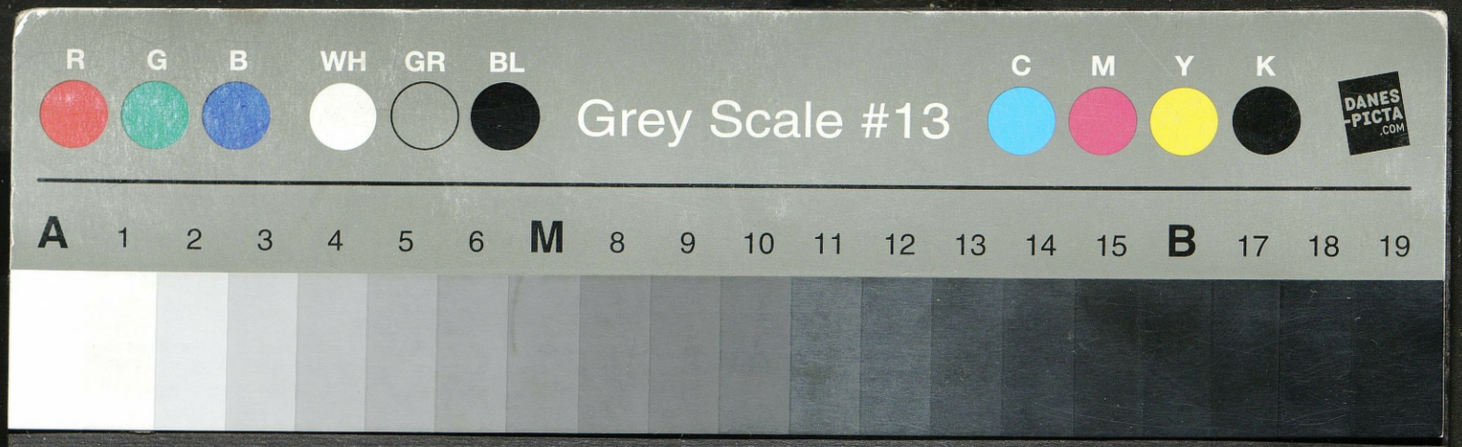
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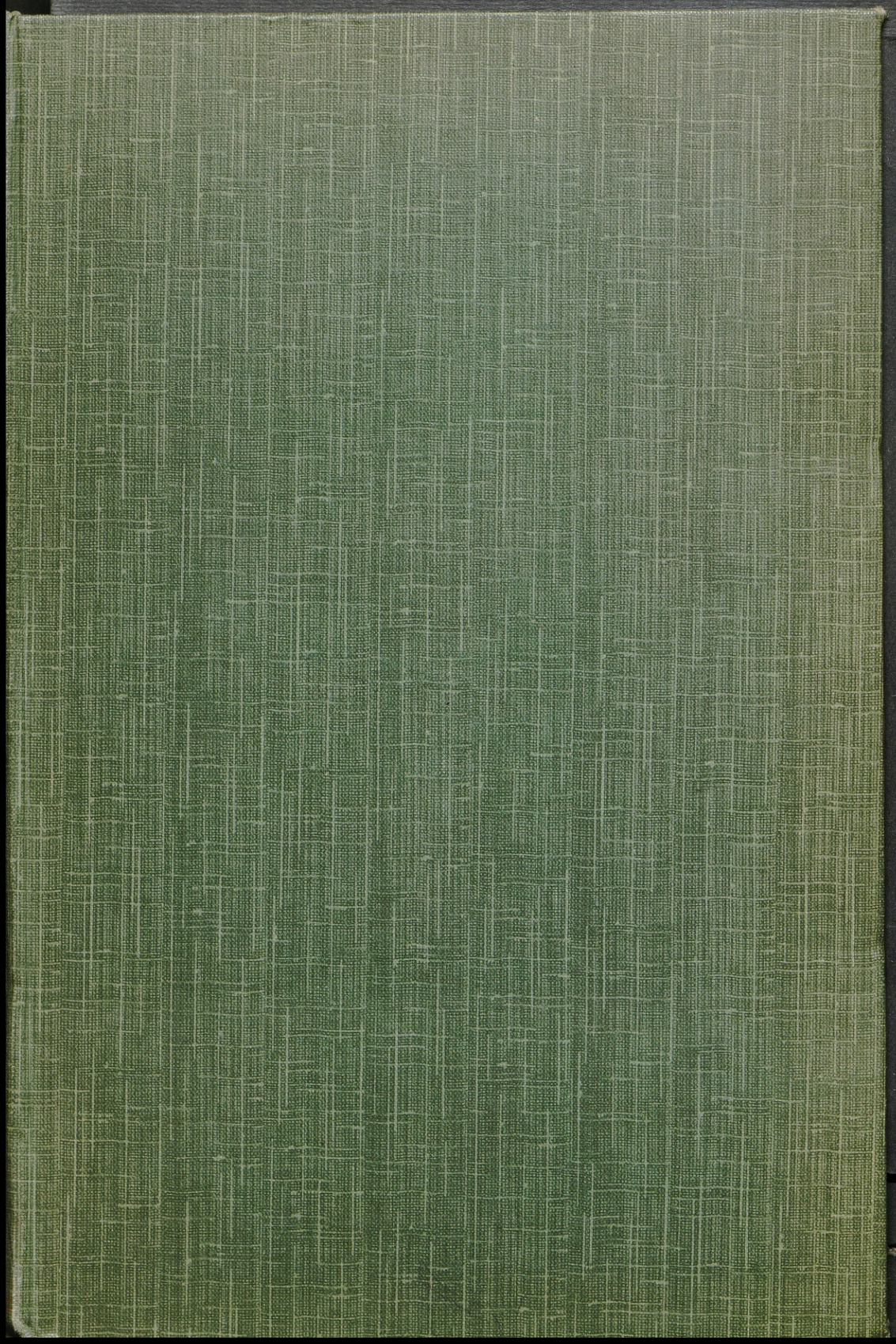

