeared to have committed itself to the policy of buying the exclusive control of certain taxes, in the administration of which uniformity of rates seemed desirable, against the grant of a fixed share in the yield to the local units.

<sup>1</sup> See p. 37 above.<sup>2</sup> Gruenwald, p. 100.<sup>3</sup> See p. 38 above.

b. *Subsequent Developments*

During the War, however, an important change occurred in connection with the introduction of a state beer tax.<sup>1</sup> The State guaranteed the provinces a fixed sum absolutely independent of the eventual yield of the new beer tax, in return for the repeal of the provincial beer taxes. As it turned out the grant proved far in excess of the revenues derived from the state tax.<sup>2</sup> Throughout the War the situation remained unchanged. The provinces refrained from any independent taxation of general incomes, whiskey, and beer. After 1917, however, there was no legal obstacle to their levying on these sources. Early in 1918, therefore, the Government attempted to legalize the situation by bringing in a bill which provided for a fixed grant of 140.5 million crowns to the provinces, subject to the same conditions as heretofore. The bill had not been passed at the time of the Revolution.<sup>3</sup> The provisional government of 1918 thus inherited an illegal and unsatisfactory situation. It was obliged to continue its unauthorized grants to the provinces, because of their urgent needs, without any assurance that the provinces would continue to observe their part of the unwritten contract. The situation was the more precarious because of the changed relationship of the provinces to the central government. The Revolution had not only dissolved old Austria into different national States, but all legal ties between the several provinces<sup>4</sup> as well. Since some central government was necessary, the provinces had voluntarily entered into a union, which they conceived as strongly federalist in character. This conception corresponded with existing facts. The authority of the central government did not extend beyond the limits of Lower Austria. Nevertheless the first two temporary constitutions (October 1918 and March 1919), disregarding reality, subordinated the provinces to the central government.<sup>5</sup> Thus, paradoxically, during the period in which Austria possessed on paper a strongly centralized

<sup>1</sup> K. V. of August 27, 1916, R. G. Bl. No. 270; Gruenwald, pp. 168-169.

<sup>2</sup> 191 der Beilagen, P.N.V.

<sup>3</sup> *Ibid.*

<sup>4</sup> Cf. Kelsen, pp. 86-87; also Bauer, *Revolution*, pp. 106-107.

<sup>5</sup> Cf. Kelsen, 2. Teil. II, V.

constitution, provincial rights flourished as never before. It was only after the passage of the present constitution, which really limits the power of the central government, that the latter was able to exercise authority in the provinces.<sup>1</sup>

One of the first acts of the weak provisional government, therefore, was to secure the enactment of a law to legalize the grants made since 1917, and to authorize their continuation on the same scale during 1919. One hundred seventy-seven millions was fixed upon as corresponding to the reduced area of the new Austria.<sup>2</sup> Further, the Finance Minister was authorized to distribute on a population basis, 300,000 crowns monthly during 1919 to the provinces, to compensate them for their abandonment of the right to levy additions to a new state wine tax. This measure thus completed the transition to the system of fixed grants which began in 1916. The exclusive right of the central government to tax general incomes, brandy, beer, and wine, however, was just as effectually secured as ever.

The grants authorized for 1919 were inadequate because of depreciation and the accompanying increase in all public expenditures. The Government, therefore, made further advances to the provinces during 1919 and 1920, and, as before, brought in a bill to legalize its action.<sup>3</sup> The bill was never passed.<sup>4</sup> The grants therefore, were illegal. More than that, however, they were inadequate. Consequently the provinces were forced to enact higher and higher additions to the direct taxes.

<sup>1</sup> Two forces kept Austria together in this early period. One was the veto of the Entente on union with Germany. The other was the financial bankruptcy of the provinces. This bankruptcy in turn was due to a number of causes. One was the lack of trained officials and technical apparatus necessary for an independent provincial taxing system. Another cause was the lack of provincial credit. A third and most important cause, however, was the presence of the printing press in Vienna. Since it was exclusively and liberally at the service of the central government, it dried up most other sources of revenue, not only for itself, but for the localities as well. Inflation, therefore, reduced the provinces and the towns to suitors for state bounty and thus unintentionally helped to maintain the territorial integrity of the Austrian Republic.

<sup>2</sup> St. G. Bl. No. 116; Cf. also 191 der Beilagen, P.N.V.

<sup>3</sup> 747 der Beilagen, K.N.V.

<sup>4</sup> 486 der Beilagen, Nationalrat, Anlage 1.



The grants so far mentioned applied only to the provinces. The towns were in an equally precarious position. They were almost entirely dependent on their additions to the direct taxes, and were therefore peculiarly hard hit. During 1919 and 1920 they secured some relief through grants, and, in the case of the provincial capitals, through a share in the yield of the tax on rents, but not enough to compensate for the drying up of the produce taxes under the influence of depreciation. Accordingly they too were forced to resort to higher and higher additions to the produce taxes.<sup>1</sup>

Under the combined attack of the provinces and the towns the produce tax system broke down. Local additions increased

PROVINCIAL ADDITIONS TO CERTAIN STATE TAXES, 1921

Taxes	Carinthia	Lower Austria	Vienna	Upper Austria	Salzburg	Styria	Tirol	Vorarlberg.
Land tax . . . . .	400	100	100	250	100	160	550	800
Country house tax . . . . .	400	120	—	200	80	160	150	600
Tax on rents . . . . .	150 <sup>2</sup>	28	28	60	80	125	90	100
5 per cent tax . . . . .	300	33	33	60	80	160	300	100
Business tax								
First class . . . . .	300	100	100	200	150	160	200	600
Second class . . . . .	300	90	90	200	100	160	200	600
Third class . . . . .	200	60	60	200	100	160	200	600
Fourth class . . . . .	200	40	40	200	80	160	200	600
Tax on peddlers . . . . .	300	40	40	200	200	160	200	600
Corporation tax . . . . .	300	120	120	200	200	170	400	600
Tax on interest . . . . .	300	100	100	200	100	160	200	600

by multiples the already prohibitive state rates. The table on the previous page shows the additions which the provinces actually voted for 1921.<sup>3</sup>

In general the rights of the townships to levy additions, which had already been greater before the War than those of the provinces,<sup>4</sup> were increased by the Revolution. The following

<sup>1</sup> 748 and 964 der Beilagen, K.N.V., and Law of July 22, 1920, St. G. Bl. No. 364.

<sup>2</sup> 100 per cent for the city of Klagenfurt.

<sup>3</sup> 488 der Beilagen, Nationalrat.

<sup>4</sup> These rights varied from town to town and from province to province. The mere cataloguing of them would fill a book (Gruenwald, p. 22).

table shows the limit below which townships might levy additions without control.<sup>1</sup>

LIMIT BELOW WHICH TOWNSHIPS MIGHT LEVY ADDITIONS WITHOUT CONTROL<sup>2</sup>

Place	Pre-War	1921
	(Per Cent)	(Per Cent)
Vienna.....	30	100
Klagenfurt.....	40	200
Graz.....	50	50
Towns in Lower Austria.....	60	200
Wiener-Neustadt.....	60	100
Waidhofen a. d. Ybbs.....	60	100
Salzburg city and towns in Salzburg	80	80
Towns in Carinthia.....	100	200
Towns in Stiria.....	150	300
Towns in Tirol.....	300	no control
Towns in Vorarlberg.....	400	no control
Innsbruck.....	500	500
Towns in Upper Austria.....	no control	no control
Linz and Steyr.....	no control	no control

This table does not reveal the actual additions voted and approved. They were generally higher still. Fortunately it was the general rule that town additions to the produce taxes had to be uniform. This rule effectively prevented the council in a town in which, for example, the majority of the direct taxpayers were small landholders, small traders, and artisans, and in which one or two big factories were to be found, from voting a heavy addition to the corporation tax and thereby avoiding the necessity of taxing the "small man."

Nevertheless the provincial and town additions, when combined with the heavy state rates, rendered the direct tax system completely unworkable. The whole system needed revision more urgently than ever, yet no lasting reform in the financial relations between the central and local governments was possible until the entire question of the constitutional relationship of the several units of government to one another had been worked out—that is, until a permanent constitution

<sup>1</sup> 487 der Beilagen, Nationalrat, Anlage 1.

<sup>2</sup> *Ibid.* See also p. 39 above.

had been adopted. The Constitutional Assembly, which convened in the spring of 1919, was elected for that very purpose but it unwisely allowed other matters to take precedent. The result was that more than a year and a half went by before a definite constitution was adopted—October 1, 1920.

This constitution changed Austria legally into what it had been in fact for some time past—a federation. And this change made imperative what had hitherto been merely highly desirable—namely, a considerable degree of separation between central and local finances. Theoretically, separation had not been essential while Austria was a highly centralized State. In constitutional law the supremacy of the central government had been unquestioned. It could interpose its sovereign veto on any embarrassing local measure. As a matter of fact, though, it had never been able to protect adequately its special interests in the realm of taxation. Now, however, it was not in a position to protect them either legally or practically. It faced provinces which, within their spheres, were also sovereign. Hence a definite and legal reconciliation of conflicting claims was imperative. It was necessary to reapportion functions and resources between the several units of government. The Constitution of October 1920 attempted this task.

At first glance an ideal arrangement would appear to be one under which each unit of government would be assigned for its independent exploitation just sufficient resources to enable it to perform its assigned functions. Unfortunately, however, a proper distribution of functions is most unlikely to accord with a proper distribution of taxes. For one thing historical forces determine the distribution of certain functions and certain taxes. But even though the members of the Constitutional Convention could have started with a clean slate, complete harmony would not have been advisable. The only proper procedure, within the limits of historical necessity, is to apportion functions and revenues according to relative efficiency of performance, each unit of government undertaking those functions which it can perform best, and assuming exclusive control of those resources which it can administer best. Such a rule leads to some degree of separa-

tion of functions and sources, but by no means harmonizes them. On the contrary the probability is that the central government will find its revenues in excess of its needs, and the more compact and homogeneous the country the more likely is this to be true.

The problem confronting the Constitutional Convention, therefore, was one of transferring to the localities their due share of the excess federal revenues. There were a number of ways of accomplishing this transfer. One way was by the old policy of fixed money grants. Another was to permit the local units to share in the yields of certain specified taxes. Still another way was to permit the localities to levy additions on certain state taxes, where uniformity was not essential. A fourth way was to give concurrent jurisdiction. The Convention adopted a system based upon a combination of all these possibilities.

The first step in working out such a system was formal and comparatively easy—a matter of classification and definition. The Convention wrote into the Constitution of 1920 a classification of Austrian taxes into (1) exclusively federal taxes; (2) mixed federal and local taxes; and (3) exclusively local taxes. Then it proceeded to define them. The exclusively federal taxes were defined as taxes which could only be levied for federal purposes, under federal legislation, and, in general, by federal officials. The mixed federal and local taxes were subclassified into:

1. Joint taxes—Federal law governs and administration is in federal hands but with division of yield. A joint tax may also be classified under the next heading.

2. Taxes liable to local additions—Federal law governs, administration is in the hands of central officials who collect both the state tax and the additions of the localities, which within limits are subject to local control.

3. Concurrent taxes.—Jurisdiction is independent and concurrent. Both federal and local governments may levy, and each is charged with the administration of its own taxes.

The final group of taxes in this classification were the local taxes, and these in turn were subclassified into (1) exclusively

provincial taxes; (2) exclusively municipal; (3) provincial taxes liable to municipal additions; and (4) joint provincial and municipal taxes. This was the first time that the towns were given a definite status. Henceforth their relations with the provinces were to be regulated in exactly the same way as those of the provinces with the central government.

This formal classification was made in October 1920. Eighteen months elapsed, however, before the more difficult and important step was taken—that of assigning all existing revenue measures to one or another of the general classes.<sup>1</sup> Our concern here is with the direct taxes only. The taxes on interest collected at the source and on directors' profits were classified as "exclusively federal." The three really productive state taxes—the income tax and the two business taxes, together with the tax on interest not collected at the source—were declared to be "joint taxes subject to division of yield." The two remaining direct taxes—on land and buildings—were assigned to the category "exclusively local taxes."

The division of yield for the four joint taxes was the same—50 per cent to the Federal Government and 50 per cent to the provinces in which the income was assessed. The provinces were obliged to hand over one half of what they received to the towns where the income was taxable. In addition the towns retained the right to levy additions upon the provincial land and buildings taxes.

These changes will be clearer if presented in tabular form as given on the following page.

One of the purposes of the reform was to reduce to a minimum the possibility of conflict between the Federal Government and the local governments. Disputes were nevertheless bound to arise, and for them the law provided machinery of settlement. Thus federal legislation takes precedence over provincial or municipal legislation whenever it is necessary in order to:

1. Prevent double taxation or unjust taxation.
2. Protect international tax agreements.

<sup>1</sup> Law of March 3, 1922, B. G. Bl. No. 125. Minor changes were made by amendments of June 8, 1923, B. G. Bl. No. 315, and of June 6, 1924, B. G. Bl. No. 185. See also Patzauer.

## STATE AND LOCAL PARTICIPATION IN THE DIRECT TAXES

Name of the Tax	Percentage share in the yield going to		
	Federation	Provinces	Towns
Tax on interest collected at source . . . . .	100	...	...
Tax on directors' profits . . . . .	100	...	...
Income tax . . . . .	50	25	25
Tax on interest not collected at source . . . . .	50	25	25
Corporation tax . . . . .	50	25	25
General business tax and tax on peddlers . . . . .	50	25	25
Tax on land and buildings . . . . .	...	100	...

3. Prevent interference with international or interprovincial trade.

4. Prevent undue interference with the use of public means of communication.

5. Protect the federal finances from damages.

The Federal Government has the following means of enforcing its rights:

1. It may object to a *new* provincial law as endangering federal interests. If the provincial diet repasses the law, the Government may appeal to a committee of the two houses of Parliament as a court of last resort.

2. It may appeal to the Constitutional Law Court against an existing provincial law and, if successful, it is entitled to any money collected under such an unconstitutional law.

3. It may appeal against a municipal ordinance to the Administrative Court.

4. More than this, it may require the provinces (or the towns) to introduce certain taxes, or perform specified functions, or, vice versa, to repeal objectionable taxes or abandon undesirable activities. This provision was designed to force the localities to exploit adequately available resources, or to abandon unnecessary expenditures or activities harmful to the general welfare. The penalty is loss of state aid. In order to protect the State against local raids on the Treasury, such as had char-

acterized the recent past, the practice of making grants subject to subsequent parliamentary approval was expressly declared to be illegal.

The Austrian Federal Government thus occupies a preferred position in the matter of taxation. It remains of course to be seen how successfully it will assert its views against those of the localities. Considering, however, Austria's long historic past as a unitary state there is little doubt that with reasonable tact and firmness the essential purposes of the reform will be accomplished.

The big improvement affected in the direct taxes is the complete elimination of the system of local additions to state taxes. The income tax, the taxes on business profits, and the tax on interest were freed by assigning half their yields to the localities. The taxes on land and buildings were assigned entirely to the localities. So great, however, was the distrust of local control that even here the Federal Government retained a right to prescribe minima and to assess and collect the taxes and charge 5 per cent for the service. This last change was little more than the recognition of the fact that long since the impersonal taxes had become predominantly local in character.<sup>1</sup>

In the interest of effective administration the Federal Government remains charged with the assessment and collection of most of the public revenues. Out of 615 million crowns actually collected in 1923 by all units of government, federal agents collected 427 million crowns or almost 70 per cent, and of this 427 million, it retained 83 per cent—distributing only 72.8 million crowns or 17 per cent. The extent to which the central government retains the yield from the several revenue sources varies widely—from 100 per cent in the case of state

<sup>1</sup> Many American students of public finance would be less dubious of the proposal often made in the United States, to turn over real estate to the counties and towns, if it did not carry with it untrammelled local administration. Reform in this country calls for more state control, not less. At present the State's small addition to the local rate at least gives it the right to supervise local assessments and correct some of the most glaring abuses. Admittedly this state equalization is woefully inadequate, but it is better than nothing. It would soon disappear if the State abandoned its financial stake in the revenues from the real estate tax.

monopolies, industrial undertakings, and customs duties to about 5 per cent in the case of the direct impersonal taxes and 2.4 per cent in the case of the consumption taxes.

The chief criticism to be made of the reform as it affected the direct taxes, is in regard to the proportions in which the State and the localities share in the yields of the income and corporation taxes. These taxes are overwhelmingly urban in character, while the balance of political power is *rural*. The financial interest of rural Austria in them will prove an obstacle to their reduction to the point dictated by economic and administrative considerations. The share of the business tax going to the localities, on the other hand, might be even larger. For the same reason the classification of the land and buildings taxes as exclusively provincial is to be approved. Henceforth these taxes are removed from the arena of national politics, and it becomes a question for the localities to decide whether they will tax land and buildings more heavily or do without the additional revenues. Should they be tempted to starve essential public services, the Federal Government may invoke the minimum rates.<sup>1</sup>

Important as the reform is, it did not bring any immediate relief from taxation. Federal surtaxes replaced the local additions to the business taxes and the tax on interest as well as the surtaxes of 1919. For ordinary corporations these surtaxes were progressive, rising from 320 per cent where profits were less than 5 per cent of capital and reserves, to 400 per cent where they exceeded 8 per cent. For the favored business types flat surtaxes of 320 or 350 per cent applied. For the tax on interest the surtax was a flat 400 per cent; for the business tax 480 per cent. The State had freed itself from the crippling effect of uncontrolled and territorially unequal additions, but with stabilization these taxes would prove too high. Thus a person with a taxable business income which amounted to \$5,000 in 1922 was liable to an income tax of 21 per cent<sup>2</sup> and a business

<sup>1</sup> Dr. Gruenwald told the author that in the first year under the new system the localities increased the rates far beyond the minimum and probably far beyond the point they would have permitted if they had had to share them with the central government.

<sup>2</sup> This is calculated on the assumption that the crown was stabilized at 10,000



tax of 29 per cent, or a total tax of 50 per cent. Corporations also were uniformly liable to a 50 per cent tax on net profits. Such taxes were not only repressive to industry, but put a premium on dishonesty. The way had been opened for a real reform, but that reform was not accomplished until after the League of Nations assumed control of Austria's finances.

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to the dollar, which is the rate it was quoted at on January 23, 1922, and that the tax-unit was maintained at 600 (Cf. p. 111 above).

## CHAPTER VI

### THE CAPITAL LEVY

#### I. INTRODUCTION

THE capital levy affords a fitting climax to our study of direct taxation in Austria during the period of inflation. It brings out more clearly perhaps than any other measure one of the things in which we are interested—namely, the class struggle in the realm of taxation. It is the purpose of this chapter to trace the measure from its inception to its final fiasco, and to conclude by raising a question of principle: Is the capital levy an appropriate emergency means of rehabilitating a nation's finances? Then in the next and concluding chapter an attempt is made to answer this question and indeed the whole question as to the limitations imposed upon the direct taxes by the fact of depreciation.

First of all, what is a capital levy? It is nothing more nor less than a general property tax. It differs from the main pillar of American state and local finance in that the rate is purposely set so high that the taxpayer will be obliged to borrow or to part with a portion of his property in order to meet his payments. Or, more accurately perhaps, it may be likened to an inheritance tax on all property owners. Its purpose is to transfer a portion of the assets of individuals and companies to the State so that the State can reduce its liabilities to manageable proportions. The capital levy is thus an extraordinary and non-recurring source of revenue. It is essential that it accomplish its end, because the faith of the State is pledged that a second levy will not be imposed in the near future.

The capital levy first received serious consideration in Austria as a possible solution of the growing debt burden when, in the summer of 1917, Finance Minister Spitzmueller declared himself in favor of the principle of the levy. All subsequent Finance Ministers and the leaders of the two dominant

parties in the old imperial Parliament likewise expressed themselves as adherents of such a measure.<sup>1</sup> Newspaper and magazine articles and lengthy books were devoted to the question. The views of three at least of these writers deserve brief mention because of the influence they exerted on the final form of the Austrian capital levy.

The first of these writers in point of time and perhaps in popular influence was Dr. Richard Goldscheid, the well known sociologist. In 1917 appeared his *Sozialisierung der Wirtschaft* which was followed and amplified by his *Staatssozialismus* (1919). Dr. Goldscheid started with the assumption that a State can best meet its obligations when it has productive assets equal in value to its liabilities. He would have this balance attained by increasing assets rather than reducing liabilities. He saw in a capital levy the proper means of accomplishing this purpose. And since the end was the increase of the State's productive assets, payment should be primarily in kind. To this end corporations should be required to issue new shares in favor of the State. Partnerships and private enterprise would enter the State on their books as a partner. The State would thus become the great capitalist, the director of industry, and being a more efficient *entrepreneur* than the private individual, would promote maximum production and at the same time guarantee an adequate existence to all. Thanks to the rule of payment in kind, the rate of the levy could be set at any desired height without affecting the economic system in the slightest. Dr. Goldscheid's argument showed considerable skill in Marxian dialectic, but a lamentable ignorance of public and private economic life. His writings nevertheless exerted a considerable influence on public opinion. His confident assertion that, regardless of how high the State's liabilities might mount, a simple and relatively painless operation would restore the balance, proved vastly comforting. His capital levy had all the magic qualities of Dr. Price's sinking fund. Public extravagance assumed a friendlier mien.

In point of time Dr. Bauer's program—*Der Weg zum Sozia-*

<sup>1</sup> Gruenwald, *Vormoegensabgabe*, p. 3 ff.