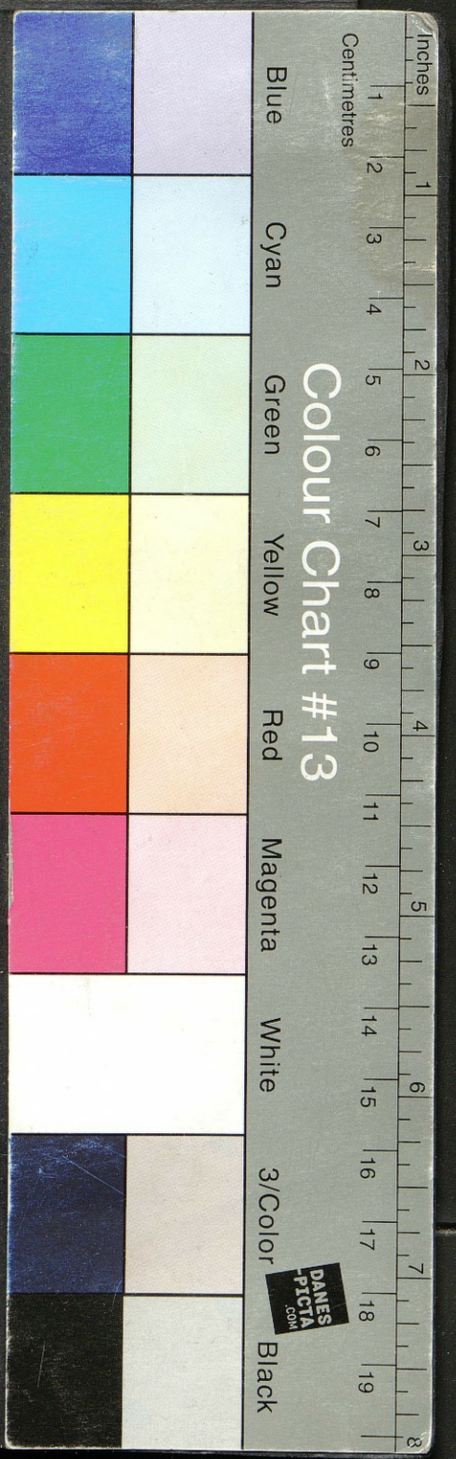
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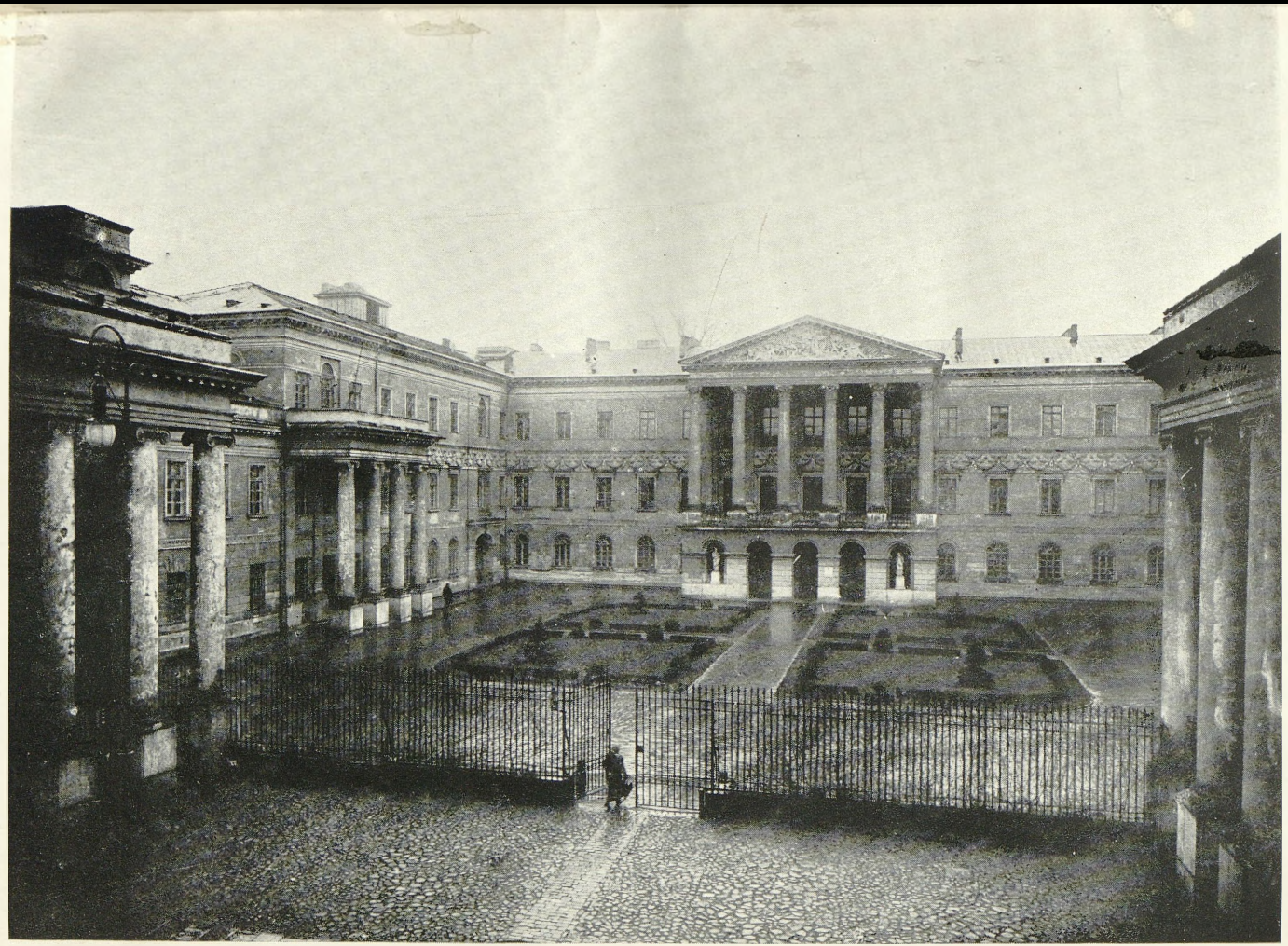

MINISTRY OF FINANCE.

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REPUBLIC OF POLAND

REPORTS

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HEADED
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DR E. W. KEMMERER

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THE HONORABLE CESLAS KLARNER,
MINISTER OF FINANCE.

My Dear Mr. Minister,

Your Commission have completed their work and are leaving Warsaw to morrow. On behalf of the Commission I wish to take this opportunity to express our appreciation for the cordial cooperation which we have had from you, your colleagues and subordinates. It is our hope that the work we have done will be of service to the Polish people.

We have already transmitted to you or are now doing so a series of separate reports and memoranda as follows:

1. *Report on the Stabilization of the Zloty.*
2. *Memorandum on the Articles of Association of the Bank of Poland.*
3. *Report on the Revenue System of Poland.*
4. *Report on the Joint Stock Bank Situation and Recommendations as to Government Banks.*
5. *Memorandum on the Proposed Banking Fund.*
6. *Report on Accounting and Fiscal Control in the Ministry of Finance.*
7. *Report on an Organic Budget Law.*
8. *Report on Customs Administration.*
9. *Report on Customs Administration of the Free City of Danzig.*
10. *Report on the Salt Industry.*
11. *Report on Tobacco Monopoly.*
12. *Memorandum on Special Favors to the Export Trade.*
13. *Memorandum on the Public Debt Policy.*

A translation of these reports into Polish has been made for your conveniece and this translation accompanies the English version.

While your Commission has made every effort to secure as accurate a rendition as possible it is obvious that, inasmuch as none of us understands Polish the Commission cannot assume responsibility for the translation. The English copies are official.

With expression of regard and good wishes,

I am, Dear Sir,
Respectfully yours,
E. W. KEMMERER.

FOREWORD

Prof. E. W. Kemmerer visited Poland on two occasions. He first came in December 1925 on the invitation of the Polish Government to act as financial expert. His recommendations based upon a fortnight's stay in Warsaw were embodied in a letter and are annexed to this publication.

The letter was followed by a correspondence between Mr. George Zdziechowski, then Finance Minister and Prof. Kemmerer, as a result of which a second invitation was extended to the latter and later confirmed by the succeeding Government.

The invitation concerned also a certain number of specialists in the various branches of Public Administration and Economics — at the choice of Prof. Kemmerer.

A Commission thus formed arrived in Warsaw on July 3rd 1926. It consisted of the following members:

1) Dr. Edwin Walter Kemmerer,
   Professor of Economics, Princeton University, President of the American Economic Association.
2) Joseph A. Broderick,
   Vice-President National Bank of Commerce, New-York.
3) Joseph T. Byrne,
   former member of the State Bureau for the Organization of Labour, expert in Bookkeeping and Finance Control.
4) Wallace Clark,
   expert in the organization of Industrial Concerns, President of the Commission inquiring into the methods of the economy of administration.
5) Dr. Harley D. Lutz,
   professor of Economics and of Public Finance, Leland Stanford University, California.

6) Frank A. Eble,
representing the U. S. A. Customs Bureau in Europe.
7) Frank D. Graham,
professor of Economics, Princeton University, Secretary of the Commission.
8) Frank W. Fetter,
private secretary to prof. Kemmerer.
9) Donald Kemmerer
junior Secretary.

In order to facilitate the work of the American experts the Finance Ministry established a Polish Bureau attached to prof. Kemmerer's Commission.

The Polish Bureau was headed by prof. Adam Krzyżanowski and bar. Gustaw Taube.

On the completion of their work which lasted ten weeks, the Commission handed over to Mr. Czeslaw Klarner, the Finance Minister, a series of separate reports. These were written in English, but a translation into Polish was made by the Polish Bureau, and submitted together with the English version.

Each report was studied and passed conjointly by the Commission which assumed responsibility for the whole Report in the English version.

The Finance Ministry now publishes the Report of the Commission in order to give the broader public every possibility of becoming acquainted with materials the importance and value of which in the development of the fiscal, exchange and financial policy of Poland is undoubted.

REPORT ON THE STABILIZATION OF THE ZLOTY

CHAPTER I

The Rate of Stabilization

1. One of the most important problems before the Government of Poland at the present time, and one that urgently demands a prompt solution, is the problem of the stabilization of the zloty on the gold standard. This problem may be conveniently divided into three parts each of which will be considered in turn. They are:

1) The Rate of Stabilization,
2) The Method of Stabilization,
3) The Time of Stabilization.

Relation of the Rate of Stabilization to the Price Level

2. In approaching the problem of the rate of stabilization the fundamental fact should be borne in mind that the level of prices, wages, and taxes in Poland, expressed in gold quantities (e.g., grams of gold, gold dollars, etc.), will not be p e r m a n e n t l y influenced by the rate of stabilization adopted. As a long-run proposition, for example, stabilization at the rate of 10.36 zlotys to the dollar would give Poland a price, wage and tax level twice as high in zlotys as would a return to the former rate of 5.18 zlotys to the dollar. It would, however, after a temporary period of readjustment had been passed, result in the same level of prices, wages, and taxes expressed in dollars. The fact that the pound sterling has a gold value equivalent to about five dollars does not make prices in Great Britain higher than in the United States and, prior to the War, the fact that the gold value of the mark was about 23 per cent greater than that of the franc did not make prices in terms of gold higher in Germany than in

France, Switzerland and Italy [1]). The public would simply be expressing its values in a measuring unit of a different size. To take an illustration from another field, a law that would cut the size of the hectare in half would increase the number of hectares possessed by each landholder but would not increase the amount of his land.

3. Whatever may be the gold standard unit, the international movement of goods and gold will always tend to fix the level of prices and wages within Poland in the same equilibrium with the level of the prices and wages in other competing countries. There is, of course much friction in the operation of economic laws, and, while gold always tends to flow from the places in which it is relatively cheap, namely, the places where prices in terms of gold are high, to those in which it is relatively dear, namely, to the places where prices in terms of gold are low, these gold movements are often slow and are frequently interrupted by artificial economic and political barriers. None the less, there is no reason for believing that this friction and these obstructions would be any different if the zloty were stabilized at one gold value than if it were stabilized at another.

Probable Permanence of the Stabilization Rate Now Adopted

4. A second fundamental fact to be borne in mind in approaching the problem of the proper rate for stabilization is that, whether the rate at which the zloty will now be stabilized be looked upon merely as a temporary trial rate or as a permanent rate, it will in fact probably never be raised. Moreover, it will probably never be lowered unless there should be a breakdown of the gold standard as a result of war or great economic disaster. The gold value at which the zloty is now to be stabilized should, therefore, be chosen with the idea clearly in mind that it will probably represent Poland's permanent gold monetary unit.

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[1]) *It is true that a few petty items of expense might be affected, like gratuities of one kind or another for which the public pay out small coins, but aside from a small number of such negligible items there would be no difference in the long-run levels of gold prices and wages in Poland, if a rate of 10.36 zlotys to the dollar were adopted than if the rate adopted were 5.18.*

5. The difficulties in the way of materially raising the gold value of a country's monetary unit after that value has once been fixed over any considerable period of time are so great that there are very few cases in monetary history where it has been done.

6. So great is the economic shock that would result from a sudden large increase in the value of the country's monetary unit, and so difficult would it be to make such an increase effective that there are no advocates among intelligent people in Poland for a policy of suddenly raising the gold value of the zloty to the gold par of 5.18 zlotys to the dollar, or any value approximately that figure. Such a policy therefore does not demand discussion in this Report.

7. There are, however, many persons who advocate the plan of a gradual raising of the gold value of the zloty to its former gold par by process of slow deflation. Your Commission believe that any such policy would be exceedingly unwise for Poland to adopt, and in support of this opinion submit the following reasons:

Injurious Effects of Deflation on Business Activity

8. An increase in the gold content of the monetary unit (unless at the same time the value of gold is falling so as to compensate or more than compensate the increase) expresses itself in a falling price level and usually in a falling wage level. A falling and prospectively falling price level is depressing to business. It throws a wet blanket over industry. A slow appreciation of the standard of value, the British statesman, Arthur Balfour, once declared, "is probably the most deadening and benumbing influence which can touch the springs of enterprise in a nation". When the prospects are strong for a period of declining prices, consumers postpone purchases, retailers and wholesalers let their supplies run down, manufacturers "play safe" both in running their plants and in purchasing raw materials. New buildings and other new capital equipment are postponed for the day of lower prices. To delay purchases is to buy more cheaply so everyone delays and business stagnates.