*lismus*—came next. It has already been described. He too, it will be recalled, advocated the capital levy as a means of transferring productive property from the individual to the State, but he was less sanguine of results, and therefore placed more faith in the old-fashioned methods of taxation. Heavy taxes on property, on higher incomes, and on inheritances were to secure from the possessing classes the means to pay for such of their property as the State might see fit to socialize. Whereas Goldscheid had preached the effectiveness of the State as *entrepreneur*, Bauer's more intimate knowledge of the State and its workings had convinced him of the paralyzing influence of the bureaucracy. Accordingly he developed the scheme of *gemeinwirtschaftliche Unternehmungen*, which was to combine the advantages of private initiative with the alleged benefits of public ownership. Experience showed that the blight of bureaucracy was not so easily abolished, nor the benefits of private initiative so easily obtained.

Later in 1919 Dr. Gustav Stolper began a series of articles on the Austrian situation in his weekly journal *Der Oesterreiche Volkswirt*.<sup>1</sup> He developed a plan for the reorganization of the State, in which the capital levy played an even more modest rôle than in those just described. Dr. Stolper developed his ideas with a brilliant pessimism that attracted much attention and contributed greatly to undermine confidence in the capacity of Austria to maintain an independent existence.

Starting with this assumption,<sup>2</sup> Stolper declared it to be the duty of the State to grant to all its citizens a minimum of food,

<sup>1</sup> Published in the *Oe.V.*, October 1919 to April 1920, republished in book form under the title *Deutschoesterreich als Sozial- und Wirtschaftsproblem*, and further amplified in two issues of the *Oe.V.* of January 1922.

<sup>2</sup> Dr. Stolper supports his opinion by a detailed study of Austria's assets and liabilities. His figures, however, were challenged by such authorities as the late Dr. William Rosenberg of the Anglo-Austrian Bank; Dr. Friedrich Hertz, the publicist and economist; Section-chief Dr. Schueller, of the Austrian foreign office; and, more recently, Professor Charles Rist, who made a study of the Austrian situation for the Carnegie Foundation in the early winter of 1922. The last four named are all in substantial agreement that with rigid economies and a not impossible increase in production the country is capable of an independent existence (*Lebensfähig*).

clothing, and shelter until such time as Austria should be permitted to join Germany. He proposed that the State defray this expense by a tax on manufactured products, imposed with the expectation that it would be shifted to the consumer. An Economic Parliament of capital and labor was to fix the amount of the tax (the *Umlage*), and apportion it among the organized producers. The producers, grouped into tax associations, would in turn apportion their quotas among their members and collect the tax. The produce of the land, articles of prime necessity, and exports generally were to be free, articles of luxury on the contrary heavily rated. With the state deficit covered by the apportioned tax collected by private agencies, the bureaucratic state apparatus could be greatly cut down, and ordinary taxes abolished or reduced to workable dimensions. The income and inheritance taxes, restricted to a small number of the well-to-do, would serve to even out such social inequalities as still existed after the realization of the existence minimum. A capital levy would relieve the State of the burdens of the past (which incidentally had already been largely wiped out by the depreciation) and even out any glaring inequalities in property. In view of Stolper's distrust of state tax administration, one wonders at his willingness to entrust it with this delicate and difficult task of assessing and collecting a capital levy. Would not the income and inheritance taxes suffice to take care of such inequalities as remained? In reality the *Umlage* in Stolper's scheme replaced the capital levy, which he apparently hauled in because no "reformer" dared leave it out.

At the time of the Revolution, public opinion was thus prepared for the early enactment of a levy on capital, though still divided on questions of detail. It was not foreseen that an agreement in principle is a far cry from agreement in detail. Pending such agreement, however, important preliminary measures were enacted, which revealed the type of levy envisaged.

On December 19, 1918 an emigration-of-capital law was passed.<sup>1</sup> It was designed to prevent the flight of capital

<sup>1</sup> Law of December 19, 1918, St. G. Bl. No. 122.

which the impending capital levy and high taxes generally were likely to cause. The end in view is probably impossible of accomplishment by law. Despite every effort of lawmakers, capital will move from areas of low return to areas of high return, and more freely still from areas of insecurity to areas of security. Austria was an area of insecurity at this time.<sup>1</sup> The prospect of a capital levy but added to the sense of insecurity. Instead of removing as far as possible the causes for this insecurity, Austria passed a law, which deserves preservation as a monument of futility.

The law required any person liable to taxation in Austria, and desiring to leave the country for any reason whatever, to announce his intention *one month in advance* to the proper assessors, to state where he was going, to declare the amount of his property, and to appoint a resident agent to act for him in tax matters. The assessors were thereupon obliged to assess his income and his property and to collect a sum of from 30 to 50 per cent of his income, as a guarantee covering past and future taxes. Moreover, the assessors might demand the required statement of anyone whom they suspected of planning to leave the country. After the lapse of eight days they might assess him officially, and execute without warning and without proof, if they thought it necessary. The affected party could appeal, but could not refuse to pay. The sending of money, goods, and valuables abroad was subjected to many conditions. In principle it did not apply to goods shipped abroad in the course of legitimate trade, to money transfers between plants belonging to one concern, especially for wage payments, or to stocks and bonds sent abroad for interest collection, conversion, etc. In general, money transfers abroad, in whatever form they were made, had to pass through designated banks. The transferor

<sup>1</sup> See the observation of the French experts on the effect of the similar French law. "The question of the return of French capital raises that of the suppression of the emigration-of-capital law. The repeal of that law could be realized at an early date without any inconvenience. It does not appear that the law in question has to date had any really useful results. It has at times certainly proved an obstacle in the way of a proper defense of the national currency."—*Rapport du Comité des Experts*, p. 44.

had to make out a detailed statement in duplicate, explaining the reasons for the transfer, and proving that his net property within Austria would not be reduced by more than 70 per cent by the transfer. Where the assessors had reason to believe that further transfers would reduce the value of his remaining property below this limit, notice was to be sent to the designated banks to stop further acceptances. The sending of property abroad contrary to the law, the attempt to do so, or the aiding or advising another to do so, exposed a person to a heavy fine, which might under exceptional circumstances amount to one half his net property, and in addition to the possibility of arrest up to one year and publication of the verdict in one or more newspapers.

This measure was soon followed by others, similarly designed to prepare the way for a capital levy. On March 6, persons were required to identify themselves on exchanging Austro-Hungarian banknotes for new stamped ones.<sup>1</sup> Four days later identification was required upon withdrawing money or securities. On the twelfth all securities deposited in banks, either in open deposits or in private safes, were sealed, and withdrawals of deposits or credits from a bank were limited to one half of the amount deposited,<sup>2</sup> until the owners had declared themselves. The purpose of all these measures was to give the Finance Ministry as complete a picture as possible of the location and ownership of property and to keep it in the country until it could be tapped by a capital levy.<sup>3</sup>

There was a precedent for these measures. The Czechs had already done the same thing, only more thoroughly and more effectively. In the last days of February they had ordered a stamping of all Austro-Hungarian banknotes found within their borders, which were hermetically sealed during the process. As the banknotes were turned in, one half were retained against a state bond made out in the name of the owner of the notes,

<sup>1</sup> *Erlaß des Staatsamtes fuer Finanzen* (March 6, 1919), II, 477.

<sup>2</sup> Herein the Government earned the charge of bad faith, because it had originally promised that all notes turned into the banks for stamping should be returned in full.

<sup>3</sup> Gruenwald, *Vermoegensabgabe*, p. 8.

bearing only nominal interest, and available for paying the pending capital levy. Thus with one stroke the quantity of money was radically decreased, and a tremendous amount of circulating capital was earmarked for the capital levy.<sup>1</sup> Such energetic procedure was more difficult in Austria than in Czechoslovakia where the brunt of the hardship fell upon the wealthy and unpopular German minority.

The Austrian authorities were not prepared for any such ruthless measure. They preferred to determine at this time merely the ownership of property, since they envisaged a subjective, sharply progressive capital levy in which due allowances should be made for individual burdens. The result was a fairly comprehensive view of the distribution of liquid capital as of March 15, 1919—and then 16 months went by before a capital levy was passed. Meantime price changes and tremendous shifts in property titles rendered the information largely worthless. The measure, however, remained upon the statute books and formed a continuous and vexatious burden on commerce and industry. The sealing hampered trade, and the uncertainty regarding rate, type of tax, and date of assessment paralyzed investment, or directed it into channels which were either unproductive or which offered the possibility of tax evasion.<sup>2</sup> The knowledge that all transactions which passed over bank records might be available evidence of the ever impending levy discouraged further resort to banks. The practice of cash payments increased and people generally undertook the custody of their own property.

The capital levy should have been enacted during the spring or summer of 1919 if these drastic preliminary measures were to serve any useful purpose. Considerations of internal

<sup>1</sup> Cf. *Sammlung von deutschösterreichischen Gesetzen und Verfügungen betreffend Wahrungsmassnahmen, Vermoegenkonskription und Steuerflucht*, issued by Verband Oesterreichischer Banken und Bankiers, 3 Hefte, Wien, Holzhausen, 1919, and their continuation *Sammlung finanzpolitischer Gesetze und Verfügungen der Republik Oesterreich*, prepared by Dr. Friedrich Unger and published by Verband Oesterreichischer Banken und Bankiers, for complete collection of source material on this subject.

<sup>2</sup> Gruenwald, *Vermoegenabgabe*, p. 11.



politics, however, prevented prompt action. It was not until October 1919 that the two parties in the newly formed Coalition Government, could agree upon even such a vague pronouncement as the following:<sup>1</sup>

The capital levy is to be put through with all possible speed. In case the subjective method is chosen, the rates must be very high on large properties, and must be collected to a considerable extent in kind from especially suitable objects (stock companies, other large enterprises, if possible also from securities). Rural and urban property must be treated equally. War bonds shall be accepted in payment. The valuation to be placed upon them shall be less than their issue prices, but with consideration of the borrowing margin upon them. The credit system shall not be shaken. Special provisions shall be made for social welfare institutions. As large a portion of the yield as possible shall be used to procure foreign exchange. In addition to this the capital levy shall be used to reduce the burden of debt, cover current deficits, and secure public influence in especially important economic enterprises. The disposition of the yield shall be placed under the control of a special commission composed of representatives of the Supreme Court of Accounts, of the National Assembly and of the provinces.

Obviously this pronouncement left ample room for disputes as to detail, and it was on details that the struggle in the Cabinet, in committee, and in Parliament turned.

So great was the disagreement among even the small group making up the Cabinet that three months passed before even a bill could be laid before the lower house,<sup>2</sup> and then it could rally to itself only the signature of the Finance Minister, Dr. Reisch.<sup>3</sup> On January 21, 1920, the bill passed the first reading and was referred to committee.<sup>4</sup> It was not until July 13, however, that the bill finally emerged from committee, and four more days passed before the amended text and the committee report became available to members of the Assembly.<sup>5</sup> Three days later the second reading began, and on the following day (July 21), after a meaningless debate, the bill passed without a single amendment and was published in the Official Journal of August sixth.<sup>6</sup>

<sup>1</sup> 941 der Beilagen, K.N.V.

<sup>2</sup> 623 *ibid.*

<sup>3</sup> 53. Sitzung, K.N.V.

<sup>4</sup> 55 *ibid.*

<sup>5</sup> 941 der Beilagen, K.N.V.

<sup>6</sup> Law of July 21, 1920, St. G. Bl. No. 371.

Thus the capital levy, the most drastic fiscal measure imaginable, was passed with but two days of public debate. The real discussion occurred in committee, and, unfortunately for the student, the records of these meetings are not available. He has to content himself, therefore, with the comparatively useless communiqués which were issued to the press from time to time, with the committee report accompanying the bill, with such internal evidence as the textual changes themselves afford, with the valuable commentaries accompanying the text of the law put out by Dr. Paul Gruenwald of the Finance Ministry, and finally with such information as may be gleaned from the all too brief public debates. The perfunctoriness of this debate is abundantly evidenced by the fact that only one deputy spoke against the levy in the general debate, and that not a protesting voice was raised in the special debate.<sup>1</sup> There must have been many who really objected to the measure, but they found it politically wiser, and practically more effective, to protect the interests of their constituents by indirect modifications rather than to oppose the measure openly.

Meantime the circumstances which had originally recommended the capital levy to conservatives had changed completely. Recurring deficits had been met almost exclusively by inflation, and domestic prices and the foreign exchanges had risen enormously. The following figures show this:

Date	Note Circulation (Millions of Crowns)	Price Index Number	Dollar Exchange
January 1919	4,500	28.37	16
January 1920	12,308	49.22	204
July 1920	17,451	63.76	148

In eighteen months inflation had thus cut the burden of the public debt more than in halves. The problem of July 1920 was to meet current expenditures, not fixed charges, and for this a capital levy was not the appropriate means. Nevertheless sentiment prevailed; public opinion demanded that the

<sup>1</sup> 96. Sitzung, K.N.V.

measure be gone through with. But in accordance with the new situation, the purposes for which the proceeds of the levy might be used were changed. In the first paragraph of the original bill the purpose had been declared to be "a sacrifice on the part of property holders to enable the State to secure the foreign money necessary to buy food for the people and to reduce the public debt." In committee a new purpose was given first place: "Improvement in the value of the currency by reduction of the note circulation." There was apparently no strong faith in the Government's ability to accomplish this desirable purpose, however, since the Treasury was authorized to reissue the notes in case of need. The truth is that by this time even those opposed in principle to the levy were anxious to have it over with, so that the troublesome and vexatious measures connected with the emigration-of-capital law might be repealed.

## 2. THE CAPITAL LEVY DESCRIBED

The object of the capital levy was net property. The law enumerated the types of property that were liable: all fixed and circulating producers' goods, fixed consumers' goods, and luxury goods above a certain value, depending on the date of acquisition, and finally objects of any sort not specifically enumerated, and exceeding 75,000 crowns in value, but acquired since the beginning of the War and exceeding the taxpayer's ordinary needs, judged by his pre-war standard of living. This catch-all paragraph was introduced in order to spare the small inheritances in jewelry and works of art of the "small man." It obviously imposed an unduly delicate and time consuming task on the assessors. The whole enumeration was illustrative and not inclusive. In general, anything was to be regarded as property for the purpose of the levy that was of value, was in the possession of a person liable to the levy on the date set for the valuation<sup>1</sup> (June 30, 1920), and not specifically exempted.

A restricted number of peculiarly personal belongings were exempted: watches, family portraits, silver dinner services

<sup>1</sup> Referred to in the law as the *Stichtag*.

in actual use, and similar articles. Aside from these unimportant exemptions there were three others which call for comment: (1) the property of recognized churches directly used in Church ceremonial, together with buildings and funds supporting them; (2) certain favored coöperative enterprises; and (3) the newly socialized enterprises, with which the Government was experimenting. The first two fit into the picture of the ideal Christian Socialist State. The Church and the coöperative capitalistic enterprises of the "small man" were spared. The political price exacted by the Social Democrats is to be found in the third exemption.

What is to be said for these exemptions on economic grounds? Very little. The narrow exemption of the ceremonial property of churches would have been unobjectionable, if their extensive landed properties had been made to contribute more heavily. But as will be seen later, landed property escaped very lightly. The last two exemptions, on the other hand, were entirely wrong in principle. They favored forms of enterprise that were unable to stand on their own feet. Thus they tended to promote a mal-apportionment of the nation's capital.

Persons with long residence or sojourn in Austria, and not citizens of any other country, were subject to the tax on their entire net properties. Resident foreigners not enjoying the privileges of extraterritoriality, or exemption under international law, were liable on all save real estate located abroad; non-resident foreigners and Austrians with long residence abroad were liable on their real property located in Austria. In committee, family instead of individual liability was introduced, despite the Government's objection that family composition was a temporary thing, whereas the influence of the levy would extend long beyond the date fixed for the assessment. Furthermore, family liability made the levy more burdensome because of sharply progressive rates.

Despite the fact that individuals were liable on their holdings in corporations, these latter were also made subject to the levy. Domestic companies were made liable on their entire properties, foreign companies only on properties located in Austria or

earned in Austria during the War. Allowance was made for a foreign capital levy paid on real property located abroad. The double taxation involved in this inclusion of companies within the scope of the levy was mitigated by a complicated system of refunding which is described below. Inheritances not yet distributed were liable as the property of the testator. With progression this provision made the property liable to a heavier rate than would have been levied against the several shares had the property already been distributed. It thus represented a hardship upon the inheritors, in view of which they were permitted to claim a refund later. This proved clumsy, however, and appears to have worked real hardship in certain cases. Accordingly the law was soon amended at this point to permit assessment against the inheritors, providing the property were distributed before June 30, 1923.<sup>1</sup>

The rate of the capital levy differed according as the subject was (1) a legal person (i. e., a corporation); (2) a physical person liable only on his property acquired in Austria, or real property located in Austria; (3) a physical person liable on his whole property. Taxpayers of the first class, i. e., companies, were liable to a flat 15 per cent rate, providing that thereby the net property of domestic corporations was not reduced below 50,000 crowns. Foreign corporations and physical persons in the second class were similarly liable to the 15 per cent rate, but without the protecting 50,000 crown proviso. Those coming under the third class, i. e., the rank and file of Austrian citizens, were liable to rates which rose sharply with the size of the family fortune. These rates were expressed as percentages on successive fractions of property above a certain exemption limit. In the original bill they had begun with 5 per cent on the first 20,000 crowns above an exemption limit of 15,000 crowns, and risen to 65 per cent on fractions of property above 10 million crowns. The schedule was amended in committee by raising the exemption limit to 30,000 crowns, and by lowering the minimum rate to 3 per cent. Sixty-five per cent remained as before the maximum. The following table shows the percentage burden on cer-

<sup>1</sup> Kundmachung of March 29, 1921, B. G. Bl. No. 195.

tain properties according to the original and to the committee bill:

Property		Rate	
In Crowns	In Dollars <sup>1</sup>	As per Original Bill	As per Committee Bill
		Per Cent	Per Cent
20,000	100	1.25	
100,000	500	6.55	3.9
500,000	2,500	13.38	8.48
1,000,000	5,000	17.44	14.91
15,000,000	75,000	50.77	50.56
100,000,000	500,000	62.863	62.833

The burden represented by such rates was enormous. A family property of \$5,000, for example, was liable to a 15 per cent levy. A special surtax of that amount on an income of \$5,000 would have represented a heavy sacrifice. The oppressiveness of the burden was somewhat mitigated, it is true, by a complicated system of deductions and abatements. Thus the exemption limit was increased by 30,000 crowns where the subject of the levy had a wife under 60 years of age, by 50,000 crowns where the wife was over 60, and by a further 15,000 crowns for each child, providing in each case that the dependent did not own property greater in value than the amount of the exemption. A further increase was made in the case of old age or disability of one whose total property did not exceed the exemption limit by more than 35,000 crowns. A lump sum of not more than 75,000 crowns received on account of accident or sickness leading to disability, or on the occasion of discharge from service, might be deducted from total taxable property. Debts incurred in the acquisition of taxable property were deductible at their full value when not secured by real estate as collateral. This had the unexpected and undesired result of rewarding stock speculation on margin, because of the artificially low valuation of such securities for the levy.

These complications, however, were as nothing compared to those introduced to protect persons dependent on small

<sup>1</sup> With the dollar calculated at 200. Between January and June 30, 1920—the "Stichtag"—the dollar fluctuated between 200 and 145.

wage incomes, pensions, or house rent (because of the rent law), and to discriminate against persons who had increased their fortunes since the War. The following extracts from paragraphs 26 and 28 of the law deserve to be quoted as specimens of complexity:

If the taxpayer is over 60 years of age, incapable of earning a living, or an invalid, or if his wife, whose property is reckoned in with his own, is over 60 years of age or incapable of earning a living, or if the taxpayer is liable to unusual burdens, such as permanent incapacity of his dependent children to earn a living, and if his property exceeds the exemption limit by more than 35,000 but by less than 200,000 crowns, then the assessment commission shall reduce his tax basis by an amount not to exceed 35,000 crowns. Furthermore the tax commission may postpone the tax so assessed with a low rate of or without any interest until the death of the taxpayer. Such postponement shall be granted where the property of the taxpayer consists in whole or in part of savings bank deposits, securities with a fixed rate of interest, a rented house or a share in the same, of rights to recurring usufructs and services or other usual investments for old age. After the death of the taxpayer the postponement may be prolonged in whole or in part until the death of the wife or it may be changed as regards extent and length in the event of changed conditions, etc.

The tax is reduced by 10 per cent for every dependent child under 21 years of age where the tax basis does not exceed 50,000 crowns, by 5 per cent where it does not exceed 100,000 crowns.

If a taxpayer proves that he possessed property on June 30, 1914, and if he furnishes in his declaration the evidence necessary to its valuation as of June 30, 1914, he may demand an abatement of his tax by 20 per cent of the tax due on his pre-war property. Changes resulting from the inclusion of the property of the wife are to be taken into consideration. In the case of persons liable to taxation on property located abroad, changes in the value of the same as against July 1, 1914, will be added to or subtracted from the pre-war property as the case may be.

The abatement must be claimed in the declaration. The pre-payments, entitled to preferred treatment, must be made without regard to the abatement; the latter will be allowed for only upon the assessment of the tax.