Injurious Effects of Deflation on the Relations of Debtors and Creditors

9. A second evil result of long-continued deflation and falling prices is the injustice it causes debtors whose debts are payable in the appreciating monetary unit, particularly those debtors whose debts have long maturities or are being amortized slowly. During the period of deflation and falling prices in Poland, should a policy of slow deflation be adopted, debtors would be required to pay their obligations in zlotys of a continually increasing value, and, in the case of debts incurred after the deflation began, they would be compelled to pay in zlotys of a value always greater than that of the zlotys borrowed. Deflation would bring down the prices of the things they sold and their wages but would not reduce the principal of their debts. Deflation would require a continually increasing number of bushels of rye, tons of beets, bushels of potatoes or days of labor to repay the principal and to pay the interest of every zloty debt. Even though this might be acceptable to creditors, many of whom have suffered severely from the currency depreciation of recent years, it would be a great hardship to debtors, many of whom are the most productive people in the country, and some of whom have been heavily burdened lately by high interest rates. Furthermore it should be borne in mind that the people who would benefit as creditors by a slowly appreciating zloty would be in a large measure different people than those who suffered as creditors during the years of inflation. Bonds, mortgages and other long-time certificates of indebtedness are continually being paid off and continually changing hands through purchase and sale; and efforts made long after a period of currency depreciation to compensate creditors for their past losses often fail to reach the persons who really suffered and give unjustified compensation to later holders of these obligations, sometimes to the most undeserving speculators.

Injurious Effects of Deflation on the Export Trade

10. A third evil result of long-continued deflation and falling prices is their depressing influence on the country's

export trade. During a period of deflation home prices and wages usually fall more slowly than do the exchange rates on foreign countries expressed in local money (e.g., the number of zlotys necessary to buy a dollar, a pound sterling, etc.). Wages, moreover, usually lag behind prices on the decline. The result would be that if Poland should adopt a policy of slow deflation, the number of zlotys that her exporters would obtain from a given amount of dollar, pound sterling, mark or ruble credits abroad would decline more rapidly than would costs of production at home including prices of materials, wages and taxes. This would eat into exporters' profits and would have a depressing influence on the export trade throughout the whole period of deflation. It would only cease to operate after stabilization had been attained. Under present economic, financial and monetary conditions in Poland the Government cannot afford to adopt any currency policy that will depress the country's export trade now or threaten to depress it in the future.

11. Of course this deflation which would be so depressing to the export trade would act as a stimulant to the import trade, but a period of currency reform and financial rehabilitation is not an appropriate time to penalize artificially the country's export trade and to stimulate artificially its import trade.

Injurious Effects of Deflation on Labor

12. A fourth evil result of a slow appreciation of the currency with a long-continued decline in the level of prices and wages is its harmful effect upon the welfare of labor. This is a natural result of the above-mentioned depressing effect upon business. Furthermore, when business holds back in anticipation of falling prices, the demand for labor is diminished by the particularly unfavorable conditions of the export trade at such times, as above described. Increasing unemployment causes much hardship, and is a potent factor in forcing down wages. Labor naturally resists wage reductions even though the price level and the cost of living are falling and this means that a period of continually falling prices is likely to be characterized by many labor troubles. Then there are the usual political accompaniments of extensive unemployment, namely, heavy demands on the Govern-

ment for public aid to the unemployed, and the encouragement of extremely radical political propaganda.

13. The difficulties and the hardships of the type above described that usually accompany an extended period of currency deflation are so serious and cause so much public discontent, that such a policy of slow deflation wherever tried tends to break down quickly through public discontent and resulting political opposition.

Recommendation that the Zloty be not Brought Back to Par

14. For the reasons above given your Commission are strongly opposed to any plan of currency stabilization that contemplates a slow process of deflation and a resulting long period of falling prices.

15. Last December aud January when Mr. Kemmerer was in Poland he said that it was desirable for Poland to restore the zloty to par promptly if possible because domestic prices, wages and taxes had as yet risen but little since Poland went off the gold standard. He found that up to that time the break in the value of the zloty had been chiefly a break in its exchange or external value. For this reason he said that if a prompt restoration of the exchange value to parity could be effected, it could be done with less disturbance and hardship than at a later time after which prices, wages and taxes should have become adjusted to a zloty of a lower gold value. He added, however:

"If the exchange should be permitted to become stabilized for a considerable period of time at a point substantially lower than gold par, and if prices, wages and taxes should become adjusted to that gold value, it would be very difficult, if not impossible, both economically and politically to restore the zloty to par. A program of deflation, involving continually falling prices with their depressing influence on all kinds of industry, and the unjust burden they place on the debtor classes everywhere for the benefit of the creditor classes, will almost always arouse such strong political opposition as to be stopped before it can be carried through. If the exchange value of the zloty is to be restored to its present legal gold par of 5.18 to the dollar, the restoration must be effected within a short time and by a continuous process".

16. This recommendation was made seven months ago, when the gold value of the zloty was higher than it is now.

For January 1926 it averaged 7.55 zlotys to the dollar and today (August 25, 1926) it is 9.05 to the dollar. From the beginning of the year 1926 until June the general tendency of the gold value of the zloty was downward. During the same time the wholesale price level, the retail price level and the cost of living all moved strongly upward in harmony with the rising exchange rate although, as is usual under such circumstances, they lagged behind the exchange rate on this upward movement.

17. From June 1925 to November 1925 the various price index numbers in Poland showed the following increases:

	June	*November*	*Percentage Rate of Increase*
Wholesale Prices . . .	119	137	15%
Cost of Living (Warsaw)	148	158	7%

From November 1925 to July 1926 the increases have been:

	November	*July*	*Percentage Rate of Increase*
Wholesale Prices . . .	137	167	22%
Cost of Living (Warsaw)	158	177	12%

Wholesale prices accordingly rose 50 per cent more from November 1925 to July 1926 than they rose from June 1925 to November 1925. In the former period the cost of living rose 7 per cent while in the latter it rose 12 per cent. From June 1925 to July 1926 the wholesale price level rose 40 per cent and from June 1925 to July 1926 the cost of living in Warsaw rose 20 per cent.

18. The period from June 1925 to the present time has been a period of falling prices in most gold standard countries as the following figures will show. Wholesale price indexes from June 1925 to the latest month in 1926 for which figures are available:

Country	*Index No. June 1925*	*Index No. Latest Month of 1926*	*Per Cent Change*
England	158	145 (May)	— 9%
Germany	134	123 (April)	— 9%
Netherlands	153	143 (May)	— 7%
Sweden	161	151 „	— 7%
Switzerland	162	147 „	—10%
United States	157	152 „	— 3%

From these six gold standard countries the average decrease in the wholesale price index number for the eleven months, June 1925 to May [1]) 1926, was 8 per cent. Adding this to the 40 per cent increase in the Polish index number for the period since June 1925 we arrive at the conclusion that if Poland's price level was in equilibrium with the world's gold standard price level in June 1925 after a year of stabilization it is now at least 51 per cent higher than it would be had this equilibrium been preserved under gold standard conditions.

19. In view of these facts it is the judgment of your Commision that the depreciation in the gold value of the zloty far below the legal parity has been so long continued and that price increases have gone so far in the direction of an adjustment to the level of a zloty with a gold value equivalent to that of the present paper zloty, that it would be economically unwise and politically impracticable to try to bring the zloty back to the par of the gold franc by a process of deflation either now or in the future. A new legal gold value should therefore be given to the zloty. In determining what the gold content of the new zloty should be, there are two classes of factors that should be taken into account: permanent factors and temporary factors.

Permanent Factors that Should be Considered in Deciding on the Rate of Stabilization

20. The gold value of the unit should be one that will be permanently convenient for the national economy. For a country like Poland with a large peasant population, the great bulk of whose purchases are of petty values, a large monetary unit like the pound sterling or the dollar would obviously be ill-adapted to the needs of the people. On the other hand, a small unit like the present French paper franc or the Finland markka would be unsuited for the large trade of the country and would involve the use of an inconveniently large number of figures to express values. The unit should not be so large that its 1/100 part, the grosz, would not be small enough for the smallest transaction that the

[1]) *April, in the case of Germany.*

poorer people are accustomed to make, nor so small that it would practically never be used. For example, an American cent would be too large a value for the smallest coin of Poland, while a French centime would be so small that it would never be used. In France today no coin below ten centimes is of any importance. Furthermore it is desirable that any new monetary unit that is adopted should be an easy fraction or easy multiple of the monetary unit of some important country or countries with which Poland has important trade and financial dealings. In the Western world there is a real advantage in the fact that the same unit of value is found in the United States, Canada, Cuba, Nicaragua, Guatemala, Panama and Santo Domingo. The same holds true of Norway, Denmark and Sweden all of which have the same gold unit. Mexico's peso is equivalent to almost exactly half of the American dollar, Colombia's peso is a fifth of the pound sterling and Chile's new Condor is equivalent to a fourth of a pound sterling.

Temporary Factors that Should be Considered in Deciding on the Rate of Stabilization

21. There are other factors of great importance, although of only a temporary influence, that should be carefully considered in deciding on the rate of stabilization. These are: (1) the need of effecting the stabilization on a basis that will avoid undue disturbance to the country's economic life and, (2) the need of adopting a rate representing a sufficiently low gold value to permit a firm stabilization without the necessity of a currency contraction so great as to endanger the country's gold reserves.

22. Broadly speaking, in order to avoid undue disturbance to the country's economic life, it is desirable to stabilize at a rate somewhere near the rate that has been prevailing for some time before the date of stabilization, and to which prices and wages have presumably been fairly adjusted, and in terms of which the people have been thinking for some time. There is a strong presumption, in other words, in favor of stabilizing at somewhere near the status quo.

23. Every monetary reform involving the stabilization of a formerly depreciating currency and the creation of a new legal monetary unit is of necessity accompanied by some hardships and injustice among debtors and creditors, but these hardships and this injustice are more correctly chargeable to the inflation that caused the depreciation of the currency and thereby necessitated the reform than to the reform itself. A man who contracts a serious disease which requires bitter medicine to cure has no choice but to die of the disease or take the medicine.

24, Since August 1925 when the gold value of the zloty broke and exchange began its recent rise, every creditor who loaned zlotys when the gold value of the zloty was at one value and was repaid when it was at a lower value has lost in gold values unless, as happened in many cases, he received adequate compensation for the decline in the value of the zloty through the high interest rate he charged the debtor. One of the main reasons interest rates are so high in Poland is the lack of confidence in the stability of the currency, and the high interest rates charged on zloty loans represent in large part an insurance charge made by creditors to cover the risks of currency depreciation. (This subject is discussed more fully later in this Report on pages 35—39).

25. At whatever date stabilization is effected there will be outstanding long-time obligations payable in zlotys contracted at times when the zloty was at par, or, since August 1925 - at times when it had a higher gold value than the one at which stabilization will be effected. All of the creditors in these cases, including those who received settlements under the Lex Zoll, will have suffered losses as a result of the recent depreciation of the zloty, unless they shall have been compensated for the depreciation by exceptionally high interest rates. Effective stabilization will remove the danger of further losses in gold value on these debts due to zloty depreciation, but will likewise remove the hope of recouping past losses through a rise in the gold value of the zloty. In the case of many obligations that have been bought and sold several times during the period of depreciation the losses will have been shared by a number of different creditors, and in some cases the present holder of the bond or other

evidence of debt will have suffered little or nothing; and in a few instances he will have actually gained by the appreciation of the zloty since the date of acquiring the obligation. Whenever the creditor loses the debtor gains. Many people being both creditors and debtors will suffer as creditors and benefit as debtors. In many cases, however, real losses will have occurred and unfortunately much hardship will have been caused.

26. One of the principal classes of debtors in Poland consists of governmental units, - the national government, the states and the municipalities, - units which have long-time bonds outstanding and which obtain the funds for paying interest and principal on these bonds by taxes and other public charges. In the case of all such obligations the government issuing the security and owing the money represents the public. In levying the taxes from the proceeds of which it will obtain the funds for paying the bonds it likewise represents the public. The public is therefore both debtor and creditor. When the currency in which the bond or other obligation is payable depreciates the bondholder loses as a bondholding creditor but gains as a taxpayer debtor. Of course in practically all cases the bondholder will lose more as a creditor than he gains as a taxpayer debtor. His losses are the gains of other taxpayers.

27. After the currency experiences of the world since 1914, and particularly those of Poland, it is reasonable for the Government, in stabilizing the currency, to assume that creditors and debtors alike in making zloty contracts since the stabilization of 1924 have taken into account in agreeing on interest rates and the other terms of the contract the risk of possible loss through the inability of the Government to maintain the gold zloty unit adopted in 1924. If, therefore, the Government now stabilizes at a reasonable rate and takes every means in its power to secure the permanency of this rate, your Commission believe that it will be going as far as is practicable to avoid injustice and hardships in the relations between debtor and creditor. The disease of currency instability is so serious that some bitter medicine must be taken to cure it. The attempt to go farther in the effort to eliminate these hardships would probably do more harm than good.

BIBLIOTEKA NARODOWA

28. In every country that is confronted with the problem of stabilizing the currency after a period of depreciation there arises a conflict of interest between exporters and importers. Exporters are always favorable to a relatively low gold value for the new unit while importers are always favorable to a relatively high gold value. In this connection the following extract from the recent Report of the Gold Standard Inquiry Commission of the Union of South Africa, your Commission believe is sound economics:

"There is no permanent advantage to the exporter or permanent disadvantage to the importer in a high rate of exchange; and likewise there is no permanent advantage to the importer or permanent disadvantage to the exporter in a low rate of exchange. Neither party gained, for example, and neither lost prior to the European war in trade between France and Germany by reason of the fact that the gold value of the franc was 19 per cent lower than the gold value of the mark. Prices and wages in both countries had long been adjusted to these differences in the gold value of their respective monetary units. It is not a question, therefore, of high rates of exchange, or low rates, but of changing rates. Whatever advantages and disadvantages occur, result only from r i s i n g rates of exchange and f a l l i n g rates of exchange.

"These advantages and disadvantages are, at best, temporary in character, continuing only during the period of the lag in the adjustment of prices, wages and exchange rates to a new equilibrium level, and these readjustments are effected to a very large degree in most countries usually within a few month's time.

"Whatever benefits the exporter or importer receives from these temporary maladjustments between exchange rates, prices and wages, he is soon compelled by the forces of competition to pass on to others.