The liability of corporations to the capital levy opened the door wide to multiple taxation. Thus corporations were liable on their net assets, which often included stock in other companies, and the stockholders were liable on their stock holdings. Sounder practice would have been to exempt corporations entirely as the English Labor Party proposed in its 1921 bill. Such a procedure would have simplified assessment work tremendously and would not have involved any considerable loss

to the Treasury, since corporate development is relatively backward in Austria. The sponsors of the capital levy, however, were hostile to corporate development, so they insisted upon treating the corporation as a distinct personality. It must be added, though, that the legitimate desire of making foreign holders of Austrian securities contribute to the levy also influenced their decision. Nevertheless the high rates on physical persons required some mitigation of at least the multiple taxation involved. Par. 27 represents the compromise between the lawmakers' sense of justice and their hostility to big business, and at the same time one of the most confusing and time-consuming provisions of the whole law. It was repeatedly amended and long blocked assessment work. Meantime the ensuing depreciation rendered the resulting delay disastrous to the Treasury and protected corporations and stockholders alike from the discrimination aimed at them.

The original government bill proposed the following compromise. The favored corporate enterprises of the "small man" (coöperatives, small limited liability companies) were to pay the amounts assessed upon them in full, and the stockholders were to be credited proportionately. If the credit exceeded the amount due by an individual stockholder, as might well be the case where his personal rate was low, the excess was to be refunded. Here double taxation was avoided completely. In the case of ordinary companies, however, the primary assessment was to be against the stockholder in respect to his total property, and the company was to be credited with a proportionate share of the tax. This credit was to take the form of a reduction of the company's liability by a percentage which represented the ratio of the number of shares liable in Austria to the total number of shares outstanding. Thus, for example, suppose a company with 10,000 shares outstanding, 8,000 of which were held in Austria, was assessed 10,000,000 crowns. The tax would be reduced by 80 per cent, that is, to 2,000,000 crowns. No distinction was made between the stock holdings of individuals and corporations, no allowance was made for foreign levies paid by Austrian companies, and no refund was



provided in the event that the sums paid by stockholders exceeded the total sum due by the company.

In committee the method of dealing with ordinary stock companies was brought into closer line with that of dealing with the favored types, but the discrimination against the well-to-do was increased. The company was made liable once for all for the tax at the flat rate of 15 per cent, and the shareholder was regarded as already taxed on his shares in the company unless his personal tax rate exceeded 15 per cent. In that event he was liable to an additional assessment on his share holdings at a rate representing the difference between his individual rate and 15 per cent. Had he invested in a *Gesellschaft m. b. H.*, on the other hand, he would have been credited with the full amount of his share of the company tax, even though this involved a refund. The looser and often casual relationship between the stockholder and the ordinary company was the alleged justification. The real reason, however, was political-hostility to big business.

The discrimination involved in this differential treatment of ordinary and favored corporate enterprises is made clearer by the following example:

	Crowns		Crowns
A had net property of . . . . .	250,000	B had net property of . . . . .	250,000
He was liable to a personal levy (8.7 per cent) of . . .	21,800	His personal levy of 8.7 per cent was . . . . .	21,800
Half of his property, or 125,000 crowns, however, was in an ordinary stock company of which he held 20 per cent of the shares and on which the levy was . . . . .	93,750	Half of his property was in a <i>Gesellschaft m.b.H.</i> in which he had a one-fifth interest and the levy on which was	93,750
Hence his personal levy was reduced to . . . . .	10,900	His share of this was . . . . .	18,750
His share of the company levy was . . . . .	18,750	Which was deductible from his personal levy liability, thus leaving to be paid . . .	3,050
A grand total of . . . . .	29,650	Or a grand total of . . . . .	21,800
		Or 26 per cent less than A pays.	

B would actually receive a cash reimbursement in case his personal liability were less than 18,750 crowns, as well might

happen because of debts. A, on the other hand, under similar circumstances would receive no relief.

In the above example the assumption was that the entire properties of the two companies were liable to taxation in Austria. If, however, a company was liable on only a portion of its property because the remainder was located abroad, or if it paid only a portion of the tax assessed to it because of the right to deduct a foreign capital levy, then the stock, whether in the hands of an individual or a company, was regarded as only partially taxed. The remainder was liable in full. In other words, no allowance was to be made to a stockholder for a foreign levy, or for the fact that part of the property of the company lay in a foreign jurisdiction.

It was soon apparent that years might elapse before the Finance Ministry could determine finally the exact portion of an Austrian's holdings to be considered as reached by the tax on the company. In the meantime no final assessment was possible. An amendment was accordingly passed which substituted a simple rule-of-thumb procedure. But it also introduced for the first time a discrimination between individuals on the one hand, and stock companies, or persons liable on only part of their property, on the other hand. An individual liable to the tax on his whole property, and therefore liable to the progressive scale of rates, might deduct the *full* value of his holdings in *domestic* stock companies or his participation in *domestic* coöperatives, etc., even though the concern were granted a reduction on account of a capital levy paid abroad on real property located abroad; he might deduct *one half* the value of his holdings or participation in a *foreign* concern liable to a foreign capital levy, providing the latter were recognized as an equivalent of the Austrian tax. If his tax rate exceeded 15 per cent he was liable to taxation on his whole, or as the case might be, on one half his holdings at the rate representing the difference between his personal rate and 15 per cent. If, on the other hand, a stock company or a person liable only on his property located or earned in Austria, and therefore liable only to the flat 15 per cent rate, were holder of shares or participator in a sec-

ond company, this privilege was in each case *reduced* by one half. And finally, if the holder were a banking institution, even this restricted allowance was conditional on holding not less than 20 per cent of the shares of a given company.<sup>1</sup> This amendment had the merit of allowing for a foreign capital levy, of simplifying assessment procedure, and of obviating reimbursements to individuals, but it went out of the way to an extent rare even in Austrian legislation in order to hit at the corporate form of business, and especially at the banking business. It is significant, moreover, that it was passed after the fall of the Second Coalition, and during an exclusively Christian Socialist regime. The so-called Conservative Party was as hostile to big business as the avowedly Marxian Socialists.

A satisfactory solution of this difficult problem of taxing the company and the owner without double taxation had not yet been found. Nor could it be found because of an external complication. Ever since the Revolution the Czech Government had been bringing pressure on companies with plants within its jurisdiction to transfer their head offices to Czechoslovakia. A treaty of August 1920, between Austria and Czechoslovakia, provided that Austrian companies transferring their head offices to Czechoslovakia were to be regarded as having done so on the twenty-eighth day of October, 1918, as far as the capital levy was concerned. Similar treaties with other Succession States were to be expected. The result of the Czech treaty was that shares, which had been regarded as wholly reached by the levy on Austrian companies, had now to be regarded as only one half reached, and in course of time others might have to be regarded as not reached at all. This opened up a prospect of numerous reassessments.<sup>2</sup> Reassessment, however, had become prohibitively expensive because of the intervening depreciation. Moreover, the whole question of international double taxation as between the Succession States

<sup>1</sup> Kundmachung of March 29, 1921, B. G. Bl. No. 195. Explanation for the change is to be found in 233 der Beilagen, Nationalrat, and in Gruenwald, *Ver-mögensabgabe Ergänzungsband*, p. 90.

<sup>2</sup> 659 der Beilagen, Nationalrat.

was under discussion. Finally at the Rome Conference in the fall of 1921 the proposal was made to abandon the principle of head office in favor of that of location of fixed property in the case of the capital levy.<sup>1</sup> These facts made a third revision of the paragraph in question necessary.

In December 1921, accordingly, the Government brought in a bill<sup>2</sup> embodying the recommendations of the Rome Conference in the case of the favored types of corporate enterprise and small family companies generally. In the event that any such enterprise should transfer its head office to a foreign country where it was liable to a capital levy, the Austrian participators or stockholders, as the case might be, were to be regarded as reached by the foreign capital levy and were to be permitted to deduct the amount of the levy from the amount due by them on the same property under the personal rates of the Austrian capital levy. The Government attempted to draw the line between the small family company and the large ordinary corporation by the proviso that the stockholder had to hold not less than 20 per cent of the stock in order to enjoy the offset. In committee,<sup>3</sup> however, the concessions to ordinary companies were virtually nullified. On a motion by the Social Democratic leader, Dr. Otto Bauer, the holding requirement was increased from 20 per cent to 51 per cent. This motion was aimed at the banks, which hold blocks of stock in all important Austrian companies, but seldom a majority interest. Very significantly, however, the final and complete nullification came through the Christian Socialist deputy and later Minister, Heindl, who moved to limit the concession to such stocks as had not been introduced onto the Stock Exchange prior to June 30, 1920. Both motions were adopted in committee and enacted into law.<sup>4</sup> As a result of this amendment participators in the favored forms of business enterprise, or in very small family stock companies, might henceforth deduct in full any capital levy paid by the company not only at home,

<sup>1</sup> *Ibid.*

<sup>2</sup> *Ibid.*

<sup>3</sup> 672 *ibid.*

<sup>4</sup> Law of December 20, 1921, B. G. Bl. No. 718.

as heretofore, but abroad as well. There was to be no refund, however, in the event that the participator's share of the company tax exceeded his personal tax. Nor were his holdings to escape further taxation in the event that his personal rate exceeded 15 per cent, as had been the case before, but were to be liable at the rate representing the difference between his personal rate and 15 per cent.

It is obvious from this discussion of paragraph 27 that the making of companies liable to the capital levy greatly and unnecessarily complicated a measure which in any case was bound to be complicated enough. The valuation problem, for example, was certain to present almost insoluble difficulties to officials untrained in assessing capital values. The inherent difficulties of the task were multiplied a thousandfold of course by the absence of stable prices.

The original bill had proposed that valuation in general be according to *gemeinem Wert*, which it defined as the value which an object possessed for the person making the ordinary and appropriate use of it, or what he would be willing to pay for it. This is not the easiest of rules to apply but it was apparent that the Government intended thereby current market price, because it recommended that the State be granted the right to buy in a property at the valuation set by the taxpayer in his declaration, where it regarded this declaration as too low, and the right of the taxpayer to sell a property to the State at the valuation set by the assessors in case he regarded it as too high. Artificially low valuations were established only for the 40-year war loans, treasury notes of the third war loan, and other stocks and bonds.

The valuation paragraphs of the bill were the real bone of committee contention. The peasants were the first to secure relief. They demanded the valuation of their lands, buildings, livestock, machinery, etc. at what they called their *Ertragswerte*. Strictly speaking this meant of course a valuation representing the capitalization of actual earnings. It would eliminate any additional value due to non-economic motives for land holding, or to the anticipation of future earnings. To

the agrarian interests, however, *Ertragswert* meant simply a valuation represented by capitalization of the notoriously low figures of the land cadastre—which were only about one third of the actual pre-war figures. Coupled with this demand, and as a necessary consequence, they demanded the repeal of the right of purchase by the State. Their supporting arguments<sup>1</sup> do not bear close inspection but their political power partially made good this deficiency. They secured the valuation of the property in question, including household furnishings to a normal amount, as a unit according to its *Ertragswert*, which was defined as the average net yield of the years 1913–19, but which could not, except under unusual circumstances, be less than 200 times the cadastral net yield of agricultural lands, or less than 400 times the cadastral net yield of forest lands. Inasmuch as the vast majority of the peasantry kept no books it would be an impossible task to determine the average return of those seven years. The minimum, therefore, became in practice the maximum.<sup>2</sup>

The figure 200 used for agricultural lands was adopted on the assumption that the depreciation had been tenfold and that 5 per cent was a fair rate of capitalization. The depreciation at the time, as a matter of fact, was about fortyfold, so that this was equivalent to reducing the real burden of the tax on agricultural lands to one twelfth of the nominal burden.<sup>3</sup> Furthermore these cadastral net yield figures were based on the assumption of an average indebtedness which no longer existed.

<sup>1</sup> Compare the speech of the Christian Socialist Buresch, Mayor of Gross Enzersdorf and speaker for the *Bauernbund* in the 55. *Sitzung*, K. N. V., pp. 1555–1561.

<sup>2</sup> This conclusion is borne out by the fate of the paragraph of the law which alone would have made possible the determination of *Ertragswert*. The paragraph in question provided for the establishment of model properties in various provinces for the purpose of working out standard *Ertragswert* figures. Their establishment had originally been compulsory, but was soon made optional, which in the farming districts was equivalent to throwing them into the discard entirely. The reasons advanced are revealing—technical difficulties of execution, lack of comprehension, and obstruction by the inhabitants (650 der Beilagen, Nationalrat).

<sup>3</sup> On the assumption that the pre-war cadastral figures were about one third of the actual net yield figures (See p. 10, above).

Debts had very generally been repaid in depreciated money. Taking all these factors into consideration and after allowing for the fact that the money value of farm products had not kept up with the depreciation of the exchange, and that 5 per cent may have been too low a capitalization figure for post-war conditions, it still remains true that the peasant interests had succeeded in reducing their share of the capital levy to a very nominal figure. For forest land, which is overwhelmingly in large holdings, the favor was reduced by one half but still constituted a sizable reduction.

This concession was very explicitly confined to farm, garden, and forest lands, and then only where such lands had not been bought by an outside profiteer. In the latter case, and in the case of all real estate, on which even a shadow of suspicion rested that it might some day be turned into building lots, the tax was still to be assessed according to current market price.

Urban real estate owners were the next to secure relief. Their grievance was a real one. Rents had fallen to a purely nominal figure, and houseowners as such were ruined. Yet their properties possessed a speculative market value far greater than the capitalized value of the actual net return. The original proposal, nevertheless, had been to value urban real estate at market prices. The adoption in committee, accordingly, of capitalized actual net return was only proper, if an intolerable hardship were to be avoided.

The "small man" also received liberal relief for his particular type of business enterprise, viz: that subject to the business tax. His lands, buildings, and machinery devoted to his business were to be valued at their original cost price. Only his raw materials and supplies on hand remained valued at market prices, that is to say, the part of his property upon which the assessors could later check up was to be valued at purely nominal figures, while the part over which no real control could be exercised at a later date remained subject to the higher and theoretically correct method of valuation.

An attempt was made to confine the concessions on real

estate to permanent owners by providing that if such properties were sold before January 1, 1930, at a price greater by more than 25 per cent than the value assessed to them for the capital levy, they should then be reassessed according to sales price, which should not, however, exceed their current market price as of June 30, 1920. The contradiction here is plain. A capital levy heavy enough to accomplish any real relief would necessitate the sale of many properties. Yet if an unfortunate individual were obliged to sell real estate in order to meet his tax bill, he was immediately to be reassessed a new and higher tax. In addition, any profit in paper crowns over and above the value of the property on June 30, 1920 was liable to the income tax as a capital gain, providing the property had been in the owner's hands less than ten years.<sup>1</sup> Finally, in certain provinces, the capital gain was again liable to an increment tax.

The result naturally was confusion in which neither assessor nor taxpayer knew where he stood. The taxpayer was exposed to the danger of finding himself further in debt after than before selling his property and the assessor of having to reassess real estate for the capital levy for years to come. Some forced sales were reported during the latter half of 1920. They inevitably showed large paper profits which were promptly seized upon by the State with resulting real losses to the individuals concerned. For the most part, however, real estate owners carefully refrained from selling property to make advance tax payments. They preferred to await assessment with a patience that was amply rewarded by the ensuing depreciation of the crown. The Government, for the same reason, was anxious to encourage advance payments. Accordingly it secured the passage of a number of amendments to the capital levy and income tax laws. An amendment was passed early in 1921 providing that any profit from the sale of real estate during 1921, insofar as it was applied on the capital levy before April 10 (originally February 28) would not be liable to the 1921 income tax, and the original valuation of the real estate itself for the capital levy would not be increased. At the same time earnings from

<sup>1</sup> See p. 101, above.



extraordinary deforestation realized during the year and used in prepayments on the capital levy before April 10, were not to be reckoned into income in calculating the rate of the income tax. The rate once determined, however, was to apply to such earnings.<sup>1</sup> Another amendment, passed late in 1921, reduced the period during which the sale of real estate exposed one to reassessment from January 1, 1930 to January 1, 1922.<sup>2</sup>

Holders of government war loans next came in for consideration. In this case, however, public opinion forced a settlement which hurt those it was intended to help—namely, the small *rentier*. In the original government bill, war loans were to be valued at a figure intermediate between original issue price and lower current price. As amended, original issue price was substituted. This change naturally increased the value of a man's property and therefore the rate to which he was liable. The increase was only in part compensated for by the provision that such bonds would be accepted in payment of the levy at their full value instead of at the lower value originally proposed.<sup>3</sup> Even the holders of stocks and bonds in private companies came in for a slight concession. Instead of using the market value of the assessment day, June 30, 1920, an average was to be used made up of the current value and the income value of securities. Current value was defined as the average of their quotations for the six months' period April 1–September 30, 1920. Income value was defined as the capitalized value of their dividends during the period 1917–19, that is to say, before inflation had really made itself felt. The rate of capitalization, on the other hand, was low—three and one half per cent.<sup>4</sup> In no case, however, was the resulting valuation to exceed current value. This method of valuation was simple enough for domestic and foreign securities regularly quoted on

<sup>1</sup> Law of February 4, 1921, B. G. Bl. No. 89; Law of March 8, 1921, B. G. Bl. No. 153.

<sup>2</sup> Law of December 20, 1921, B. G. Bl. No. 718.

<sup>3</sup> The disadvantage of this method of valuation was pointed out in the argument accompanying the original bill (623 der Beilagen, K.N.V.).

<sup>4</sup> The peasants' capitalization rate was 5 per cent.

the Austrian Exchange, but involved years of work for the innumerable foreign securities held in Austria and not so quoted, and for some small domestic enterprises, the stocks of which were seldom or never quoted. Accordingly the Finance Ministry soon found it necessary to employ short cuts in valuing such securities. What these short cuts were is not always clear. For example, foreign securities quoted neither on the Berlin nor on the Vienna Exchange were to be valued at 75 per cent of their current values as determined on the basis of all available data.<sup>1</sup>

Fixed incomes were to be capitalized at 5 per cent with rough allowance for their probable duration. Austrian currency was to be valued at its nominal figure; gold and silver money and bars at the values set upon them by the Foreign Exchange Office: unset pearls and precious stones at their selling value. Household goods and personal effects were to be valued at the price which an owner would demand of a purchaser who was actuated by no special predilection for the objects in question. These few objects and any others not specifically provided for thus alone remained liable to valuation at current market prices.

The committee modifications, while reducing the method of valuation to "a joke," to use an expression of Dr. Bauer,<sup>2</sup> nevertheless introduced a desirable simplification into assessment procedure. At the same time they increased the inevitable inequalities of the tax. Thus the farmer received the hand-somest concession; the owner of unincorporated businesses (the "*little man*") came next. Stocks were valued somewhat under their quotations on the *Stichtag*, with the unforeseen result, however, that past speculation was rewarded. The individual, for example, who had invested in stocks just before June 30 fared better than the one who kept his money in cash. He fared still better if he had borrowed money to speculate in stocks, and the more he had borrowed the better he fared, since, insofar as the loan was not directly secured by this acquired stock, it could be deducted at its

<sup>1</sup> Gruenwald, *Vermögensabgabe, Ergänzungsband*, p. 108.

<sup>2</sup> 96. Sitzung, K.N.V.

full nominal value.<sup>1</sup> The only type of property really hit by the high rates, when all was over, were credits, money, and mortgages, the real values of which had already been decimated by inflation.

The inequalities inherent in the law itself, however, were nothing in comparison with those which arose in its execution. These inequalities were either administrative, or else they arose out of the time element in the matter of payments. The administrative inequalities were due primarily to differences in the possibilities of control. Where regular bookkeeping was the rule, control was easier than where it was the exception. Regular bookkeeping, which is the rare exception in Austria, is confined almost exclusively to big business in Vienna and a few industrial towns. Thus the capital levy, which need not be a measure hostile to large scale enterprise, was avowedly so in Austria, both through the provisions of the law and the unequal possibilities of control. The machinery of assessment was a further guarantee that the peasant on the land and the "little man" in the towns and cities would be well taken care of. The income tax assessors and commissions were to be used in the assessment work. The local assessors were to collect all the data, examine the declarations, and make the provisional assessments. The local assessment commissions were then to revise their findings and hand down the final assessment. The method of selecting the commissions was changed at this precise time in a way to make them reflect the prevailing demagogic principles then dominant in politics.<sup>2</sup> While this change was not of great significance, it contributed something to the urban and anti-industrial character of the capital levy.

Far greater than the administrative inequalities, however, were those arising out of differences in time of payment of the levy, consequent upon the rapid depreciation of the currency. The crown had been quoted at 148 to the dollar on June 30, 1920, the date for the valuation of all property liable to the capital levy. The subsequent fall in the value of the crown meant

<sup>1</sup> Cf. article by Dr. Robert Weishut in *Oe. V.*, 13. Jahrgang, No. 32, p. 582.

<sup>2</sup> See p. 102, above.

a roughly corresponding reduction in the burden of the tax. By October 30 it had fallen to 358 to the dollar, and by the end of the year to 654. The official price index showed a price increase of about 50 per cent in the same period. It is apparent therefore that the burden on the taxpayer depended primarily on when he paid the tax. Every conceivable effort to prevent unnecessary injustices and inequalities in the administration of the law was as nothing in the face of this depreciation.

In view, therefore, of the all importance of time of payment, it is interesting to examine into the provisions of the law to see whether or not they made for prompt assessment and collection. Assessment, in principle, was to be on the basis of declaration. All physical persons with net property of more than 30,000 crowns were required to make such a declaration, and, after February 21, 1921, anyone suspected of having property liable to the levy might be summoned by the local assessors to make declaration. The declaration called for an enumeration, not a valuation of property. If a taxpayer refused to make a declaration when summoned he was exposed to official assessment and an arbitrary increase of his final assessment. On the other hand, voluntary declaration made before February 28, 1921, when accompanied by prepayment, entitled the taxpayer to a one fifth higher valuation of the amount of his prepayment, and, in addition, amnesty for past tax delinquencies, when the prepayment exceeded one third of the amount declared. Naturally subsequent assessment would have to substantiate the truth of the declaration. The declarations of companies were due fourteen days after publication of the value of their shares.

These advantages for prompt declaration and prepayment were as nothing, however, compared to the premium on waiting offered by the depreciation of the crown. And the law afforded ample opportunity to wait, though not as much as had the original bill. The original bill had called for payment of 20 per cent down and the rest in a thirty-year 5.85 per cent amortizable bond. In committee the ordinary period of payment was reduced to 3 years from the date of presentation of the provisional

or final tax bill, but with the possibility of extension to as much as 20 years in the case of very illiquid capital. Stock companies were obliged to pay in 3 years so as to encourage payment in shares<sup>1</sup> which it was hoped could be disposed of abroad. Delay in preparing the declaration papers required the extension of the time limit within which prepayments might enjoy favored treatment. Rapid depreciation, on the other hand, made it necessary to increase the incentive to prompt payment and shorten the permissible period of payments. By a law of March 8, 1921,<sup>2</sup> the period in which payment in three installments was obligatory was shortened from 3 years to 18 months and the amount which had to be paid in this period, in the case of illiquid capital, was increased from 20 per cent to 40 per cent of the tax subject's property, where less than 40 per cent was illiquid. The remainder might be paid in installments over not more than 10 years instead of 20 years. In December 1921, after the crown had lost nine tenths of its value as against January 1921, payment in two installments was required, the first due one month, the second four months *after receipt of the tax bill* and with a 100 per cent increase on all arrears outstanding after March 15, 1922 (originally February 15, 1922). The admissible exceptions to this rule, however, are worth enumerating because they illustrate the complexity of the assessment machinery. Under the following circumstances persons were not liable to the penalty increase on arrears of taxes: (1) if the character of their property had exposed them to the full effects of depreciation; (2) if they had furnished complete information and had made prepayments on the basis of a provisional official assessment, which later proved too low; (3) if they had made prepayments on the basis of information furnished by the local assessors, or by an authorized professional organization such as a chamber of commerce or an agricultural association.<sup>3</sup> The last exception was tantamount to a confession that the rules

<sup>1</sup> Bauer in 96. Sitzung, K.N.V., p. 3156.

<sup>2</sup> B. G. Bl. No. 153, Z. II.

<sup>3</sup> Law of December 20, 1921, B. G. Bl. No. 718; Law of March 21, 1922, B. G. Bl. No. 294.

were so complicated that even with the best of will, and after consulting the most authorized sources, many taxpayers were still in arrears, and therefore in danger of having to pay the arrears twice over.

All these new efforts at hastening the assessment and collection of the levy proved inadequate in the face of the new and unprecedentedly rapid depreciation which set in late in the spring of 1922. Moreover the penalties provided could not be applied to the majority of those liable, because they had not yet been duly assessed. And by this time assessment had ceased to pay. Salaries and expenses had probably risen fiftyfold since June 30, 1920 (the *Stichtag*), yet the work now performed was to collect a tax based on the prices of that date. The all important thing, therefore, was to close up this unfortunate chapter as quickly and as economically as possible. This was the purpose of a general law of July 1922.<sup>1</sup> It authorized the local assessors to assess the capital levy officially, without the cooperation of the taxpayers or of the commissions, wherever sufficient evidence was available. "If the taxpayer had already made a reasonable prepayment either voluntarily or on demand of the local assessors, or if he had increased the same to reasonable amount according to the provisions of the law of March 1921, the local assessors might regard his capital levy as settled, unless he himself insisted on assessment by the regular methods of procedure." Taxpayers on the other hand, who had made no prepayments prior to August 1, 1922, or whose prepayments were insufficient, were obliged to pay up all arrears with the 100 per cent increase provided in March 1922, and, in addition, the sixfold of their total outstanding liability. Harsh as this measure sounded, that taxpayer was nevertheless fortunate who had paid nothing on his capital levy to date. In an executive order the assessment officials were warned not to try to collect any outstanding balances of less than 50,000 crowns, unless they covered at least the direct expenses involved.

In view of this official epitaph on the capital levy the remaining details may be disposed of briefly. One of these con-

<sup>1</sup> Law of July 19, 1922, B. G. Bl. No. 501.

cerns the methods of payment, that is, the types of property in which the levy might be acquitted. This question bulked large in the preliminary discussion in Austria, and indeed wherever the capital levy has been seriously considered. Obviously payment in other things than cash must be allowed if the levy is of any magnitude, and there is no excuse for a levy unless it is large enough to reduce budget figures to manageable proportions. Only the provisions of the original act are given below. The many and confusing changes necessitated by the rapid depreciation of the currency are of small importance.

The law distinguished between physical persons and legal persons or companies. The levy on physical persons was payable in principle in cash. The exceptions to this rule, however, were legion. In general, payments in kind were permitted on all settlements made within three years. Thus cash was really required only on balances extending over three years. On the shorter payments the types of property acceptable were: 1, bonds of the Republic and Austria's share of the war loans; 2, gold, silver, platinum, and precious stones; 3, private securities; and 4, any type of property acceptable to specially created credit institutions. Public securities were acceptable directly in settlement, all the rest indirectly. Owners of such property might sell them outright to the specially created credit institutions, or borrow on them from the same sources. These institutions paid not in cash but in certificates, which were declared acceptable in settlement of an individual's liability. All of these types of property were not equally acceptable, however. Certificates issued against gold, silver, platinum, and precious stones were acceptable in any amounts, at 10 per cent above their market values. This was to encourage payments in property acceptable in international trade. Certificates derived from the sale of private securities were acceptable in lump sum payments after assessment, or in the three annual installments, but not in prepayments and only in the proportion in which these securities figured in the taxpayer's assessed property, and at the values at which they were assessed. The bonds of the Republic were receivable

only to the extent of one quarter of all payments made within three years. War loans, again, were receivable only in prepayments, lump sum payments on assessment, or in three annual installments, and then only to one half of such installment payments.

Corporations were subjected to special treatment. In general, payment in corporate stock or in bonds was desired. Corporations were expected to pay in full by the issue of new stock or bonds in favor of the State. Whenever the State refused such an offer a corporation might then pay in the three installments ordinarily envisaged for physical persons. And in any case companies might elect to pay in this manner. As a matter of fact companies generally elected to issue and sell new stock on the open market and pay the levy in cash in installments. This method was much more economical than to increase their capital stock by the three seventeenths necessary to give the State its 15 per cent interest, and it had the further advantage of preventing that state interference in the companies' affairs which the Social Democrats so ardently desired.<sup>1</sup>

Another much debated point concerned the method of financing the levy. Opponents of the measure had made much of the difficulty involved in large transfers of wealth over a short period of time. Proponents of the levy met this objection by authorizing payments in kind and by providing for the creation of a Central Loan Bank (*Hauptfinanzierungsanstalt*) Existing credit institutions were to be affiliated with the Loan Bank. By the spring of 1921 all the principal banks in the country had affiliated themselves.<sup>2</sup> These banks were required to purchase or loan on acceptable properties either at prices prescribed by the law itself or at current market prices. Payments were in certificates acceptable in levy settlements. Thus in effect the State was expected to come into possession of, or secure a mortgage on, an important slice of the private wealth of the nation, without any costly depression of values.

<sup>1</sup> *Oe.V.*, 13. Jahrgang, No. 24, p. 428 (March 12, 1921).

<sup>2</sup> Kundmachung of March 9, 1921, B. G. Bl. No. 161.



The Central Loan Bank was charged with the task of administering and liquidating the mass of miscellaneous property which individuals would be forced to dispose of. Its procedure was laid down in detail in twelve closely printed pages of instructions.<sup>1</sup> It is not worth while to examine into these instructions, however, since the Bank never functioned. To the end of 1921 it had loaned on mortgage only 21 million crowns. Its books showed no revenues, only expenses, and these were so slight that it generously forbore to collect them. Similarly the *Dorotheum*, or state pawnshop, which was designed to play an important rôle as purchaser or lender on luxury goods, dealt with only four cases, involving altogether one million crowns.<sup>2</sup>

On paper at least the provisions for enforcement were adequate. The levy constituted a first mortgage of 15 per cent on all real property in Austria not expressly exempted. It was not to be lifted from the real estate of an individual until his entire levy had been paid, and not merely that portion due on his real estate. Any evasion of the law which resulted in financial loss to the State was punishable by a fine of from one half to five times the amount of the levy kept back, and in addition, compulsory arrest where the amount withheld exceeded 2,000 crowns (less than \$14 on June 30, 1920). Local assessors enjoyed the right of house or personal search, in case of wilfull evasion.<sup>3</sup>

Despite these draconic penalties the law was a complete fiasco. The yield was originally estimated at 10,300 million crowns. This estimate was based on the inadequate income tax figures for 1916. It was obviously too low, except on the assumption of wholesale evasion. In 1925 Layton and Rist, for example, estimated the post-war national income at slightly under 5,000 million gold crowns.<sup>4</sup> This is roughly 1,000 million dollars. It is safe therefore to estimate the value of the property

<sup>1</sup> See Gruenwald, *Vermögensabgabe, Ergänzungsband*, pp. 137-148.

<sup>2</sup> Report of the Control Commission of March 26, 1922.

<sup>3</sup> 623 and 941 der Beilagen, Nationalrat.

<sup>4</sup> Layton and Rist, pp. 164-165.

liable to the levy at 10,000 million dollars. This is probably a conservative figure, in view of the fact that the accumulated luxury property of the past, which does not enter into the income estimate, was liable to the capital levy, and that there was a considerable double taxation involved. Applying to this 10,000 million dollars the government estimate of 15 per cent, as the average rate, would give a yield of 1,500 million dollars. Against this stands the government estimate of 10,000 millions of crowns, or 100 million dollars—using 100 crowns to the dollar, which was its approximate value when the Government's estimate was made.

What was the actual yield of the tax? To June 30, 1922, it was 17,500 million crowns or 14.2 million dollars.<sup>1</sup> In the following four months 4,600 million crowns more were paid in. By December 15 the total receipts had risen to 22,800 million crowns.<sup>2</sup> Assuming average monthly receipts of one billion crowns to the end of the year, and reducing these back to dollars, using the average quotations for the several months, we get for the last six months of 1922 approximately 6,000 million crowns extra revenue but only about \$100,000. And even this small sum would not have been received had depreciation not been checked in August, 1922. Allowing generously for any arrears collected in 1923 it is plain that the *einmalige grosse Vermoögensabgabe* had yielded not quite 15 million dollars, or about one seventh of one per cent of the national wealth.

The insignificance of this figure of 15 million dollars is still more clearly revealed by comparing it with the actual revenues derived during the first six months of League of Nations' control—January 1 to June 30, 1923. During that brief period of exchange and price stability about 42 million dollars were collected by ordinary methods. The direct taxes alone yielded over 10 million dollars, or two thirds as much as was derived from the capital levy in two and one half years.<sup>3</sup>

<sup>1</sup> Gruenwald, *Nachfolgestaaten*, p. 428.

<sup>2</sup> 1353 der Beilagen, Nationalrat.

<sup>3</sup> See p. 204, below.

And against the 15 million dollars of the capital levy must be set direct and indirect costs of great though unknown amount. The costs of collecting the 1923 revenues, on the other hand, were unusually low, due to the miserable salaries of all officials. What was the ratio of cost of collection of the capital levy to yield? The budget figures do not permit of a statistical answer. It is safe to say, however, that taking account of only the direct costs, the measure was a financial misfortune. The expenses began with the beginning of the Republic, and were paid for overwhelmingly in crowns having a multiple often of several hundredfold of the purchasing power of those in which the tax was paid. It is certain, therefore, that the ratio of cost of collection to yield was prohibitively high.

The direct costs to the State, however, were small compared to those to the country at large. The first and least of these direct costs was that for legal advice. Lawyers' fees must very frequently have exceeded the final tax paid, especially in the case of big taxpayers, who, foreseeing the inevitable collapse of the crown, postponed their payments. Another and a far greater cost resulted from the emigration of capital to escape the tax. But even where capital did not leave the country investment was made primarily with regard to the possibility of evasion. The loss to industry, trade, and commerce involved in the long continued control over bank deposits, in the meddlesome and time consuming formalities connected with export shipments, with travel, etc., must similarly be charged against the capital levy. Finally, through the burden it placed upon the tax machinery, the law must be held responsible for a part at least of the growing arrears of direct taxes.

All in all, therefore, the capital levy was an unimportant source of revenue to the State, and, at the same time, the cause of great though incalculable loss to the country. Indeed the verdict of Strakosch is none too harsh: "The capital levy was a fetter on industry which did not even pay the costs of collection."<sup>1</sup>

<sup>1</sup> Strakosch in *N.F.P.*, October 1923.

## 3. THE COMPULSORY LOAN

Despite the failure of the capital levy a second and thinly disguised levy on capital was attempted in the summer of 1922, in the form of a compulsory loan. The occasion for its enactment has already been described.<sup>1</sup> It was the aftermath of the fiasco of the English loan of the spring of 1922. It marked the capitulation of a conservative government to the Social Democratic threat of disturbances, "if steps were not taken within twenty-four hours to force the banks to disgorge their foreign moneys in one form or another, and place them at the disposal of the State."

The compulsory loan<sup>2</sup> can be disposed of very briefly. It attempted to force subscriptions to a government loan in proportion to ability. Since the domestic credit of the State was nil at the time, the loan was in effect a second capital levy. This view is confirmed by a number of similarities between the two measures. (1) The exemptions were practically the same. (2) Stock companies were required to subscribe 7 per cent of the value of their stocks, as quoted on the Exchange on June 30, 1922. Otherwise they were to be rated at a multiple of the valuations placed upon them for the capital levy. (3) The permission to pay in stock was revived, (4) as was the organization created to finance the capital levy. On the other hand, the requirement that real estate owners and persons subject to the business tax subscribe a multiple of their last assessed land, buildings, or business taxes, linked the measure up with the ordinary direct taxes. Payments were due in three or four installments, which extended from September 15 to January 15, depending on the type of property determining liability.

The yield of the compulsory loan was estimated at a trifle less than 400 billions of crowns<sup>3</sup> or, in crowns of the value of June

<sup>1</sup> See p. 80, above.

<sup>2</sup> Law of July 24, 1922, B. G. Bl. No. 491.

<sup>3</sup> 1331 der Beilagen, Nationalrat.

30, 1922, at about 21 million dollars. This estimate was arrived at as follows:

	Billions of Crowns
Land.....	200
Buildings.....	10
Stock companies.....	70
Gesellschaften m.b.H.....	0.2
Business tax.....	16.5
Other property <sup>1</sup> .....	85.5
<i>Total</i> .....	382.2

To the end of December the actual yield was about \$3,000,000.<sup>2</sup> Even this small sum would not have been obtained if enforcement had not fallen in the period of stabilized currency and revived hope ushered in by the League of Nations' loan. The burden was estimated at 7 per cent on the property determining liability.<sup>3</sup> This estimate was worthless originally, and the depreciation which occurred between June 30 and the end of August, as well as the interpretative enforcement, reduced it certainly to a very small fraction of 1 per cent. Thanks, however, to this very interpretative enforcement, the measure involved little additional work upon the assessors. Its brevity and its loose wording leave little doubt that its framers were under no illusions as to its practicability. It was legislation for the street, nothing more.

In view of the outcome of the capital levy this question arises: Was the failure of the Austrian capital levy due to defects in the law or in its administration, or was it due to defects inherent in a capital levy as an emergency measure? An answer to this question is attempted in the concluding chapter.

<sup>1</sup> No attempt was ever made to assess intangibles.

<sup>2</sup> Testimony of Chancellor Seipel in Paris before League of Nations' representatives in Paris on February 1, 1923, as taken from *Reichspost* of the following day.

<sup>3</sup> 1331 der Beilagen, Nationalrat.

## CHAPTER VII

### CONCLUSION

THE question raised at the end of the last chapter may be broadened to include not merely the capital levy but the compulsory loan as well. Indeed the whole complex of direct personal taxes may very properly be included in the discussion, because they were in fact potential capital levies. Moreover, the underlying financial theories were identical. Similarly, the attitude of the taxpayer was much the same toward the direct taxes as toward the levy and the compulsory loan. Finally, the results of delay upon the fortunes of the taxpayer and the Treasury were the same. Was the failure then of these oppressive measures to yield adequate revenues due to defects in the laws, or in their administration, or was it due to defects inherent in levies on capital as emergency measures? While the argument in the following pages deals primarily with the capital levy proper, many of the conclusions hold for the other measures as well.

#### I. THE ARGUMENTS FOR THE CAPITAL LEVY<sup>1</sup>

Some of the arguments in favor of a capital levy have already been mentioned in the previous chapter. These and others fall into three well defined classes, which may be characterized as sentimental, revolutionary, or conservative. The sentimental argument runs: The country is burdened with a crushing debt, due largely to the national misfortune of war. The debt is held largely by the well-to-do. The payment of interest upon and the amortization of this debt represent the annual transfer for years to come of an important part of the income of the community to a select and favored few. Many of these profited

<sup>1</sup> Much of the following discussion appeared in substantially its present form in the author's article on the capital levy in the *Journal of Political Economy* of April 1926, pp. 181-196.

financially from war contracts while the poor were laying down their lives at the front. Conscription of property should have accompanied conscription of men. It did not. But the capital levy affords a remedy. It should be regarded, therefore, as merely a delayed act of justice.

This very briefly is the sentimental argument. The issue, however, is not one of sentimentality but of expediency. The expediency of property conscription in wartime is not at issue, though it cannot be overlooked in any consideration of the whole problem of financing war. The only question to be decided is whether, in the absence of wartime conscription, a capital levy is the best method of liquidating the financial aftermath of war. The advocates of the capital levy must answer this question affirmatively and convincingly, if they are to establish their case. The sentimental argument, therefore, is not in place, and may be dismissed without further ado. This cavalier dismissal, however, does not prevent it from being a most effective political argument and one that must always disturb men of broad social sympathies. In most countries it is this sentimental argument that has prevailed.<sup>1</sup> Unless, however, there are, in addition, valid rational reasons for the capital levy, its introduction cannot be justified. Our very proper abhorrence of wartime profits for the few and untold suffering and sacrifice for the many should be directed against the institution of war itself and not against a method of financing war.

The revolutionary argument embodies the sentimental one but goes further. The capital levy is more than an act of delayed justice; it is also a means of accomplishing a thoroughgoing change in existing social and economic institutions. The revolutionary advocate urges sharply progressive rates, payment over an exceedingly short period of time and largely in kind. He hopes in this way to secure for the State a substantial share of the productive assets of the country, which he

<sup>1</sup> To 1925, at least six countries besides Austria had experimented with the capital levy: Czechoslovakia, Germany, Hungary, Poland, Italy, and Greece (Shirras, p. 542).

would have the State retain and administer as part of its permanent public domain, in the broadest sense of that term. In other words he would have the State increase its assets, rather than diminish its liabilities. The measure is thus more than a device for liquidating the costs of a war. It is the entering wedge of socialism.<sup>1</sup>

The acquisition of a minority interest in private industrial enterprises is a poor way, however, of inaugurating socialism. As a minority stockholder in the private industrial domain, the State finds itself overreached on all sides. In the effort to protect its interests it only succeeds in hampering and fettering production at a time when maximum production is of the utmost importance. The capital levy is more likely to discredit than to advance socialism.

Unlike the preceding arguments the conservative argument is based solely on grounds of expediency. The conservative advocate sees in the capital levy not a measure of retributive justice, not an instrument of social reorganization, but simply an appropriate means of financial rehabilitation. He argues that the capital levy is desirable, equitable, and feasible. Its productivity is taken for granted. It is *desirable* because of the intolerable burden of the public debt. The slow amortization of the debt by ordinary methods means high taxes for years to come. The expectation of these high taxes will prove more discouraging to thrift and enterprise than would a large non-recurring levy on the total fortunes of the people, when coupled with the expectation of lower taxes in the future. Professor Pigou argues that as the ordinary tax burden increases it becomes progressively harder to devise a scheme of taxation which will not seriously hamper production. He writes:

It may be fairly easy to devise a scheme which will raise in taxes 10 per cent of the national income without seriously hampering production. But to devise an equally innocuous scheme for raising 20 per cent will be much harder; and to devise one for raising 30 per cent *very* much harder. More generally, when the amount of the national money income is given, every extra 50 millions of revenue which is to be raised is more difficult

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<sup>1</sup> Cf. Goldscheid's argument above, p. 137.



to arrange for satisfactorily and more likely to involve injurious reactions upon national productivity. Consequently every addition to the size of the Budget, which will be needed if no special levy is raised to wipe off the debt, makes the chance greater that any given special levy will do more good by lessening the Budget requirements than it will do harm through the reactions which it itself sets up.<sup>1</sup>

Moreover the capital levy is *equitable* in a twofold sense. In the first place, it may be made to conform to the accepted principle of faculty by the use of an appropriate scale of progression and appropriate exemptions. In the second place, by virtue of this very progression, it satisfies the still valid canon of benefit. Thus, if we look at the past, it is the propertied classes that have gained most from the existence of the State, the primary purpose of which is the protection of property rights. If we look to the future it is again they who will benefit most from the recovery of the State's credit. They may well be called upon in an emergency, therefore, to make a sacrifice for the State. Their sacrifice will be abundantly compensated by lower taxes in the future, and by the present appreciation in the value of the public securities remaining in their possession after the completion of the levy.