"In order that the exporter might benefit continuously, it would be necessary to have a monetary unit that was continually declining in value in comparison with the unit of the country to which the bulk of the exports were being sent. No sane person would advocate a permanent monetary policy of that kind in order to benefit the export trade".

29. If the fixing of the rate of stabilization at a gold value appreciably lower than the prevailing gold-exchange value of the zloty would temporarily benefit the export trade, it would, p e r c o n t r a, temporarily harm the import trade. Many exporters are also importers, Poland's great exports of textiles are manufactured largely from imported cotton by means of imported machinery; and, a large part of Poland's agricultural machinery is imported from abroad. Furthermore Poland rightly desires to see an increasing amount of foreign

capital come into the country. Foreign capital coming to Poland will come in largely in the form of industrial machinery and equipment, agricultural machinery, artificial fertilizers, and the raw materials of industry. Any temporary stimulus that the export trade might receive from the fixing of an abnormally low gold value for the zloty would be in a large degree offset by the retardation of imports which this low gold value for the zloty would cause.

30. The country's export trade has received a great stimulus during recent months by the declining gold value of the zloty, and your Commission do not believe that the gold value of the zloty should be depressed further in order to aid exporters. The policy of manipulating the gold value of a country's monetary unit for the purpose of helping certain classes of economic interests is unwise.

31. The day laborer who receives a money wage, the government employee, the salaried professional man and all others who receive fixed wages would gain somewhat for a brief period of time by a high gold value for stabilization, as compared with a low gold value, because their wages and salaries for a short time would probably be about the same number of zlotys whether the rate of stabilization should be high or low, say for example, 8 to the dollar or 10 to the dollar. In the course of time there would be an adjustment of wages to about the same gold value, whatever the rate of stabilization adopted, so that the level of wages in zlotys would be permanently 25 per cent higher if the gold value of the zloty were fixed at 10 to the dollar than it would be if it were fixed at 8 to the dollar, but would represent the same amount of gold and the same purchasing power in both cases. The gain of the laborer from the higher gold value for the zloty would be but temporary, lasting only during the transition period of price and wage readjustment to the new level.

32. What the laborer would gain during this transition period the employer would lose, but if these temporary losses of the employer should prove very burdensome he might shut down his business or reduce the number of men employed with the result that many laborers would suffer as well as the employers.

33. On the other hand the fixing of a low gold value for the zloty would, during the transition period of price and wage adjustment, benefit the employer and harm the laborer. If the gold value of the zloty, for example, were fixed at 10 to the dollar, salaries, wages etc. would probably not be much higher for some time than if it were fixed at 8 to the dollar, but, as in the other case, this situation would only be temporary and in a short time the amount of gold wages and the purchasing power of those wages would probably be practically the same whether the rate of stabilization should be fixed at eight, nine or ten to the dollar.

34. The position of the Government Treasury as regards the temporary gains or temporary losses that would inure to it from different rates of stabilization is a complicated one. In some ways the Treasury would gain by a high gold value for the zloty and in some ways by a low gold value. Probably the number of zlotys the Government would receive in tax revenues during the first few months of stabilization would not be appreciably less if the rate were fixed at 9 to the dollar than if it were fixed at 10, nor appreciably more than if it were fixed at 8. Government wages, pensions, etc. would for a time be about the same number of zlotys whichever of the above three rates were adopted. In a short time, however, there would be an adjustment to a new level and in terms of gold and purchasing power, government salaries and wages would be about the same whichever rate were adopted. A low gold value for the zloty would lighten the Government's burden on its internal zloty debt but increase for a time the burden on its gold debt. During most periods of currency depreciation in Poland the dollar exchange rate has risen more rapidly than have internal prices, wages or taxes. This temporarily increases the burdensomeness of gold debt obligations. The opposite is true during periods of currency appreciation when the gold-exchange rate usually falls more rapidly than do prices, wages and taxes.

Need of Choosing a Gold Value for the Zloty Sufficiently Low to Permit Firm Stabilization

35. In choosing the rate of the stabilization it is not only desirable to choose one that will give the country

a convenient sized monetary unit, and that will avoid undue disturbance to the country's economic life at the time that stabilization is being effected, but it is also desirable to choose a rate that will permit a firm and enduring stabilization on the basis of the gold reserves which the country has available at the time that stabilization is undertaken.

36. Poland tried to stabilize on a gold basis recently and failed. Her failure, although in large part the result of an unfortunate combination of circumstances, economic and political, largely out of her own control, has none the less hurt her credit seriously at home and abroad. The next time she attempts to stabilize she must succeed. Another failure would be disastrous.

37. From a purely monetary point of view, it is obvious that with a given gold reserve, the lower the gold value at which a country's money is being stabilized, the more easily will stabilization be effected. A gold reserve of 25 million dollars, for example, against a note circulation of 500 million zlotys would be a 25.9 per cent reserve at a rate of 5.18 zlotys to the dollar, and would be a 45 per cent reserve at a rate of 9 to the dollar. If the gold value at which the stabilization of the zloty is to be effected is higher than the current market value of the paper zloty, a contraction of the monetary supply (relative to the monetary demand) will be necessary in order to make stabilization at the new rate effective. Without currency contraction the supply of money would be too great for the demand at the new rate, and the rate could not be maintained. Poland, for example, would obviously require a less number of zlotys in circulation to do a given amount of money work, if each zloty were worth 19.3 cents gold (5.18 zlotys to the dollar) than if it were worth only 11.1 cents gold (9 zlotys to the dollar), if we assume, as we may, that when confidence was once firmly established the rate of monetary turnover (i.e., the number of times the country's total money would turn over in a year) would be the same in either case.

38. The fixing of a high gold value for the zloty would therefore require a contraction of the country's currency supply (i.e., the amount of money in circulation and and/or its rate of turnover) in order to bring the price level of the

country into equilibrium with the price levels of other competing countries and this would presumably be effected to a substantial extent by the presentation of notes to the Bank of Poland for the purchase of gold exchange with a consequent decline in the note circulation and a reduction of the Bank's reserve percentage. The time when a country's currency is being stabilized is usually one of considerable nervous tension on the part of the public and there is nearly always considerable anxiety as to whether the stabilization plan will be a success or not. There are, moreover, usually speculators and others in the country and abroad who are opposed to the stabilization plan, and who use their influence to break it down by spreading false rumors and by themselves making heavy demands upon the country's gold reserves. A currency stabilization plan which requires, in order to be put into operation, a substantial contraction of the currency and reduction of reserves is in danger of playing into the hands of these enemies of stabilization. The public are led to think that a perfectly healthy reduction in reserves, which is a necessary part of the stabilization process under such a plan, is a sign of great danger and means that the gold standard is breaking down. This unjustifiable distrust may become so pronounced as to cause runs on the Bank's reserves and the hoarding of money and may thus place a dangerously heavy strain on the newly stabilized money unit.