And finally, the scheme is *feasible* alike from the point of view of assessment and collection. Assessment may be linked up with some existing tax, with which officials and public are familiar—the income tax, the inheritance tax, or the general property tax, for example. Nor does the rapid transfer of large sums from private individuals to the State represent an insuperable difficulty. For one thing the proceeds of the levy would be returned to the private economy as fast as received through the purchase and cancellation of bonds. For another, the strain could be materially lessened through the device of payment in kind. Finally, installment payments could be authorized where exceptional circumstances justified.

This argument has an imposing array of authorities behind it. How valid is it?

<sup>1</sup> Pigou, p. 699.

## 2. THE FALLACY OF THE CAPITAL LEVY

First as to the équitableness of the capital levy. In fact this argument turns against the measure. The capital levy is not equitable because in an emergency all should contribute to the salvation of the country. There is no reason why the professional man on a large income should not make his sacrifice as well as the property owner. Yet it is difficult to establish a parity between his highly aleatory income and that from property. But even if such a parity were established, payment would involve his borrowing on very onerous terms. Moreover, the capital levy is inequitable between different types of property owners. American experience of a century demonstrates that some kinds of property are easy to assess while others are most difficult to assess. Grave inequalities would result from variations in the effectiveness of assessment.

Equity, however, is not of first importance even in normal times, much less in a period of crisis. The capital levy is not to be condemned on this score. Far more important is the question of its feasibility, and it is just this quality that the capital levy notably lacks. It is necessarily complex. Nor can simplicity be secured except at the expense of intolerable individual hardships. Furthermore, its high rates arouse the resistance of all those liable to it. Enforcement is therefore difficult and time consuming.

The claim that the capital levy is impracticable is borne out by the financial results in all countries where it has been tried. Thus in Poland it brought in hardly one sixth as much per capita as the English income and super tax. President Masaryk has admitted that "the money seemed to disappear" before the Czechoslovakian capital levy. Evasion was general in Hungary. The Italian measure with its payments spread over twenty years was really a surtax on funded incomes, not a capital levy in the strict sense of the word. The Greek levy did not solve that country's financial ills.<sup>1</sup> In Austria the capital levy was a financial liability. It fettered industry, drove capital

<sup>1</sup> Shiras, pp. 543-544.

into unproductive channels, and failed to pay the special costs which it imposed upon the State and the individuals and companies liable to it. Depreciation in Germany made the levy there as futile as in Austria.

The trouble with the capital levy is that it involves an administrative dilemma. It is seriously advocated only in countries whose finances are in a desperate plight. An important reason for this plight, however, is the State's inability to cope with the existing revenue measures. Deficits are due in large part to the growing arrears of taxes. The difficulty, of course, lies in the burdensomeness of the existing taxes, which provokes evasion. The capital levy, instead of permitting a reduction of ordinary taxes to manageable proportions, places a new burden upon the harassed Finance Ministry, and one far more difficult to carry. True, the tax is non-recurring but the rewards of successful evasion are much greater and the risks considerably less than in the case of a recurring tax. Taxpayers will use every ounce of ingenuity therefore to avoid or evade the levy. Herein lies the administrative dilemma: If the State's revenue system is so well administered that ordinary taxes are being collected successfully, there is perhaps a fair prospect that a capital levy could be administered successfully. But in this case the measure is unnecessary. This follows from the nature of an internal debt. Such a debt involves large annual transfers on account of principal and interest from the taxpayers at large to the bondholders, who for the most part are the well-to-do. But it is precisely the well-to-do whom the modern State attempts to reach in more than proportion to their wealth through its existing revenue system. If it succeeds in this, then the internal debt, enormous and oppressive as it is, represents no impossible burden. If it does not succeed in this, then indeed the debt service represents a heavy burden upon the poor. But, if the State is unable to enforce a revenue system which is progressive as a whole, then it will certainly be unable to enforce a drastic measure like the capital levy. Under these circumstances the attempt will only make matters worse. It will most certainly precipitate a new and drastic inflation,

increase the current deficit, and complete the financial bankruptcy of the State.

It seems paradoxical to say that an extraordinary revenue measure should actually promote bankruptcy, yet there are strong reasons for believing this to be so. In the first place months must inevitably elapse between the introduction of the bill and its final passage. Between its passage and even provisional assessment further months must elapse. Meantime arrears from existing taxes will pile up more rapidly than before, since the new measure will have to be shouldered upon an existing bureau, presumably the overburdened direct tax bureau. Furthermore the new measure furnishes the politicians with a welcome excuse for postponing necessary but painful and unpopular economies. The combined result of growing arrears and unreduced expenditures spells an increased deficit and an embarrassed Treasury.

More serious still, the capital levy unlooses forces which may easily get beyond control. It must be remembered in what follows that wherever the capital levy has been tried<sup>1</sup> (or is likely to be tried) the authority of the State was already weak. Under such circumstances the greatest moderation is necessary, if a wave of distrust is not to sweep the country. The mere announcement of a capital levy may be sufficient to destroy the last vestiges of public credit. In Switzerland, indeed, where the authority of the State was unquestioned, the proposal of a capital levy in 1923 led to heavy withdrawals of deposits and an alarming fall in public and private security values. The agitation in Austria during 1919-20 in favor of a capital levy had an effect on confidence which worked itself out in a different and still more serious way.

The agitation contributed to a renewed flight from the crown. Those presumably liable to the heavier rates of the proposed levy sought to get their capital into hiding. This of course is by no means as simple as it sounds. There are though a variety of ways of doing it. One way is to dispose of tangible property and invest the proceeds in forms<sup>1</sup> difficult to assess

<sup>1</sup> The property of course remains within the country and is still liable to the

though uneconomical. The foreign exchanges constitute an ideal investment from this point of view. Another way is to smuggle property and property titles out of the country. More important exporters sell goods abroad and leave a part of the proceeds there. As a result there develops a cumulative demand for foreign exchange which quickly depresses the international value of the currency.

Normally such a fall in the international value of a currency would set in motion restorative forces. The profitability of the export trade would increase, and hence the volume and the value of exports. Simultaneously, through the rise in foreign prices, the volume and value of imports would decrease until equilibrium was restored. This automatic readjustment presupposes, however, that exporters repatriate their profits. Under normal conditions they do. But the conditions under review are not normal. The last thing the seller thinks about is the repatriation of his profits. On the contrary, the rise in the foreign exchanges increases the demand for them. This seems contrary to one of the most elementary principles of economic theory, namely that a rise in the price of a commodity causes a decrease in the quantity demanded. This is true, however, only if prospective buyers believe that the price will not go still higher. Otherwise a rise in price only increases the demand for the commodity.

This is what happens with the foreign exchanges. Their rise increases the demand for them. They lose their primary function as instruments of international exchange and become objects of speculation. Even legitimate buyers of foreign exchange, importers of national necessities, for example, hastened to cover their needs for a longer period than usual. Thus in Austria, where imports are seasonal, centering in the fall and early winter, importers ordinarily began to accumulate the necessary foreign exchange in August. After the Revolution, however, when the rise in the foreign exchanges led to

levy. The new owner has presumably discounted the levy in the purchase price. The original owner therefore has in fact borne the burden of the tax but there is no certainty that the State will successfully collect.

fears of further rises, there is ample evidence to show that importers began to accumulate at an earlier date. In 1920 they seem to have begun in July; in 1921 in June; in 1922 in May. In each of these years there was a period of comparatively stable exchanges from the beginning of the year to the month mentioned, when a sharp upward movement occurred.<sup>1</sup> One might argue that, after the needs of importers were satisfied, the foreign exchanges would return to the old level, or even lower, as importers disposed of their surplus exchange, and as the steady supply of exporters' bills continued to come upon the market. Such an argument again assumes normal conditions and we are confronted with abnormal conditions. Austrian importers did not dispose of their surplus exchange, and exporters offered only so much of their exchange as was necessary to enable them to carry on their businesses. Consequently the new level of the exchanges persisted.

This new level cannot persist, of course, unless domestic prices rise in roughly the same proportion as the foreign exchanges. Domestic prices, however, cannot rise unless there is an increase in the quantity of money in circulation, or in the rapidity of its circulation, or a decrease in the quantity of commodities coming up for exchange against the domestic currency. In what follows it is proposed to show that the rise in the foreign exchanges brings about an increase in the rapidity of circulation of the domestic currency, and thus an increase in domestic prices, and that this increase in domestic prices finally causes an increase in the quantity of money. In brief, it is proposed to show that throughout the post-war period it was the rise in the foreign exchanges which brought about inflation, and not inflation which brought about the rise in the foreign exchanges.

This proposition can best be demonstrated by making a few highly simplified assumptions. First of all, let us confine our attention to the monetary relations between *A* (Austria, for example) and *B* (the whole world external to *A*). Let us represent the price levels in the two areas on January 1, 1920,

<sup>1</sup> De Bordes, ch. vii.

by the index number 100, and the ratio of their currencies, as determined by their fine gold contents, at 5 to 1—that is, five crowns equal one world dollar. Let us assume that exchange between the two countries has long been at par, and that vigorous trade relations have long existed. Under these circumstances five crowns have the same purchasing power in *A* as in *B* over goods capable of entering into international trade, transportation costs being ignored. If now an enterprising business man in *A* discovers a new commodity in *B* which he can buy for five crowns per unit and sell in his own country for six, and if this trade assumes considerable proportions, equilibrium will be destroyed. A new drain on *A* is set up, without, for the moment at least, any compensating flow of commodities from *A* to *B*. Equilibrium may be restored (1) through a movement of gold from *A* to *B* with its resulting effect on prices in the two countries; or (2) assuming that *A* and *B* are on an inconvertible paper money basis, through (a) a change in the general price levels in the two countries, (b) a change in the ratio at which their moneys exchange, or (c) some slight change in both. Let us see how equilibrium is likely to be restored on the assumption that gold movements are impossible.

Even under this assumption international trade tends to restore equilibrium. Thus the commodity drain on *B* reduces the quantity of goods in circulation there and thereby tends to increase the general price level slightly, while the same forces, working in opposite directions, tend to reduce the price level in *A*. Similarly the increased demand from importers in *A* for the currency of *B* tends to increase the value of that currency in terms of the currency of *A*. The money of *B* now has a somewhat larger purchasing power in *A* than at home, and vice versa, the money of *A* has a larger purchasing power at home than abroad. As a result of the new price and exchange situation, exports from *A* tend to increase, and imports into *A* tend to decrease, and thereby an opposite combination of forces is set to work which soon restores equilibrium. In this example the dislocation of the exchange brings its own remedy.

Let us now make another assumption more in accord with the situation which confronted Austria after the Revolution. Let us assume that the fall in the currency of *A* in terms of *B*, that is, the rise of the foreign exchange (from the viewpoint of *A*), is due not to the importation of a new commodity but to distrust of the financial situation in *A* on the part of its business and propertied classes. Members of this class buy the currency of *B*, which thereby rises 50 per cent in value. One dollar now purchases seven and one half crowns instead of five as formerly. Arguing from the previous example we might expect a shift in the volume of exchanges to reestablish equilibrium. The new rate of exchange favors exports from *A* and discourages imports into *A*. Commodities capable of export from *A* which were worth five crowns or one dollar before the rise in the exchange are still worth five crowns in *A* but can now be laid down in *B* profitably at 67 cents or one third less. They tend therefore to be exported in increased quantities, until under foreign competition the price in *A* rises. A new equilibrium will be reached somewhere between five and seven and one half crowns. Residents of *B* now secure this commodity and all other commodities capable of export from *A* in more abundance and at lower prices than formerly. Import commodities, on the other hand, which were hitherto worth one dollar in *B*, or five crowns, are still worth one dollar there but cannot be laid down in *A* for less than seven and one half crowns. Imports accordingly fall off and again an equilibrium price tends to establish itself at which *A* consumes less and pays more and *B* consumes more and pays less. Again equilibrium appears to have been reestablished with *A* exporting in greater quantity and importing in less quantity, and with general prices somewhat higher because of the decrease of commodities in circulation. The people in *B* appear to have gained as a result of the flurry in the exchange. They now secure a greater quantity of goods and pay with a less quantity. The cost of living has risen in *A* and fallen in *B*. The general well-being has increased in *B* and decreased in *A*, but an equilibrium has been restored.



The assumptions here are that exporters offer their foreign exchange freely to importers, that the latter import in greatly reduced quantities, and finally that the habits of the people in *A* remain unchanged. None of these assumptions hold, however, where a rise in the foreign exchanges is caused by a wave of distrust. Exporters leave a portion of their profits abroad. Importers increase rather than decrease their demand for foreign exchange because, for the most part, they are dealing in vital national necessities, and, fearing a further rise in the foreign exchanges, attempt to cover for a more than usually distant period. Hence the initial rise provokes a further rise. Meantime the prices of imported goods rise, as do those of domestic commodities capable of being exported. These increases may be compensated by a heavy fall in some purely domestic products. A price index resting on a broad enough base might show no advance. But the cost of living would certainly advance sharply, since the bulk of the exports and imports of a country consist of real or conventional necessities. Under the combined effect of the increase in the cost of living and the disturbing news of the rapid rise in the foreign exchanges, the spending habits of the broad masses of the people next undergo a remarkable change. They too begin to buy in advance of needs. Anything to get rid of their doubtful money. They stock up with necessaries, they invade the stock exchange, hitherto the resort of the well-to-do, they buy foreign exchange. In a short time the whole country is speculating on the rise of the foreign exchanges, and these respond nobly. The rapidity of circulation of the domestic money increases greatly, and in this way the new and higher price level is maintained for a considerable period, even though the Government refuses to inflate the currency.

The pressure on the Government to inflate, however, becomes enormous. Merchants and manufacturers complain of insufficient money to transact business. Laborers strike for higher wages. Those in the export industries, where conditions are temporarily good, are likely to be successful. Other employers are forced to follow suit. The Government too finds

the costs of all materials increasing, and its army of employees threatening to strike, if salary advances are not made. The very real increase in the cost of living makes their demand unanswerable. Sooner or later the Government is forced to accede. In this way the expenses of the Government are greatly increased. Increased revenues, however, are not instantly forthcoming from normal sources. The arrears of taxes have lost much of their purchasing power. The deficit grows and must be met from abnormal sources. There are only two real alternatives: borrowing through the sale of bonds, or inflation. Any other remedy is too slow. The situation in the country is like that in a boiler of which the safety valve is closed. The valve must be opened, or the heat must be turned off, or there will be an explosion. In the case of the State the heat is generated by distrust and is not to be allayed in a moment. The explosion means Revolution. Under the circumstances a Government generally chooses to open the valve, that is, to borrow or to inflate.

In Austria defeat, indefinite reparations, structural and financial legislation hostile to capital, and finally the incubus of the capital levy combined to make normal borrowing out of the question. The only alternative therefore was to compel the National Bank to accept the Government's notes against issues of the Bank's notes. This was inflation pure and simple.<sup>1</sup>

The point to note here is this: once distrust begins to drive up the foreign exchanges, no automatic counterbalancing forces are set in motion. The rise increases distrust, and the increased distrust produces a further rise in the foreign exchanges. The cost of living rises; wages rise; the government

<sup>1</sup> The situation took a somewhat different turn in victorious France where the mirage of a large German indemnity long permitted the Government to borrow through the sale of short time bonds. Most issues were convertible into any subsequent higher interest bearing one, so that by 1926 the bulk of France's debt bore onerous interest—above 8 per cent. Moreover these bonds had been used freely as collateral for loans, which had been rediscounted with the Bank of France, and the Government had raised the limit of note issue from time to time to make this possible. As a result there was real inflation in France, which, however, did not relieve the Government of the burden of debt. Cf. Moulton and Lewis, *The French Debt Problem*.

deficit increases; finally such a tension is produced that the Government capitulates. Certainly a popular government can hardly resist the pressure. It resorts to the printing press. Thereby the new price level is certified and underwritten. Unfortunately inflation feeds the existing distrust and provokes a new rise in the exchanges. The State now finds itself in a vicious circle from which it is almost powerless to extricate itself.

The thesis advanced here runs directly contrary to the orthodox one. The orthodox thesis is that the failure of Government to tax adequately or to economize adequately causes a deficit which is met either by direct inflation or the indirect inflation resulting from extensive private borrowing on government bonds. The ensuing rise in prices increases imports and decreases exports. The increased demand of importers for foreign exchange and the decreased supply of exporters' bills cause a rise in the foreign exchanges. According to the orthodox thesis, then, disordered exchanges are the result of inflation. It is here maintained that, after a certain stage at any rate, the further rise in the foreign exchanges is caused by lack of popular confidence in the Government, that this rise induces a rise in domestic prices, that the new level of prices is maintained by the increased rapidity of circulation long enough to force the Government to meet its increasing expenses through inflation. According to this thesis inflation is the result of the disordered exchanges.

### 3. THE RESPONSIBILITY FOR THE COLLAPSE OF THE CROWN

If this thesis is correct, the collapse of the Austrian crown and the bankruptcy of the country were seemingly due in no small measure to domestic policies over which Austria had control. Let us call to mind what those policies were. First of all, in the opening months of the Republic, the Government passed a series of tax laws designed to hasten the collection of back taxes and to bring in 500 million crowns (30 to 40 million dollars) of new revenue. At the same time it enacted legislation to prevent capital from emigrating to escape from taxation and from the proposed capital levy. Then, in the early months

of 1919, a whole series of radical measures were enacted—an unemployment relief act, an eight-hour law, holidays with pay, compulsory reëmployment of returning soldiers, workingmen's councils. The field of public activity was vastly widened by the creation of new socialized enterprises. The private receipt of urban economic rent and indeed of interest on permanent improvements to urban real estate were indefinitely postponed. Through food subsidies and inadequate public utility rates the State contributed materially to the support of the entire population. In 1920 the direct taxes were advanced to such levels that they became in effect disguised capital levies, and simultaneously, a frank and drastic capital levy was passed.

The cumulative effect of all these measures was to produce a *crise de confiance*. Throughout 1919 and 1920 the exodus of capital from the country went steadily ahead despite the Herculean efforts of the Government to prevent it. And the same policy that induced this exodus also brought it about that the population as a whole consumed more than it produced. The accumulated capital of the past was thus attacked from two sides with disastrous results.

These results must be charged against the Government's post-war policy. It is only fair to say, however, that there were other factors in the situation over which the Government had no control and which in themselves made inevitable the economic collapse. These factors rested in the external situation. They were the outcome of defeat, dismemberment, and post-war chauvinism.

Present Austria emerged from the War more completely exhausted probably than any other belligerent. The public treasury was empty, and business was at a standstill. Due to the prolonged blockade the domestic market had been completely cleaned out. There was no coal, no food; raw materials were lacking. The natural sources of supply were in the hands of new national states, whose hatred of old monarchical Austria was so intense that they preferred to let their surplus supplies go to waste rather than sell them to republican Austria. The urban population was literally at the point of starvation. Only

a 100-million-dollar food credit in 1919,<sup>1</sup> foreign charity, and foreign speculation in the crown averted a disaster.

Dismemberment proved more disastrous than defeat. It cut the economic ties of generations of political union. And along the new boundaries the Succession States erected prohibitive barriers. Then to cap the climax came the news of the fantastic indemnities which the victorious allies had imposed on this remnant of a state. The reparation clauses of the Peace Treaty completed the destruction of the confidence of the possessing classes which domestic policies had already badly shaken. Professor Schumpeter, who was Finance Minister at the time (September 1919), voiced the general pessimism: "If the conditions are not changed there is no hope, no way out, and our financial and social collapse will not be our fault."<sup>2</sup>

There were then two forces at work within and without the country destroying the confidence of the people. Between them the fate of the Austrian crown was sealed. They led to an abnormal demand for foreign exchange which drove the crown steadily downward from some 15 to the dollar at the time of the Armistice to over 83,000 to the dollar late in August 1922.

A close study of the downward course of the crown will reveal, however, two stages. The first stage stretches from the Armistice to about the middle of 1919. The second and longer stage extends from that date to final stabilization in October 1922. At the beginning of the first stage the dollar was still worth 15 crowns. Three months later it had risen to 23, and by June 30 it was worth 30. It is true that there was inflation during this time, but an analysis of the sequence of events reveals that this rise in the foreign exchanges was independent of inflation and of internal and external policies.

The index figure of the cost of living shows that at the close of 1918 prices had increased about thirteen times over their 1914 level. During the same period the per-capita note circula-

<sup>1</sup> 1398 *der Beilagen, Nationalrat.*

<sup>2</sup> 26. *Sitzung, K.N.V.*, pp. 676-680.

tion had increased about sixteenfold. The depreciation of the crown in terms of foreign money, however, largely due to the blockade, had only been threefold. Prices, therefore, were about four times as high in dollars as before the War, although world prices had more than doubled in this interval. Austrian prices, in other words, were about double world prices. As an inevitable result, heavy purchases were made abroad, which sent foreign funds immediately to a premium on the Austrian exchange. The influx of imports from this cause continued until the late spring or early fall of 1919, by which time the price difference between foreign and domestic goods had disappeared. By the end of the year, indeed, the cost-of-living index and the exchange-depreciation index showed that the dollar had regained its pre-war purchasing power in Austria. This meant that Austrian goods were considerably below world prices.

The important thing to note here, is that this early depreciation, as measured in the foreign exchanges, was the result of a maladjustment between domestic and foreign commodity prices. It would have occurred regardless of the internal and the external situation. Hence the Republican Government cannot be shouldered with any responsibility for this initial depreciation.

The opportune time to have stabilized the currency was, of course, just when this adjustment had been made. The budget which Professor Schumpeter submitted in July 1919, for the fiscal year beginning June 30, 1919, represented an attempt at stabilization. It was based on the belief that it would be possible to secure a balanced budget within three years without resort to further inflation. Professor Schumpeter advocated a small capital levy (800 million crowns or about 20 million dollars<sup>1</sup>) and an internal loan, sufficient between them to cover the deficit during these three years. He stated that this would give time to increase ordinary revenues from 1,300

<sup>1</sup> Professor Schumpeter has told the writer that a small capital levy, promptly and objectively carried out, would have been salutary. There was at the time, he said, an abundance of liquid capital unemployed because of the prevailing business stagnation. It could have been drawn in, thereby reducing the quantity of money in circulation, which was at the time more than the prevailing price level required.

million to 2,800 million crowns, and permanently to balance the budget.

Professor Schumpeter's scheme, however, proved impossible of execution under the combined influence of the domestic and the foreign situations. Between them they destroyed every vestige of confidence in those who alone could have helped the country out of its difficulty. They made impossible the proposed loan and without it further resort to the printing press was inevitable. The knowledge that the currency was being inflated induced the speculator (and at such a time all business-men are perforce speculators) to gamble on a further rise in the foreign exchanges. This in turn initiated a new round of rising foreign exchanges, rising prices of import and export commodities, and finally rising general domestic prices. This stage once reached, Austrian finance was caught in the whirling maelstrom of inflation and depreciation<sup>1</sup> from which it was extricated only after three years, and then only through international action. Unless one traces these forces at work back to their beginnings, it is impossible to know which was the initial force, and which the secondary. On the whole, the sequence of events points rather to the conclusion that depreciation was the primary force.

To recapitulate briefly. The sequence of events appears to have been:

1. The readjustment of domestic to foreign prices caused the crown to depreciate from the Armistice to the middle of 1919—first phase of depreciation.
2. Lack of confidence caused further depreciation from the middle of 1919 to August 1922 through the emigration of capital—second phase of depreciation.
3. This second phase of depreciation caused (a) an increase of domestic prices, and hence an increase of government expenditures, and (b) prevented ordinary financial measures from functioning.

<sup>1</sup> Inflation as used here means increase in quantity of money in circulation with accompanying rise in domestic prices; depreciation refers to the fall in the value of the crown in terms of the foreign exchanges.

4. Deficits resulted, which were met by inflation.
5. Inflation hastened rise of domestic prices and increased lack of confidence, thus creating a vicious circle of depreciation and inflation.

From the vantage point of today, it is easy to indicate the only policy capable of rescuing the country from the maelstrom of forces, which threatened its destruction. First and foremost the policy had to be one capable of restoring the confidence of the possessing classes. This restoration of confidence comes first, because the Government was in imperative need of extraordinary resources to tide over the transition period until ordinary revenue methods could again function. A long time loan was the only measure which could bring in these extraordinary revenues in time to be of service. A loan, however, constituted an appeal to the propertied classes. Their ideas regarding sound government policy had, therefore, to be satisfied. To satisfy them, the Government would have to adopt a policy of rigid economy. First and foremost, it would have to eliminate unnecessary activities, and reduce radically its swollen personnel. Commercial activities which did not pay would have to be turned back to private ownership. Such a policy would make possible the internal loan, which was the key to the whole situation.

The restoration of confidence by internal reform, however, could only succeed providing the external situation was also favorable. The external situation, which had not been favorable at the outset of the second stage of depreciation, cleared up rapidly toward the close of 1920. The way seemed prepared for a better future. Thus despite the dismemberment of the Empire, Austria regained in part her position in the Balkans; her industrialists and bankers renewed their connections with their former branch establishments in the Succession States, and formed new ones. After the world's industrial crisis, Austrian industries were able to get all the raw materials they could finance. By the close of 1921 it was evident that it was only a question of a short time before Austria would secure a long postponement of the liens upon her resources on account



of reparations and food credits. In December 1921, the Government had voted the gradual abolition of the extravagant food subsidies. At the beginning of 1922 the Austrian Government actually received a net loan of 2 million pounds sterling from England, and the promise of loans from France, Italy, and Czechoslovakia.

Superficially, therefore, the stage seemed set for the stabilization of the crown. Money borrowed abroad was available to meet the current budget deficit, and economies of a sort had been introduced. Yet, as the following table shows, between the receipt of the English loan, in the latter part of February, and the twenty-fifth of August—six months—the dollar rose from about 6,500 to almost 85,000.<sup>1</sup> The reason was very simple. There had been no really fundamental change in the

Date (1922)	Total Note <sup>1</sup> Circulation (Millions of Crowns)	Treasury <sup>2</sup> Bills	Ratio of Bills to Circulation	Dollar Exchange
January 31	227,016	191,000(a)	84%	7,375
February 28	259,931	223,000	86	6,350
March 31	304,064	248,000	82	7,488
April 30	346,698	—	—	7,938
May 31	397,829	299,000	75	11,100
June 30	549,916	379,000	69	18,700
July 31	786,226	555,000(a)	70	42,350
August 31	1,353,404	685,000(a)	51	77,300

Government's internal policy. The economies were utterly inadequate and the direct taxes remained potential capital levies. The possessing classes, therefore, had no incentive to bring back their hidden savings into the country, or to cease sending abroad their fresh savings. Indeed a new incentive for buying foreign exchange was afforded by the Government's policy of pegging the exchanges at an artificially low rate. Those with long purses borrowed and bought foreign exchange, confident that when the English loan was exhausted the crown would again fall and enable them to repay their debts in depreciated money. This

<sup>1</sup> The dollar was quoted at 83,600 on August 25th.

<sup>2</sup> The figures for total circulation are from De Bordes, p. 49; those for treasury bills are from p. 5 of the same source, unless marked (a), which are from a table prepared by F. W. Allport, at the time United States Assistant Trade Commissioner in Vienna.

bear speculation was facilitated by the generous discount policy which the Bank of Issue adopted at this time. The figures in the fourth column of the table on the preceding page show this. As a result of this mistaken policy inflation became more rapid, and private borrowing correspondingly more profitable.

Events turned out exactly as the speculators had foreseen. The proceeds of the English loan were exhausted in maintaining the exchange value of the crown. The loan was thus transferred in large part into the pockets of speculators, and the situation was worse than before. The experience was a bitter one, but it taught the needed lesson, that a foreign loan, unless accompanied by an undeviating policy of economy, was worse than useless. The lesson was completed by the events of May and June. The depreciation of those two months, it will be recalled, led to the compulsory loan. In other words, violence was used to cure the timidity of Austrian capitalists. Naturally it merely hastened the collapse of the crown. It was at last plain to all thinking men that foreign credits were useless, in the absence of a firm financial control *from outside*. Nothing less could now convince Austria's possessing classes that a rational and economical policy would be pursued.

Returning to the question of responsibility for this second stage of depreciation. It appears to be divided. Until late in 1921 the foreign situation was such that a successful financial policy could not have been initiated by any Austrian government. Thereafter, the responsibility rests more clearly on Austrian shoulders. With the granting of the English loan the way was open for successful stabilization without foreign control. The failure of the Austrian Government of that period was due to internal weaknesses, not least of which were the excessive taxes on the propertied and business classes.

#### 4. THE SOLUTION

After the failure of the July finance program panic ensued. Rumors of annexation or dismemberment were rife. Though the rumors were exaggerated, neither of these eventualities was impossible, and there was real danger that either of them would lead to a War of the Austrian Succession.

The seriousness of Austria's economic situation and the threat to European peace which the collapse of government in Austria involved, were laid before the Council of Allied Ministers in their London meeting of early August by the Austrian Minister to Great Britain, in connection with a request for a further loan of fifteen million pounds sterling.

"If," wrote the Minister, "this last hope were also to prove chimerical, the Austrian Government, knowing that to save the situation they had tried in vain all means that lay in their power and which constituted the utmost exertion of the people, would have to call together specially the Austrian Parliament and to declare, in agreement with it, that neither the present nor any other Government is in a position to continue the administration of the State."<sup>1</sup>

Lloyd George, speaking for the Council of Ministers, replied that, in view of the dissipation of earlier credits, further government loans to Austria were out of the question, and concluded by referring Austria to the League of Nations for help. This reference to the League afforded scant comfort to Austrian public opinion. The feeling of panic now spread with alarming rapidity. To allay this sentiment the Austrian Chancellor, Msgr. Seipel, announced that he was going to visit Prag, Berlin, and Milan, where the Italian Foreign Minister was staying at the time, and he hinted vaguely of early and important developments.

It was learned later that in the course of these visits Msgr. Seipel virtually offered Austria to the highest bidder. He well knew, of course, that neither Czechoslovakia nor Italy had the necessary funds, and that, in any case, neither would have permitted the other to absorb Austria. Germany was out of the running at this time. The German trip was purely formal, to quiet Pan-German sensibilities. The Chancellor really had his eyes on Geneva, where the third Assembly of the League of Nations was to meet on the first Monday of the following month. Meantime he played Czechoslovakia off against Italy and induced each to agree to support a League of Nations' loan to Austria at the approaching session of the League, and he himself undertook to secure the acceptance by his Parliament of a League control of Austria's finances.

<sup>1</sup> *Financial Reconstruction*, p. 12.

Msgr. Seipel's scheme worked out as planned. When the League met, the Austrian question was given priority over all other matters and in an extraordinarily short time a scheme for a foreign loan under multiple guarantee, coupled with League control, was worked out. The Chancellor then returned home and secured the acceptance of this program despite the surrender of sovereignty involved. This abdication was only possible because of the fiasco of the February loan and the July financial reform.

The League Program provided for: 1, a guarantee of the political and territorial integrity of Austria by her neighbors and the acceptance by Austria of the obligation to preserve that political and territorial integrity; 2, an international guarantee for a popular loan of 650 million gold crowns; 3, the adoption of a program of reform by the Austrian Parliament designed to produce a balanced budget at the end of two years; 4, the investment of the Austrian Cabinet with extraordinary powers during this period, so as to assure the execution of the program; and 5, a foreign one-man control over the proceeds of the loan and of the revenues set aside for the guarantee of the loan.

Msgr. Seipel met with vigorous opposition upon his return from Geneva. The Pan-Germans denounced especially the proviso that Austria should pledge herself to preserve her own territorial and political integrity. They rightly saw in this a reënfacement of the hated clause in the Treaty of St. Germain against union with Germany. Yet the proviso was absolutely necessary. France, Italy, and Czechoslovakia whose support was essential all saw in it a protection of their special interests. More open to criticism is the failure of the League to secure an adequate return from these countries for this concession to their fears. Might it not have been possible to have secured from them and from other guaranteeing states an agreement to lower their customs duties on Austrian products? By so doing they would have reduced appreciably the likelihood of being called upon at some future date to meet the portions of the loan which they had guaranteed? And had the League suc-

ceeded in this it would have performed a service of the first magnitude for Europe as a whole. The Social Democrats denounced the program as a surrender to capitalism. They could have defeated it, yet when it came to a showdown they were afraid to take the responsibility. They contented themselves with abstaining from voting.

As a result of their abstention, the Reconstruction Law (*Wiederaufbaugesetz*) passed the Austrian National Council on December 4, 1922. It became in effect the new constitution for Austria for the period of control. Its enumeration of reforms makes it a document of great interest. The only measures, however, with which we are concerned, are those in the field of direct taxation.

It is significant that the Reconstruction Law provided for a reduction in the rates of the existing direct taxes. Some of these reductions were to take place immediately, others after the introduction of a very moderate general property tax. This new tax, however, was only to be introduced after the currency had been stabilized long enough to make reasonably accurate assessment possible. Upon the introduction of the property tax, the income tax was to be revised, by raising the exemption limit from 600 to 800 tax-units (from about \$90 to \$120), and by lowering the maximum rate from 60 per cent to 45 per cent, applicable on the fraction of income above 300,000 tax-units (about \$45,000).

The business tax was to be modified immediately by making the profits of the current year liable, instead of those of the preceding year, thereby bringing it into harmony with the income tax, and permitting the elimination of the costly and venerable dual administration of these two taxes. On the profits of the year just coming to a close the rate of 20 per cent was maintained. The rate for the following year, and until the introduction of the property tax, was to be reduced to a maximum of 15 per cent. From this maximum the rates were to vary downward to a minimum of 7.5 per cent, as the relative importance of capital in the enterprise as against personal labor declined. The prohibition on local additions was main-

tained. After the introduction of the property tax, the rate of the business tax was to be still further reduced to 7.5 per cent as a maximum, but, in addition, a 3 per cent tax was to be levied on the amount of invested capital in an enterprise. In this way the business tax was to be linked up with both the income tax and the property tax. To emphasize this fact, the principle of the tax-unit was to be introduced.

The unjustified favor to *Gesellschaften m. b. H.* with capital of less than 1 million crowns was to be abolished, effective as of 1923. The Government was also authorized to abolish the preferential treatment, accorded to a number of other favored types of corporate enterprise. The powerful political forces behind these enterprises, however, prevented the naming of a definite date for their repeal.

The land and buildings taxes were to remain exclusively local taxes. The provinces, however, were to be granted the authority to modify them considerably if they chose. Thus they might change them into property taxes, and reclassify them if desirable, or into real income taxes, or taxes assessed on the basis of external indicia. Whatever the modification, however, the provinces and the towns were required to raise a certain minimum from these sources.

The reconstruction program further provided for a long overdue improvement in the tax administration. The outstanding change in this field was the provision that the income tax and the personal produce taxes—e. g., the business tax, the corporation tax, and the tax on interest—were to be assessed and collected on the basis of uniform declarations, and by the same assessors and commissions. The business tax commissions were thus to be dissolved and the entire work put into the hands of the income tax commissions. Moreover, the unduly political character of these commissions was to be eliminated, so as to obtain a more adequate representation of the most important income groups. Finally, the Government was authorized to make any change by simple decree that made for simpler and more rapid assessment and collection of the direct taxes, provided it did not change the fundamental character of the law.

The Reconstruction Law also called for a reorganization of the fiscal relations of the State and the localities. The arrangement effected earlier in the year had not proved altogether satisfactory. The share in the yields of the state taxes going to the localities was inadequate, and the Government had adopted the practice of supplementary advances in the form of loans. During the first nine months of 1922, 443 billion crowns were thus loaned to the provinces. At the rate of exchange of October 1922, and assuming the continuance of grants on the same scale, this would have involved annually 1,100 billion crowns or about 15 million dollars, over which no control was possible.<sup>1</sup> In addition, the federation had assumed 50 per cent of the expenditures of the provinces and of the provincial capitals for salaries. For Vienna, which was both a province and a provincial capital, the proportion was 70 per cent. This policy had led to laxness of administration, and to extravagance in promoting and in employing personnel.<sup>2</sup> Accordingly the Reconstruction Law made it mandatory upon the Government to refuse further loans after 1922, to reduce salary grants during 1923 and 1924, and to abolish them beginning in 1925. Prior to 1925, the provinces and townships were only to be entitled to grants when their salary rates did not exceed those of the state schedule. The resulting loss in revenues to the localities was to be made good (1) by a grant of 30 per cent of the yield of a new sales tax during 1923, and of 40 per cent thereafter; (2) by an increase in the yield of the "joint" taxes, which was expected as a result of stabilization; and (3) by a greater development of the taxes on land and buildings by the localities. This last provision was designed to overcome the well known opposition of the localities to increased taxation of realty. They were now to be confronted with a choice between increasing their real taxes or reducing their expenditures. Such were the principal direct tax provisions of the Reconstruction Law.

The Reconstruction Law as a whole is a remarkable document

<sup>1</sup> *N.F.P.*, October 20, 1922.

<sup>2</sup> *Ibid.*, November 5, 1922.

which well repays study. Seldom has a country set itself such a thoroughgoing housecleaning and renovation. In itself, however, the reconstruction law was only one more good resolution. What gave it vitality was the presence of the League of Nations' Commissioner General, Dr. Alfred Zimmerman. Dr. Zimmerman was the representative, not of the guaranteeing powers, but of the League itself, appointed by and responsible to the Council of the League. Through control of the purse strings he exercised a very real control.<sup>1</sup> The following typical citation from one of his monthly reports shows the way in which control was exercised.<sup>2</sup>

A few days before the end of March the Government informed me that the figures provided in the estimates for salaries would have to be exceeded, because of the officially established increase of six percent in the cost of living and the consequent automatic increase of wages. I replied that so long as the Government was bound by the Index Figures Law it would of course have to meet its obligations, but that the increased burden resulting therefrom would have to be balanced by economies elsewhere, or by a yield of receipts in excess of the amount estimated. In any case my estimates for the sums to be released during March remained unchanged, as the deficit fixed at the beginning of the month must under no circumstances be exceeded."

It is precisely this new note of authority that brought about a surprisingly abrupt change in the internal situation. It inspired confidence in Austria as a safe place to invest surplus funds. Coming as it did just when the German situation took a turn for the worse, with the French invasion of the Ruhr, it induced timid capitalists throughout Middle Europe to buy Austrian crowns. Austrian capitalists followed suit, thereby bringing some of their hidden resources back into the country. As a result the Austrian crown began to recover even before the definite acceptance of League control, and six months before the successful floating of the Austrian foreign loan. Speculation as usual anticipated the event. Indeed the anticipation was so unanimous as to prove seriously embarrassing. On August 25 the dollar had closed at 83,600. At the end of the month it stood at 77,300, and two months later at 74,210.

<sup>1</sup> The program of budget reform agreed upon by Austria is shown in Appendix V.

<sup>2</sup> From Fourth Report, p. 6.



The Government finally had to interfere and peg the crown at approximately 70,000 to the dollar, or 15 per cent above its low point, so as to prevent a serious crisis in the export industries.

With the restoration of confidence the Government was able to float an internal and completely voluntary loan of 50 million gold crowns, the first internal loan since the Revolution. It constituted Austria's share of the League of Nations' loan. Moreover, it provided the sums necessary to carry on the Government without further resort to the printing press until such time as the English, American, and other foreign portions of the loan could be floated. The Austrian banks subscribed 30 millions and the general public 20. On November 18 further increase of the uncovered issue of notes on government account definitely ceased. By December 15 the capital (30 million gold crowns) of a new commercial bank completely independent of the Government had been fully subscribed and the institution opened its doors on January 2, 1923. Henceforth inflation on government account was practically impossible.

The stock exchange also registered the return of confidence. The quotations of Austrian shares had naturally increased as the crown fell in value. Measured in a sound money, however, these increases had seldom been real. Though the capitalist who had invested in stocks suffered less during the period of depreciation than he who had invested in bonds, he did not escape entirely. But with the opening of 1923 a remarkable change occurred. Despite the relatively stationary general price level, and the improved foreign exchange value of the crown, Austrian shares began to climb. By the late summer of 1923 the average increase for the entire list of Austrian issues was about fivefold. Some stocks showed increases of ten- to twelvefold. Fortunes were made overnight and many an Austrian was delighted to discover that his pre-war wealth had been restored to him. The table<sup>1</sup> on page 200 shows the extent of this rise.

No less dramatic was the effect of the new situation upon the public revenues. For the first time since 1914 delay was no

<sup>1</sup> From De Bordes, pp. 215-216.