39. On the other hand if the rate of stabilization should be fixed at a gold value below the current gold value of the paper zloty, an expansion of the circulation (i.e., an increase in the amount of money in circulation and/or its rate of turnover) and a rise in prices would be necessary in order to bring the price level and the exchange rates into equilibrium with those of other competing countries. More money presumably would be needed in circulation because the value of a zloty would be smaller and prices would have to be higher. While the adjustment was being effected to the higher price level necessitated by the monetary unit of reduced value, there would be a heavier demand for zlotys than for gold and gold devisen, with the result that gold and gold devisen would be sold to the Bank in substantial

amounts and paid for by the Bank's notes. This would increase the Bank's note circulation and its reserve percentage. Rising reserves and slightly rising prices at the time of the inauguration of the stabilization plan and for a short time afterwards would tend to inspire confidence in the success of the plan and would give a stimulant that might well be useful during the critical days when the new gold standard was being viewed with suspicion by the public. They would help inspire public confidence at the time when strong public confidence would be greatly needed.

40. For the reasons above given your Commission believe that it is undesirable for Poland to stabilize at a gold value for the zloty much, if any, higher than the gold exchange value prevailing in the market at the period of stabilization.

Rate of Stabilization Recommended

41. On the basis of the principles above discussed and of those discussed with reference to the question of reserves in the Commission's "Memorandum on Revision of Articles of Association of the Bank of Poland", and in the light of the gold reserves that are likely to be available for inaugurating the stabilization plan, your Commission recommend that the value of the new gold zloty be fixed at the value of 16.7177 centigrams of pure gold which represents one ninth of the pure gold content of a dollar of United States gold coin. While this is by no means a perfect unit it appears to your Commission to have more advantages than any other one that could be suggested. Among the advantages of this unit are the following:

42. (1) It represents approximately the gold value of the present paper zloty as expressed in current exchange rates. The average rates of exchange in Warsaw on New York for different periods covering the past year are as follows:

Period	*Zlotys to the Dollar*
For year ending July 31, 1926	7.87
„ nine months ending July 31, 1926	8.59
„ six „ „ „ 31, 1926	9.03
„ three „ „ „ 31, 1926	9.95
„ two „ „ „ 31, 1926	9.65
„ month of July, 1926	9.20
„ August 1 to August 25, 1926 . .	9.05

43. At this writing (August 25) a rate of approximately 9.05 has prevailed for over a month.

44. Prices in Poland have been so unstable during the past year, and the level of gold prices as expressed in Poland's index numbers has been so far out of harmony with the levels of gold prices in most other countries, that it would be unwise to place much emphasis on the price index numbers now prevailing in Poland in coming to a decision as to the best rate for gold stabilization. It is significant, howerer, that the wholesale price level, which if computed on a gold basis would be far lower in comparison with pre-war prices in Poland than in most other countries, and which for this reason would seem to be destined to rise in the near future, has moved downward since May, having stood at 181 in May, 175 in June and 167 in July; and further that the cost of living in Warsaw has been fairly stable since December 1925. For the period, June 1925 to July 1926 these cost of living index numbers were:

1925	*Index Number*	*1926*	*Index Number*
June	148	January	170
July	152	February	171
August	151	March	169
September	152	April	176
October	155	May	183
November	158	June	183
December	173	July	177

Being a recognition of the *status quo* as regards the gold exchange value of the zloty, a rate of 9 zlotys to the dollar would probably cause less disturbance to the country's economic life than any other rate that could be adopted.

45. (2) A second obvious advantage of the rate proposed is the fact that it assimilates the value of the zloty well to that of the dollar. There are more dollars in circulation in Poland than any other foreign money and the Polish people are more familiar with the dollar than with any other foreign monetary unit. Millions of dollars flow to Poland every year from Poles living in America. Many of Poland's internal obligations, such as bonds, debentures, notes and bills of exchange, and bank deposits are in terms of dollars. Furthermore a substantial part of Poland's foreign borrowings,

both public and private, for some time to come is likely to be in dollars in the American market.

46. The fact that the new zloty will be an easy fraction of the dollar will weaken one of the objections to a monetary unit of this size, namely, the objection that it is too small a unit for the convenience of large transactions. After stabilization has once been effected there will be a tendency for United States paper money to disappear from circulation and for the public to consider nine zlotys and a dollar as the same thing, the dollar in Poland becoming practically a denomination meaning 9 zlotys. Contracts payable in dollars will as a matter of practice be generally liquidated in zlotys at this par rate.

47. The principal objection to stabilizing at the rate of 9 zlotys to the dollar is the fact that although it represents the present gold value of the zloty as expressed in foreign exchange rates, it is a value lower than the present value of the zloty as measured by prices in Poland, if one accepts the present official index numbers for wholesale prices and the cost of living as giving a correct picture of the movement of prices in Poland since pre-war times. If this is true a considerable currency expansion and a material rise in prices and wages will probably be necessary in the near future in order to make stabilization at the rate of 9 zlotys to the dollar permanently effective.

48. As a partial offset to the disadvantage of such a rise in the level of prices and wages the fact should be noted that this rise in prices and in wages will facilitate the carrying through of the currency reform because it will give a fillip to domestic business and to the export trade and will tend to inspire confidence at the time of stabilization,— a time when strong business confidence is highly desirable.

A New Monetary Denomination

49. To avoid some of the inconveniences that would otherwise result from the use of a monetary unit so small as one ninth of a dollar, your Commission recommend that the Government adopt the plan recently adopted by Chile in its Monetary Law of October 14, 1925. This plan is to adopt

a distinctive name for the denomination of ten units and to place this name on all money of a value of five zlotys or more. The Chilean law provides:

"The monetary unit of Chile shall contain 183507 grams of fine gold, and shall be called a peso. Ten units, containing 1.83057 grams of fine gold shall be called a condor.

"All notes or coins of ten pesos or more shall carry in letters and figures their value in pesos, and in smaller letters their equivalence in condors. The term "condor" shall have equal legal recognition with the term „peso" in making contracts, quoting prices and wages, imposing taxes, and for all other purposes".

50. The five peso notes of the Central Bank of Chile are labeled "five pesos or half condor".

CHAPTER II

The Method of Stabilization

51. The subject of "The Rate of Stabilization" having been discussed, the next general topic is that of "The Method of Stabilization". This subject has been discussed at length by the Commission in its Report on "Revision of Articles of Association of the Bank of Poland", and therefore only certain specific problems relating to it, not considered in that Report, need to be discussed here. The first of these problems is the problem of the coinage of gold coin in Poland.