INDEX FIGURES OF MONTHLY QUOTATIONS OF SEVENTY-SEVEN AUSTRIAN CORPORATIONS  
September 1922—December 1923<sup>1</sup>

	1922				1923											
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Banks.....	59	82	93	78	100	105	124	205	209	298	345	341	378	363	337	424
Transportation companies...	1,305	1,250	1,155	1,027	1,220	911	1,020	1,176	1,445	1,611	2,046	1,790	1,900	1,846	1,693	1,775
Building companies and enterprises for the supply of building material.....	322	579	447	455	494	464	482	669	827	937	1,409	2,098	2,843	2,869	2,645	3,415
Breweries.....	363	559	514	403	577	499	502	767	837	1,302	2,007	2,003	2,530	3,063	2,676	2,821
Iron and metal works.....	426	521	491	386	407	432	480	665	744	927	1,391	1,419	1,467	1,481	1,334	1,565
Electrical undertakings.....	135	137	144	130	171	173	225	316	288	361	629	638	750	671	621	748
Mining companies.....	5,484	12,276	14,087	13,433	17,106	13,886	17,609	23,244	23,847	25,155	39,243	39,243	40,249	39,947	37,129	37,733
Machinery wagons and constructors.....	322	276	324	316	426	345	372	485	677	859	1,274	1,243	1,682	1,444	1,390	1,706
Paper and printing works...	862	1,181	1,255	1,013	938	877	888	1,108	1,270	1,451	2,350	2,660	3,389	3,884	2,974	3,187
Miscellaneous.....	351	545	508	430	568	526	271	768	883	1,093	1,604	1,870	1,944	2,144	1,850	2,266
Total.....	502	767	797	719	893	751	882	1,176	1,284	1,479	2,214	2,292	2,540	2,584	2,336	2,586

<sup>1</sup> Quotations are for the fifteenth of each month for 77 Austrian corporations already in existence in 1914. The average of the quotations for the first half of 1914 taken as 1. The Table is from De Bordes, pp. 215-216.

longer profitable to the taxpayer nor disastrous to the Treasury. As a result receipts for the first six months of control far exceeded estimates. In the following table are shown the League estimates, which represented the maximum possible deficit; the Government's estimates, as made up from month to month, and finally the actual results:<sup>1</sup>

BUDGET ESTIMATES AND RESULTS—JANUARY 1 TO JUNE 30, 1923

	League Plan	Government Estimates	Actual Results
	(In Billions of Crowns)		
Expenditures.....	4,315.1	4,486.4	4,307.2
Revenues.....	2,282.0	2,455.0	2,995.5
<i>Deficit</i> .....	2,033.1	2,031.4	1,311.7

Receipts exceeded League estimates by almost one third. As a result the actual deficit was well below the amount allowed for in the League plan. The rôle played in this recovery by different taxes is shown in the following table:

FEDERAL REVENUES—JANUARY 1 TO JUNE 30, 1923  
(In Billions of Crowns)

	League Plan		Govt Estimate		Actual Result	
	Crowns	Per Cent	Crowns	Per Cent	Crowns	Per Cent
1. Direct taxes.....	319.5	14.0	353.0	15.0	729.4	24.4
2. Customs.....	316.9	13.9	405.0	17.3	405.7	13.5
3. Import and Export taxes..	50.1	2.2	51.8	2.2	61.1	2.0
4. Consumption taxes.....	112.2	4.9	193.5	8.3	291.8	9.7
5. R. R. Transportation tax..	489.5	21.4	319.3	13.6	183.5	6.1
6. Other fees.....	188.2	8.2	420.9	17.9	493.1	16.5
7. Other administrative rev..	196.9	8.7	343.9	14.6	471.9	15.8
8. Tobacco monopoly.....	518.0	22.7	224.7	9.5	323.7	10.8
9. Salt monopoly.....	22.4	1.0	22.7	1.0	12.3	0.4
10. State enterprises.....	68.2	3.0	0.6	0.6	23.0	0.8
<i>Total</i> .....	2281.9	100.0	2335.4	100.0	2995.5	100.0

<sup>1</sup> *Statistische Nachrichten*, No. 5, p. 104.

The direct taxes, it will be observed, rose in importance from third to first place, bringing in 24.4 per cent instead of only 14 per cent of total revenues. Indirect consumption taxes, other fees, and other administrative revenues showed big increases as well.

By eliminating the item "active state enterprises" and regrouping the others slightly, the following comparison may be made between 1913 and 1923. (The figures are percentages and are calculated for 1913 with and without the taxes on land and buildings. For purposes of comparison it is necessary to exclude the impersonal taxes, since they no longer figured as a source of revenue to the State after 1922.)<sup>1</sup>

	1913 <sup>2</sup>		1923
	Incl. Impersonal Taxes	Excl. Impersonal Taxes	
Direct taxes . . . . .	28.2	18.7	24.6
Customs and Import, Export taxes . . . . .	12.4	14.1	15.6
Consumption taxes . . . . .	26.1	29.5	9.8
Railroad Transportation tax . . . . .	1.8	2.1	6.2
Other fees and administrative revenues	15.0	17.0	32.4
Tobacco monopoly . . . . .	14.6	16.5	11.0
Salt monopoly . . . . .	1.9	2.1	0.4
	100.0	100.0	100.0

It is plain from these figures that the direct taxes had more than regained their relative pre-war importance. During the first six months of 1923 they brought in almost one quarter of the revenues from taxation and covered over one eighth of all expenditures. The comparison with the pre-war situation would be even more favorable if figures of net revenues were available, because of the unprecedentedly low costs of collection during 1923.<sup>3</sup>

A comparison of 1923 conditions with those immediately preceding is still more interesting. Unfortunately it was not

<sup>1</sup> See p. 131.

<sup>2</sup> Gruenwald, pp. 210-212, 214.

<sup>3</sup> These low costs resulted from the miserable salaries paid in the public service, and from the radical simplification of assessment procedure.

until the period of control that the Finance Ministry began to publish exact monthly figures of receipts and revenues. There are available, however, a few figures from which a rough comparison may be drawn. The Finance Ministry, for example, has published figures which showed that, during the first nine months of 1921, 4,800 million crowns were received from direct taxes, and that during the corresponding months of 1922, 48,000 million crowns were received. An idea of the distribution of these sums through the nine months of the year may be gathered from the fact that during the four months from July to October, 1921, 2,800 millions were received, and that in January and February 1922, 2,050 and 2,200 million crowns were collected.

On the basis of this inadequate data one can nevertheless work out a table of the probable monthly yields of these taxes. For the first nine months of 1922 one can progress from the known yields for January and February and adjust so as to obtain a total of 48,000 million crowns. Similarly, for 1921, one can work back from the known yield for the four months, period July–October, and adjust so as to get a total of 4,800 million crowns. The adjustment has been made on the basis of the rise in the cost of living, for lack of any better guide. The probable monthly dollar yields may then be obtained by

ESTIMATED YIELD FROM DIRECT TAXES

Month	Price Index		Mid-month Value of Dollar		Estimated Yield (Millions of Crowns)		Estimated Yield (Thousands of Dollars)	
	1921	1922	1921	1922	1921	1922	1921	1922
I	92.18	830	740	6,800	450	2,050	610	300
II	99.56	980	665	6,300	470	2,200	705	350
III	111.74	989	682	8,000	500	2,200	735	275
IV	111.34	1,089	636	7,600	500	2,200	785	290
V	118.80	1,364	576	10,000	540	2,500	935	250
VI	118.95	2,339	670	18,000	540	4,000	805	220
VII	124.66	3,308	775	30,000	550	5,000	710	170
VIII	123.52	7,422	1014	60,000	600	9,000	600	150
IX	150.61	14,153	1600	74,500	650	18,850	410	250
					4,800	48,000	6,295	2,255

dividing these monthly crown figures by the dollar quotations of the fifteenths of the several months. The table on page 203 is the result of such a rough calculation.

While this table can make no pretense to accuracy, it does permit a rough comparison of the yield from the direct taxes with that after stabilization.

YIELD FROM DIRECT TAXES DURING FIRST HALF OF 1921, 1922, 1923

	1921	1922	1923
In millions of crowns . . .	3,000	15,150	729,400
In thousands of dollars . . .	4,575	1,685	10,420

Certain conclusions follow from this dramatic recovery of the direct taxes after stabilization. One is that direct taxes cannot function properly in a period of rapid inflation. Inflation is an oppressive and unequal indirect tax. It destroys the usefulness of any tax in which assessment constitutes a separate procedure distinct in time from collection. Now in Austrian administrative language, the distinction between direct and indirect taxes turns precisely on this clear cut separation between assessment and collection. In view then of this essential characteristic of direct taxes, any attempt to make them the chief source of revenue in a period of depreciation is foredoomed to failure. Worse still, the attempt is bound to imprint upon them such a pronouncedly anti-capitalistic character as to destroy any last vestiges of confidence of the possessing classes in the State, and, through the flight from the crown, to increase the tempo of depreciation. Thus the aim of the lawmakers is defeated. Such proved to be the case in Austria. Although five times as many crowns were raised from direct taxes during the first six months of 1922 as during the same period of 1921, only about one third as much was received when expressed in a stable currency.

A second conclusion is that during a period of stable prices and exchange the converse should be true. We should expect the yield from direct taxes to increase enormously, due to the fact that the inevitable lag between the earning of income and

its assessment and collection ceases to be of fatal significance. The figures for the first six months of 1923 bear out this conclusion. During this six months' period, \$10,420,000 (729,400 million crowns) were received from the direct taxes as against about \$4,575,000 and \$1,685,000 for the corresponding periods of 1921 and 1922. For the single month of June 1923 \$2,100,000 was received, or about as much as for the first eight months of the preceding year.

To conclude, then, Austria's experience during depreciation indicates that an energetic tax policy is powerless to check depreciation once it gets under way, because depreciation is due to lack of confidence. In this particular case reckless expenditures and exorbitant direct taxes were partly to blame. One reason for the stubborn refusal of public opinion, and political opinion, to recognize the limitations upon direct taxation during inflation is to be found in the extraordinary unpopularity of capitalistic enterprise and financial capital generally. The necessary change in policy meant capitulation to capitalism.

In the following section it is proposed to seek an explanation for this hostility toward capitalistic enterprise.

##### 5. ANTI-INDUSTRIALISM IN AUSTRIA

The discrimination against corporate enterprise has been emphasized throughout this study. It appeared plainly in the Reform of 1896. That reform, however, merely confirmed a situation which had developed unintentionally during the preceding twenty years. It grew amazingly during the War and reached a climax in the legislation of July 1920. The details of this discrimination, especially in the case of the capital levy, were given in wearying detail, in part to bring out the resulting confusion, but primarily to reveal the thoroughly anti-capitalistic spirit animating the legislators.

In this section, the attempt is made to show why this hostility to big business existed in the first place; how it found expression so successfully in tax legislation; why it has persisted down to the present; and its results.

The development of corporate enterprise inevitably arouses

popular hostility in any fully settled community because, instead of supplementing, it supplants existing small scale non-capitalistic enterprise. In old custom-governed countries the men whose existences are thus ruined do not lightly transfer themselves from the ranks of independent artisans and traders to the ranks of wage-earners. Nor is there any outlet for them on the land. This was the situation in Austria, where moreover the displaced had neither the material capital nor the educational equipment necessary to swing themselves up into the ranks of the new *entrepreneur* class. Thus the suffering in the transition was greatly increased, and with it the bitterness of those who suffered.<sup>1</sup>

It is not, therefore, the original hostility to corporate enterprise that is surprising, but rather its persistence and the success with which it found expression in legislation. The explanation is to be found in a time comparison between the development of big business and the growth of democracy. Where large scale enterprise develops and establishes itself as an accomplished fact before the classes which are adversely affected secure political representation, the sufferings of these classes are given scant attention. Thus the transition to big business in England was relatively smooth, because its development largely antedated political democracy and was accompanied by an extraordinary extension of the market. In the United States political democracy was sufficiently developed when capitalistic enterprise began to have enabled the affected classes to put up a stiff resistance. Here, however, the great shortage of labor, a higher level of education among the masses, the lack of any strong sense of status, and above all, the presence of free land combined to minimize the hardships of transition, and therefore to smooth the path of corporate development.

<sup>1</sup> The situation was complicated in Austria by racial prejudice. Since a relatively large number of the new leaders were Jews, the whole development was conveniently identified with this race. Thereby the support of the peasantry was assured, and the way paved for the rapid growth of the Christian Socialist Party during the nineties of the last century. The peasant and the "little man" still remain the pillars of this party.



In Austria the sequence of events was different. There large scale enterprise really dates from the Revolution of 1848. During the succeeding thirty years there was little democracy in Austria. The ruling bureaucracy had small regard for democracy, but great respect for Manchester liberalism. Accordingly, in the economic field, they kept hands off and allowed rival forms of production to fight for supremacy. The tax legislation in force during this period was not drafted in a spirit of hostility toward modern industry. It attempted to tax incorporated and unincorporated businesses equally. The rate of the income tax of 1849 originally was 5 per cent of net income, but, as a result of the wars with Italy and Prussia, it was raised to 10 per cent, while the local additions doubled the burden. As a result of these high rates tax evasion became the general rule, and in the competition of evasion, incorporated businesses fared badly, because the publicity of their accounts forced them to observe a relatively higher standard of accuracy. Thus, unintentionally, the income tax of 1849 came to weigh far more heavily on large scale capitalistic enterprise, than on the activities of the "little man."<sup>1</sup>

On the whole, nevertheless, this period was politically favorable to corporate development. Economically, however, it was most unfavorable. The Revolution, and the two subsequent wars, left Austria exhausted. Lack of domestic capital naturally retarded the growth of large scale enterprise. During the closing years of the sixties and the first two years of the seventies, however, conditions improved materially. Then came the devastating panic of 1873. It sent such a large number of corporations to the wall that in 1900 there were still only 600 corporations in Austria, as compared with 710 at the end of 1872.<sup>2</sup> On the whole, the unfavorable economic factors outweighed the favorable political ones, with the result that corporate enterprise had not succeeded in establishing itself firmly in Austria when the "little man" first entered the political arena.

<sup>1</sup> The time consuming formalities and the heavy fees incident to incorporation were perhaps even more deterring than the tax discrimination itself.

<sup>2</sup> *Staatswoerterbuch*, art. "Aktiengesellschaften."

Save for a brief period after the Revolution of 1848, there was no popular representation in Austria until 1861. In that year an *Abgeordnetenhaus* was established, but for the next two decades it was dominated by big landed proprietors in the country districts, and by the upper middle class in the larger towns. These two classes were both favorable to, and interested in, the new corporate enterprises. The upper middle class belonged for the most part to the German Liberal Party. This party, which was the recognized spokesman for big business, enjoyed the favor of the Crown. In the late seventies, however, the German Liberals fell from grace because of their opposition to the expedition against Bosnia. In order to weaken their influence, the Emperor forced the passage of a new suffrage law (1882) which extended the right to vote for members of the *Abgeordnetenhaus* to all who paid at least ten crowns or five gulden in direct taxes (*die Fuenfguldenmaenner*).

The extension of the suffrage at this particular time was of fundamental importance. It ushered into Austrian political life the artisan and little shopkeeper before corporate development had established itself. These men were feeling the effects of the new competition, and they were bitter. They demanded protection, and taxation was an effective means of securing it. Hence the eighties and early nineties was a period rich in concessions to the *little man*. Then in 1896, the influence of this element was still further increased, by the reduction of the tax requirement for voting to eight crowns. At the same time a fifth *Curiae* was created, comprising all Austrians over twenty-four years of age. Therewith the laborer first entered politics. Ten years later universal manhood suffrage was introduced for the lower house. The upper house remained aristocratic throughout the pre-war period.<sup>1</sup> Despite the aristocratic facade of monarch and upper house, the power of the *Fuenfguldenmaenner* in the lower house was sufficient to perpetuate in the Reform of 1896 the very real discrimination against incorporated businesses, which had developed through the defective administration of the income tax of 1849.

<sup>1</sup> Kelsen, pp. 25-26.

The persistence of this hostility still remains to be explained. The first and most obvious reason lies in the fact that discrimination contributed to a generous survival of small pre-capitalistic enterprises. Consequently, the hardships of transition were prolonged, and with them the political basis for a continuous and vigorous opposition.

The panic of 1873 contributed to the heritage of suspicion. It ruined thousands of small investors and revealed many flagrant cases of corporate corruption. The disillusionment and bitterness of the "little man" were natural. Time, however, would have effaced his resentment, had not the State, intentionally or unintentionally, kept it alive. Being in perpetual need of funds, it used the lesson of stock speculation to boost its bonds as the only proper type of investment. So successful were its preachments that, prior to the War, only a minute fraction of the population even thought of investing in private securities. Consequently the corporation has always been financially and morally isolated from the vast majority of the population.

Finally, the companies themselves have contributed to their own isolation. The small investor in Austria, far more than in the United States, has a great distaste for risk. Yet corporation stock has always been unnecessarily speculative because of the dubious dividend policies of most companies. And the companies have been able to persist in their policies because of the mystery surrounding their earnings. In justice to corporate management in Austria, however, it must be said that there were good reasons for their dislike of publicity. For one thing the high and discriminating corporation tax put a premium on dissimulation. More important perhaps was the lack of new investment funds. Companies met this scarcity of investment capital by plowing back as large a share of profits as possible. This was the equivalent of a forced loan on the stockholders and naturally was unpopular with minority stockholders, who were not in a position to secure dividends by indirection, as were the majority stockholders (who usually held official positions in the company). The lower the earnings shown on the books, the smaller the outcry from the minority. Thus high discrimi-

nating taxation and scarcity of investment capital alike made for this dubious dividend policy. However natural such a policy was, it nevertheless permitted insiders to rig the market. Hence corporate investment was always and unnecessarily risky. Unfortunately for the corporations their policies served to keep alive popular prejudice against big business.

This prejudice has had a number of unfortunate consequences for Austria. In the field of general economic development it greatly retarded capitalistic, labor-saving methods of production, and preserved antiquated methods in fields in which skill and taste are not of importance. In such fields, the survival of the small artisan and trader benefits neither the community nor the survivors. They work long hours under unhealthy surroundings to produce goods inferior to those made by machinery.

In the field of public finance it also had a thoroughly unwholesome effect. Due to the prejudice against corporate investment, the State was enabled to persevere in a policy of extravagance and armament, without the necessity of increasing taxes. It was not until July 1914, after more than a decade of competitive arming, that a general upward tax revision was made.

In the end the desire for an absolutely safe investment, which the Government thus deliberately fostered, proved disastrous to the State and the individual alike. The State suffered because the diversion to unproductive purposes of an important part of the annual savings of the community undermined the only basis for a sound financial policy—the prosperous and growing enterprise of its citizens. The individual suffered through the bankruptcy of his chief debtor. His disillusionment, however, may yet redound to the benefit of corporate enterprise, just as his earlier disillusionment (1873) redounded to the advantage of the State.

Such a change in popular sentiment is greatly to be hoped for since hostility to big business, if it continues, will prove far more disastrous today than in pre-war days. Then the slow growth of corporate enterprise merely meant that Austria shared

less abundantly than otherwise in the material progress of the world. Today, however, the very existence of a portion of its present six and a half million inhabitants depends upon a rapid increase in the country's productive capacity. Such an increase will only be possible if capital comes to the aid of Austrian enterprise in far greater abundance than in the past.

Fortunately there are signs that public opinion is waking up to the new situation. The half-hearted measures to encourage industry enacted since 1920 are evidences in point. These measures, however, are utterly inadequate. The statute books need to be entirely overhauled for the purpose of discarding all the needless discriminations against modern capitalistic enterprise.

The removal of all tax discriminations against corporate enterprise is of the first importance, because only thus will companies be put in a position to conduct an honest dividend policy. Once such relief is secured, companies would do well to refrain from stock manipulation. They should allow dividends to determine the quotations of shares, in order that they may be able to open up, and keep open, a source of capital hitherto untapped—the savings of the "little man." Once having secured his support they should scrupulously protect his interests, because it is the only way in which they can free themselves from their present moral isolation and soften the long standing conflict of interest between big business and little business. The growing favor with which corporate investment is already regarded indicates that a distinct change of public opinion may be nearer than would superficially seem possible.

#### 6. THE AUSTRIAN BUREAUCRACY

The complexity of the Austrian direct tax legislation is striking. Repeated references to this feature of legislation have been made in the descriptive part of this work. Complexity reached its high point, before the War, in the income tax, but even the produce taxes, whose chief merit should have been their simplicity, became more and more complex with time. After the War the complications took on new dimensions, and

reached their apotheosis in the 1920 income tax and capital levy laws.

If the numerous discriminations against big business, and in favor of the institutions of the "little man," were once removed from the statute books, an important simplification of the Austrian tax system would thereby be secured. The system, however, would still be far from simple, because hostility to big business is not the only factor making for the complexity of Austrian tax legislation. Another cause lies in the character and the traditions of the Austrian bureaucracy.

The Austrian bureaucracy is one of the oldest on the continent of Europe. It dates back to the time of Maria Theresa. Many of its high officials belong to families in which the men, for generations, have been either bureaucrats, officers, or priests. These bureaucrats-by-inheritance have lived for generations somewhat apart and above the rest of the population. Until very recently they were the real rulers of Austria. They ruled with praiseworthy integrity, but, for the most part, with insufficient knowledge of the ever changing practical needs of economic life and of the underlying traits of human character. Though their supremacy is greatly tempered, they still give the tone to the Austrian bureaucracy.

The bureaucracy, in its fine essence, is to be found in the Central Ministries at Vienna. Until the Revolution these Ministries had something of the character of monasteries. Like them they were surrounded by an air of mystery and secrecy. Their innermost recesses were only reached after years of faithful service in an order in which advancement, as a rule, was by seniority. While waiting, the young *Beamte* had ample time to learn all the ins and outs of the law and ample time to perfect himself in drafting measures in the complicated and subtle style dear to the hearts of his superiors. Due to the concentration of responsibility at the top, he had, during the plastic period of his life, small incentive and less opportunity for unusual exertion, or unusual thinking along unbeaten paths. The result was that he came, in time, to respect complexity for its own sake. Hence, when he finally reached a position of

responsibility, he seldom had retained either the enthusiasm or the conviction necessary to bring about any change in the ponderous apparatus.

Because of the overwhelming weight of authority and tradition, it is virtually a "law" of the bureaucracy that, once a new line of departure has been taken, the course will be pursued until changed outside conditions finally force a sudden and complete break with the past and the adoption of a new principle.

The direct taxes offer a case in point. Although the faultiness of the principles of the income tax of 1849 stood revealed a decade after passage of the measure, they were nevertheless clung to for half a century. In time, however, changing economic conditions made their reform imperative. Accordingly, in the income tax of 1896, a new line of departure was adopted. The new income tax constituted a very refined instrument, admirably suited for a scientific investigation of net national income if applied to a few cases selected as typical. For the task, however, of assessing hundreds and thousands of incomes, it was unnecessarily precise and far too delicate and expensive. Due to the "law" of the bureaucracy, it nevertheless set the fashion for subsequent developments. For the next twenty-five years this development was in the direction of ever new refinements.

The education of the *Beamte* helped emphasize this tendency toward refinement. To get to the top he had to be a university graduate, to have specialized in law and economics, and to have passed the state examinations. The four year university course was primarily devoted to the history and the development of the complicated European law. The time devoted to economics and finance was correspondingly small. The training was primarily legal. Since the Revolution a more realistic degree of Doctor of Political Science (*Doktor der Staatswissenschaften*) has been introduced, but it is not likely to exercise much influence upon the bureaucracy. The *Beamte* must still have the degree of Doctor of Law (*Doktor juris*) if he would reach the top.

In justice to the bureaucracy, however, it must be admitted that, in recent years at least, the deputies have shown an even greater zeal for refinements and complexities than have the bureaucrats. The members of the finance committee seem to take a personal pride in the number of fine distinctions they can devise, draft in the official style (*Amtsstil*), and insert into the law. The *Beamte* are thus forced to satisfy a taste they have helped to create. As a result of this competition of legally trained minds the final law is utterly incomprehensible to the ordinary lay mind.

A commendable simplification of tax laws and tax administration was accomplished during 1923, but a thorough overhauling of the entire revenue system is urgently needed. The discriminations against capitalistic enterprise must be gotten rid of and the administration must be simplified by making the burden on small incomes reasonable and by abolishing the host of petty abatements and exemptions. Simultaneously there must be a reëxamination of the question of public functions with a view to eliminating unnecessary activities and useless expenditures. Whether Austria will then be able to cope with the huge problems of post-war finance will depend upon the development of the general European situation. If international chauvinism persists, especially in the field of international trade, the question of Austria's capacity to exist may again arise. But in that event, if Austria's domestic house is in order, a demand on her part for union with Germany will be difficult to refuse.



## APPENDIX I

### YIELD OF STATE TAXES, 1913 (In Thousands of Crowns)

Name	Gross Income	Expenses	Net Income
<b>I. Direct Taxes</b>			
1. Land tax.....	52,216		
2. Classified house tax.....	10,553		
3. Rented house tax.....	116,881		
4. Business tax.....	36,976		
5. Corporation tax.....	90,598		
6. Tax on interest.....	13,548		
7. Salaries tax.....	4,564		
8. Income tax.....	101,770		
9. Military tax, etc.....	8,936		
<i>Total direct taxes.....</i>	436,042	3,191 <sup>1</sup>	432,851
<b>II. Stamp Duties and Fees</b>			
1. Stamp duties.....	68,251	2,056	66,195
2. Fees.....	160,365	4,407	155,958
3. Miscellaneous.....	36,821	24	36,797
<i>Total stamp duties and fees.....</i>	265,437	6,487 <sup>2</sup>	258,950
<b>III. Consumption Taxes</b>			
1. On beer.....	84,113	3,921	80,192
2. On brandy.....	100,567	9,192	91,375
3. On sugar.....	164,516	14	164,502
4. On mineral oil.....	25,312	24	25,288
5. On wine, meat, and octroi duties.....	38,889	681	38,208
6. Miscellaneous.....	4,660	3,526	1,134
<i>Total consumption taxes.....</i>	418,057	17,358 <sup>3</sup>	400,699
<b>IV. Monopolies</b>			
1. Tobacco.....	344,579	119,429	225,150
2. Salt.....	49,286	20,464	28,822
<i>Total from monopolies.....</i>	393,865	139,893	253,972
<b>V. Customs.....</b>			
	199,914	8,761 <sup>4</sup>	191,153
<i>Grand Total.....</i>	1,713,315	175,690	1,537,625 <sup>5</sup>

<sup>1</sup> Of this, 44,000 crowns represented refunds and balance administrative expenses.

<sup>2</sup> Of this, 4,163,000 crowns represented refunds and balance of 2,324,000 crowns administrative expenses.

<sup>3</sup> Of this, 16,802,000 crowns represented refunds, 485,000 crowns administrative expenses, and 71,000 crowns unallocated.

<sup>4</sup> All refunds.

<sup>5</sup> The above table is from Gruenwald, p. 212.

## APPENDIX II

## DEMAND LIABILITIES OF AUSTRO-HUNGARIAN BANK, ADVANCES OF BANK TO AUSTRIAN GOVERNMENT, DOLLAR EXCHANGE, AND COST OF LIVING, 1914-1918

Month	Demand Liabilities of <sup>1</sup> Austro-Hungarian Bank (In Millions of Crowns)		Advances of Bank to Aus- trian Govern- ment <sup>2</sup>	Dollar Exchange <sup>3</sup>	Cost of Living (housing ex- cluded) <sup>4</sup>
	Total	Note Circulation			
1914				Par (\$1 = 4.935 crowns)	
July	3,429.2	3,061.9			1.00
Aug.	4,852.6	3,850.3	810	5.34	
Sept.	5,471.3	4,469.4	1,610	5.61	
Oct.	5,857.0	4,827.4	2,082	5.79	
Nov.	6,544.8	4,930.2	2,582	5.67	
Dec.	6,563.8	5,136.7	2,582	5.76	
1915					
Jan.	6,503.8	5,158.9	2,582	5.87	1.34
Feb.	6,235.5	5,246.3	2,582	6.45	
Mar.	6,478.4	5,537.9	2,882	6.58	
Apr.	7,155.7	5,907.9	3,582	6.54	
May	7,295.2	6,026.8	3,582	6.60	
June	7,138.8	6,385.4	3,582	6.67	
July	7,059.1	6,400.5	3,582	6.63	1.73
Aug.	7,405.4	6,571.6	3,882	6.74	
Sept.	7,674.8	6,859.9	3,982	6.74	
Oct.	8,337.7	7,109.0	4,582	6.95	
Nov.	8,416.4	6,961.1	4,582	7.23	
Dec.	7,435.2	7,162.4	3,982	7.85	
1916					
Jan.	8,331.8	7,254.6	4,582	8.17	2.78
Feb.	9,037.0	7,378.9	5,182	7.94	
Mar.	9,295.4	7,599.4	5,382	8.16	
Apr.	9,406.5	7,942.7	5,382	7.85	
May	9,631.4	7,884.9	5,582	7.77	
June	9,663.9	8,265.2	5,682	7.98	
July	9,960.7	8,618.4	6,082	8.09	3.96
Aug.	10,124.5	9,091.9	6,082	8.35	

<sup>1</sup> Popovics, Table I.<sup>2</sup> *Ibid.*, Table II.<sup>3</sup> Computed on basis of Zurich quotation of crown and dollar—*Ibid.*, Table V.<sup>4</sup> De Bordes, p. 82.

## APPENDIX II (continued)

Month	Demand Liabilities of Austro-Hungarian Bank (In Millions of Crowns)		Advances of Bank to Austrian Government	Dollar Exchange	Cost of Living (housing excluded)
	Total	Note Circulation		Par (\$1 = 4.935 crowns)	
Sept.	11,181.6	9,801.0	6,482	8.54	
Oct.	11,579.1	10,426.9	7,082	8.89	
Nov.	12,224.0	10,805.5	7,782	9.86	
Dec.	11,313.6	10,888.6	7,282	9.56	
1917					
Jan.	13,205.7	10,886.9	8,582	9.25	6.59
Feb.	13,146.0	11,150.5	8,582	9.84	
Mar.	13,400.8	11,609.2	8,882	10.09	
Apr.	13,489.4	11,921.7	8,982	10.40	
May	14,002.8	12,107.8	9,182	10.44	
June	13,125.1	12,689.0	8,582	11.18	
July	14,558.2	13,255.9	9,782	11.20	8.17
Aug.	15,368.8	14,392.5	10,082	11.30	
Sept.	16,745.7	15,463.2	10,982	11.41	
Oct.	18,382.2	16,825.7	11,882	11.48	
Nov.	19,269.7	17,722.0	12,382	10.77	
Dec.	20,398.0	18,439.7	13,082	8.40	
1918					
Jan.	20,629.7	18,541.1	13,082	8.47	8.31
Feb.	20,738.8	19,013.3	13,082	7.66	
Mar.	21,368.5	20,095.6	13,682	7.85	
Apr.	22,877.1	21,445.6	15,282	8.00	
May	23,768.7	22,559.5	16,482	8.35	
June	25,436.8	23,873.0	18,282	9.90	
July	27,075.0	25,365.6	19,882	10.27	14.34
Aug.	28,599.7	26,990.5	21,382	11.46	
Sept.	31,104.5	28,646.0	23,582	12.41	
Oct.	35,845.5	31,483.2	25,582	11.83	
Nov.					16.40

## APPENDIX III

UNEMPLOYMENT IN AUSTRIA, 1918-1923<sup>1</sup>

	1918	1919	1920	1921	1922	1923
At the beginning of						
Jan.	—	—	—	16,637	16,713	117,144
Feb.	—	162,104	69,427	16,217	33,554	161,227
Mar.	—	—	61,851	14,520	42,933	167,417
April	—	178,553	53,999	9,790	42,231	152,830
May	—	186,030	45,883	9,518	44,281	132,226
June	—	170,682	19,155	10,103	38,567	107,965
July	—	—	22,403	11,035	33,355	92,789
Aug.	—	133,362	23,970	11,702	30,967	87,155
Sept.	—	—	22,705	11,349	31,247	83,891
Oct.	—	112,347	19,768	10,594	38,000	78,801
Nov.	—	—	14,733	8,709	55,008	75,810
Dec.	46,203	87,266	16,073	9,822	82,923	79,290

<sup>1</sup> From De Bordes, p. 11, n. 1. These figures cover only those receiving public relief.

## APPENDIX IV

DEVELOPMENT OF INFLATION IN AUSTRIA  
1919-1923

Date	Note Circulation <sup>1</sup> (In Millions of Crowns)	Index of Increase	Price Index <sup>2</sup> Number (July 1914=1)	Dollar Exchange <sup>3</sup> (Par: \$1=4.935)
1919 Jan. 7	4,500 <sup>4</sup>	1.66	28.37	16.2
Mar. 15				20.5
Mar. 31	4,687	7.33		25.8
Apr. 15	5,122	10.25		26.8
Apr. 30	5,578	11.14		26.0
May 15	5,664	11.33		24.5
May 31	5,960	11.92		24.7
June 15	6,532	13.07		30.2
June 30	7,398	14.80		29.6

<sup>1</sup> De Bordes, pp. 48-50.

<sup>2</sup> *Ibid.*, p. 83.

<sup>3</sup> *Ibid.*, pp. 115-139.

<sup>4</sup> Estimated—see p. 67, n. Where De Bordes does not give figures for the fifth or the last day of the month, these are obtained by interpolation.

## APPENDIX IV (continued)

Date	Note Circulation & (In Millions of Crowns)	Index of Increase	Price Index Number (July 1914=1)	Dollar Exchange (Par: \$1=4.935)
July 15	7,578	15.16	31.02	32.2
July 30	8,391	16.78		37.2
Aug. 15	8,572	17.14		39.0
Aug. 31	9,241	18.48		42.5
Sept. 15	9,383	18.77		60.7
Sept. 30	9,781	19.56		68.5
Oct. 15	10,076	20.02		85.0
Oct. 31	10,819	21.64		99.5
Nov. 15	11,034	22.07		101.
Nov. 30	11,194	22.39		130.
Dec. 15	11,508	23.02		153.
Dec. 31	12,134	24.27		155.
1920				
Jan. 15	12,308	24.62		204.
Jan. 31	13,267	26.53	49.22	271.
Feb. 15	13,390	26.74		279.
Feb. 29	14,293	28.59		250.
Mar. 15	14,793	29.59		227.
Mar. 31	15,458	30.92		207.
Apr. 15	15,380	30.76		201.
Apr. 30	15,524	31.05	58.42	200.
May 15	15,137	30.27		205.
May 31	15,794	31.59		156.
June 15	16,329	32.27		139.
June 30	16,971	33.94		145.
July 15	17,451	34.90		148.
July 31	18,721	37.44	63.76	165.
Aug. 15	18,666	37.33		206.
Aug. 31	20,050	40.10		237.
Sept. 15	20,566	41.13		238.
Sept. 30	22,272	44.54		255.
Oct. 15	23,540	47.08		310.
Oct. 31	25,120	50.24	69.60	358.
Nov. 15	25,978	51.96		430.
Nov. 30	28,072	56.14		494.
Dec. 15	28,936	57.87		621.
Dec. 31	30,646	61.29		659.

## APPENDIX IV (continued)

Date	Note Circulation (In Millions of Crowns)	Index of Increase	Price Index Number (July 1914=1)	Dollar Exchange (Par: \$1=4.935)
1921				
Jan. 15	32,501	65.00	92.18	704.
Jan. 31	34,526	69.05		654.
Feb. 15	36,590	73.18	99.56	665.
Feb. 28	38,353	76.71		723.
Mar. 15	38,774	77.55	111.74	682.
Mar. 31	41,067	82.13		676.
Apr. 15	42,395	84.79	111.34	636.
Apr. 30	45,037	90.07		661.
May 15	44,274	88.55	118.80	577.
May 31	45,583	91.17		604.
June 15	47,209	94.42	118.95	675.
June 30	49,685	99.37		720.
July 15	50,435	100.87	124.66	775.
July 31	54,107	108.21		958.
Aug. 15	55,248	110.50	123.52	1,020.
Aug. 31	58,534	117.07		1,082.
Sept. 15	61,323	122.65	150.61	1,600.
Sept. 30	70,171	140.34		2,520.
Oct. 15	79,292	154.58	237.76	2,637.
Oct. 31	90,904	181.81		4,355.
Nov. 15	103,129	206.00	374.37	5,815.
Nov. 30	120,613	241.00		8,520.
Dec. 15	142,872	286.00	661.	6,455.
Dec. 31	174,115	348.00		5,275.
1922				
Jan. 15	193,749	387.	830.	6,875.
Jan. 31	227,016	454.		8,000.
Feb. 15	238,666	477.	980.	6,300.
Feb. 28	259,931	520.		6,350.
Mar. 15	271,758	544.	989.	7,706.
Mar. 31	304,064	608.		7,488.
Apr. 15	321,326	644.	1,089.	7,625.
Apr. 30	346,698	693.		7,550.
May 15	351,461	703.	1,364.	10,000.
May 31	397,829	796.		11,100.
June 15	439,464	879.	2,339.	18,025.
June 30	549,916	1,100.		18,900.

## APPENDIX IV (continued)

Date	Note Circulation (In Millions of Crowns)	Index of Increase	Price Index Number (July 1914=1)	Dollar Exchange (Par: \$1=4.935)
July 15	616,861	1,234.	3,308.	29,875.
July 31	786,226	1,572.		42,350.
Aug. 15	913,932	1,828.	7,422.	60,425.
Aug. 31	1,353,404	2,707.		78,167.
Sept. 15	1,700,865	3,402.	14,153.	74,450.
Sept. 30	2,277,678	4,555.		74,210.
Oct. 15	2,590,414	5,181.	12,965.	73,500.
Oct. 31	2,970,917	5,942.		73,563.
Nov. 15	3,132,671	6,265.	12,158.	73,400.
Nov. 30	3,417,786	6,836.		71,300.
Dec. 15	3,711,593	7,423.	11,737.	70,450.
Dec. 31	4,080,177	8,160.		70,025.
1923				
Jan. 15	4,078,919	8,158.	11,836.	70,275.
Jan. 31	4,110,551	8,221.		71,400.
Feb. 15	4,077,988	8,156.	11,974.	71,237.
Feb. 28	4,207,992	8,416.		71,150.
Mar. 15	4,258,053	8,516.	12,666.	71,413.
Mar. 31	4,459,117	8,918.		71,200.
Apr. 15	4,388,767	8,778.	13,602.	70,900.
Apr. 30	4,577,382	9,155.		70,850.
May 15	4,563,894	9,128.	14,285.	70,827.
May 31	4,837,042	9,674.		70,800.
June 15	5,014,155	10,028.	14,338.	70,800.
June 30	5,432,619	10,866.		70,800.
July 15	5,379,018	10,758.	13,571.	70,760.
July 31	5,684,134	11,368.		70,760.
Aug. 15	5,557,216	11,114.	13,052.	70,760.
Aug. 31	5,894,786	11,790.		70,760.
Sept. 15	5,760,598	11,522.	13,487.	70,760.
Sept. 30	6,225,109	12,450.		70,760.
Oct. 15	6,155,707	12,312.	13,669.	70,760.
Oct. 31	6,607,839	13,216.		70,760.
Nov. 15	6,335,954	12,672.	13,823.	70,760.
Nov. 30	6,577,616	13,156.		70,760.
Dec. 15	6,682,070	13,364.	13,948.	70,760.
Dec. 31	7,125,755	14,251.		70,760.

## APPENDIX V

PROGRAM OF BUDGET REFORM AGREED UPON BETWEEN THE AUSTRIAN GOVERNMENT AND THE LEAGUE DELEGATION (NOVEMBER 1922)<sup>1</sup>

	1922	1923		1924		1925
	Oct. 1	Jan. 1	July 1	Jan. 1	July 1	Jan. 1
<i>Expenditure</i>						
1. Service of the Debt <sup>2</sup> .....	30.5	30.5	48.0	66.0	84.0	100.5
2. Pensions and compensation.....	41.0	47.1 <sup>3</sup>	54.8	60.8	64.2	62.3
3. Army.....	52.0	48.7	43.1	37.5	31.9	26.2
4. Social relief.....	40.0	37.4	34.6	32.0	29.2	26.0
5. Other administrative departments.....	272.0	260.7	235.0	210.0	185.0	155.0
6. Contributions to independent administrative organizations (grants to staff)...	50.0	33.3	33.3	16.6	16.6	—
7. Proportion of combined revenue assigned to provinces and communes.....	4	4	4	4	4	4
8. Loans to independent administrative organizations.	18.0	—	—	—	—	—
9. Federal Railways (deficit on).....	147.0	91.0	72.0	45.0	23.0	—
10. Other State enterprises (deficit on).....	22.0	21.0	15.0	10.0	5.0	—
11. Monopolies (deficit on)...	—	—	—	—	—	—
<i>Total expenditure</i> .....	672.5	569.7	538.8	477.9	438.9	370.0 <sup>4</sup>
<i>Total receipts</i> .....	215.1	287.166	377.407	435.294	461.135	489.27
<i>Deficit</i> .....	457.4	282.534	158.393	42.606	—	—
<i>Surplus</i> .....	—	—	—	—	22.235	119.27 <sup>5</sup>

<sup>1</sup> Figures on an annual basis, in millions of gold crowns.

<sup>2</sup> Excluding the debt on the Federal Railways.

<sup>3</sup> According to the estimates, 41 million gold crowns, to which figure must be added supplementary estimates amounting to 61 million gold crowns to cover expenditure on pensions and compensation.

<sup>4</sup> This section has been omitted in the statement of expenditure and allowed for in the statement of receipts.

<sup>5</sup> It was agreed between the Austrian Government and the League Delegation that this figure for the total expenditure in 1925 should be reduced to 350 million gold crowns.

<sup>6</sup> This table is taken from *The Financial Reconstruction of Austria*, p. 33.



## BIBLIOGRAPHY

No attempt has been made in this bibliography to list the numerous books and articles which appeared before the War on Austrian direct taxation, since very good bibliographies covering this subject appear at the end of the special articles in the *Oesterreichisches Staatswoerterbuch*. These bibliographies survey the field down to 1906. Only those secondary works are listed here which were consulted in the preparation of this work. Supplemented, however, by the bibliographical material in the *Oesterreichisches Staatswoerterbuch*, they furnish a fairly comprehensive survey of the literature in the field of direct taxation down to the summer of 1923.

For the period since the Revolution, government reports (*Erlaeterungen*) accompanying proposed legislation form the greatest single source of information. They frequently contain excellent historical reviews of particular questions of taxation, and furnish valuable data on the whys and wherefores of the frequent changes made during the period of depreciation. The reports of the Finance Committee usually reproduce without comment the arguments in the government reports. The reasons for amendments to government bills, however, are to be found here, and also brief summaries of the arguments, pro and con, for recommended changes. The draft bills with the accompanying reports are known as *Beilagen*. The debates in the legislative body, while consulted, have added little new information to that furnished by the government and committee reports.

The materials consulted in this study are listed in the following order:

- I. SECONDARY WORKS
- II. BEILAGEN, LAWS, AND DECREES (*Gesetze and Verordnungen*)
- III. CURRENT PUBLICATIONS

All the secondary works are listed alphabetically by authors, with such abbreviations as are used in the footnotes added in parentheses. In the second and third groups of materials, however, only such titles are given as are necessary to illustrate the method of citation used in the footnotes.

## I. SECONDARY WORKS

*Oesterreichisches Staatswoerterbuch*, herausgegeben von Dr. Ernst Mischler und Dr. Josef Ulbrick. 2nd edition. Vienna, 1904-09.

The following articles relate to direct taxation:

- "Finanzgeschichte"
- "Gebäudesteuer" ("Hauszins- und Hausklassensteuer")
- "Grundsteuer"
- "Personalsteuern" (direkte). This article is subdivided into
  - A. Gesetz, betreffend die direkten Personalsteuern
  - B. Allgemeine Erwerbsteuer
  - C. Erwerbsteuer von den der oeffentlichen Rechnungslegung unterworfenen Unternehmungen
  - D. Rentensteuer
  - E. Personaleinkommensteuer
  - F. Besoldungssteuer von hoeheren Dienstbezeugen
  - G. Strafbestimmungen
- "Selbstverwaltung (der Laender und Gemeinden), finanzrechtlich"
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