Coinage of Gold in Poland

52. Is it advisable that Poland should coin her own gold coins and introduce them into general circulation?

53. Under the plan of currency stabilization recommended by your Commission the question as to whether any Polish gold coins should be minted or not is one of great importance because it will be easy for Poland to have a stable gold standard without coining any national gold coins. Many countries have done this in the past and many are doing it today. India had a gold standard from 1898 until the outbreak of the World War but no Indian gold coins were minted. Her chief coin, the silver rupee, was maintained at approximately its par value of 16 pence British gold by a system of redemption in gold drafts on London, in accordance with the principle of the gold-exchange standard. The Philippine Islands have been on the gold standard from 1903 to the present time, except for a brief period, but have had no gold coins of their own. Their principal coin, the Philippine silver peso, whose gold value is fixed at the equivalent of

50 cents United States currency, is maintained at gold parity by a system of redemption in gold drafts on New York. United States gold coins are unlimited legal tender at the rate of two pesos to the dollar but they are rarely seen. The Republic of Uruguay had been on the gold standard for many years prior to the World War, but up to the present time has coined no gold coins of her own. Gold coins, however, of certain foreign countries, notably the United States, Great Britain, France and Germany, are made legal tender at certain officially designated rates. In Canada British and American gold coins are unlimited legal tender but the Dominion mints no gold coins of its own.

54. Poland could maintain her gold standard at the rate recommended of 9 zlotys to the dollar, by the system of redemption in gold drafts proposed by your Commission, without coining any national gold coins of her own. It would not even be necessary to give the legal tender quality to any foreign gold coins, although it is highly desirable not to place any legal restrictions on the making of contracts specifically payable in foreign currencies.

55. For many years there has been a strong tendency in advanced countries to centralize the country's monetary gold largely in one reserve, usually in the central bank, and to discourage the active hand-to-hand circulation of gold coin. This tendency has been strengthened in the monetary developments that have taken place since the War. Gold coin is an expensive kind of circulating medium and, for a country in such great need of capital as is Poland, any considerable circulation of gold coin and likewise any considerable circulation of foreign gold standard currencies for which the country must pay foreigners full gold values, are expensive luxuries that can well be dispensed with. Gold coin is, moreover, so much more inconvenient to handle than paper money, that most people prefer paper money to gold coin as a medium of exchange; p r o v i d e d they have absolute confidence that the paper money will always be maintained at gold parity.

56. On the other hand, there is something to be said, in the case of a country situated like Poland, in favor of the coinage of national gold coins and their circulation in s m a l l amounts.

Such national gold coins inspire confidence in the country's currency system and are a continual announcement of the fact that the country is on a gold basis. They make an appeal to the sentiment of national patriotism, and represent a physical embodiment, under the stamp of the national emblem, of the nation's gold unit of value. While gold concentrated in the central gold reservoir of the country's central bank of issue is much more effective for maintaining the gold standard than is the same amount of gold scattered throughout the country in active circulation, and therefore out of control of the central bank in times of emergency, it is none the less true that a small amount of national gold coin passing continually through the hands of the people performs a real function in strengthening the gold standard and in inspiring public confidence in its stability.

57. Your Commission are informed that there are still in Poland considerable quantities of old Russian gold coins. The recoinage ot these Russian gold rubles into money bearing the Polish national emblem is desirable.

58. Your Commission, therefore, recommend that as soon as the condition of the Mint will permit, it be opened to the coinage of gold freely for the Bank of Poland, that the denominations coined be limited to pieces of 50 zlotys and 100 zlotys, and that the coinage charges be limited to the amounts necessary to cover the legitimate expenses of coinage, which should be definitely fixed and officially announced.

59. The few gold coins that have been minted under the monetary decree of 1924 should be demonetized and redeemed in the new gold coins at their pure gold equivalent in the new gold zlotys, namely, at the rate of approximately 1.73 new zlotys for one old zloty.

Restrictions on Gold and Currency Exports

60. All legal restrictions and other obstacles to the exportation of gold coin and bullion should be removed, as well at those on the exportation of foreign paper currencies. Such restrictions are usually largely ineffective, and they interfere with the normal and healthy functioning of the monetary standard. They should not be resorted to in time of peace.

61. The present restrictions on the free exportation of Polish paper money and fiduciary coin should be removed at once. Their administration is annoying to travellers, and they are largely ineffective. Furthermore, the theory on which they are based is, in the judgment of your Commission, economically unsound. People taking Polish fiduciary coins, Treasury notes or Bank of Poland notes out of the country have given full value for them or they would not possess them. The Government in issuing its coins and Treasury notes and the Bank in issuing its bank notes have paid them out only at their real value. There is no good reason why the owner of values in the form of coins and notes should not be permitted to take those values abroad in those forms as freely as can the owners of values in the form of merchandise. In fact, from the point of view of the Polish Goverment and the Bank of Poland the more of this money that is taken abroad and kept abroad, the better. The Government makes a good seignorage profit on all fiduciary coins that it mints, and the more of such coins that go out of the country, the more it can safely mint and larger will be its seignorage profit. The Government's Treasury notes and the Bank of Poland's notes are promises to pay; they are liabilities for the issuing authorities and for the country as a whole, not resources. The longer they are kept out the better for the Government and the Bank, and the more of them that go abroad and stay there the better for Poland. Notes that are permanently lost or destroyed are equivalent to gifts of their full value to the Bank; and Treasury notes that are permanently lost represent gifts to the Government. If they are lost abroad they are gifts made by foreigners. Very little Polish money in the form of fiduciary coins, bank notes and Government Treasury notes goes abroad but obviously the more that goes abroad the better for the country. To restrict the carrying of such money abroad is foolish.

Government Paper Money

62. There are two kinds of paper money in circulation in Poland, the bank notes of the Bank of Poland, and the Treasury notes of the Government. At this time (August 20,

1926) the bank-note circulation is 512 million zlotys and the Treasury note circulation about 285 millions. In addition they are large quantities of foreign paper money in circulation in the country, various kinds of United States paper money, but as to the quantity of these foreign notes in circulation no reliable data are available.

63. The Treasury notes were authorized by the Presidential Decree of April 14, 1924 "On the alteration of the Monetary System" (paragraphs 6, 7 and 8). Paragraf 6 of this decree limited the issue of these notes to 150 million zlotys and provided that no notes should be issued in denominations of larger than two zlotys. The notes were apparently looked upon as temporary substitutes for small silver coins, and in no respect as a permanent issue of Government paper money. Their legal tender quality was limited to 10 zlotys in one payment, and the decree provided that from November 1, 1924 to January 31, 1925 the notes should be exchanged for coin or bank notes of the Bank of Poland, and that after January 1, 1925 they should cease to be recognized as legal tender. No provision was made in the Decree for the building up of a gold reserve for the retirement of these notes. The notes were at first issued in denominations of 1 gr., 5 gr., 10 gr., 20 gr., 1 zl., and 2 zl. By February 28, 1925 the total amount of these notes in circulation was 119 million zlotys. Then the notes of denominations below one zloty were retired from circulation.

64. The Treasury notes were not retired from circulation between November 1, 1924 and January 31, 1925, as originally decreed, but on the contrary the limit placed on the amount that could be issued was raised and notes of 5 zloty denomination were authorized. These 5 zloty notes were first placed in circulation in the latter part of July 1925 and by the end of the year 1925 their circulation amounted to 209 million zlotys representing 74 per cent of the total Treasury note circulation, and being equivalent to 55 per cent of the note circulation of the Bank of Poland and constituting 26 per cent of the total circulation ot Polish money of all kinds.

65. During the period of the financial crisis, the Bank of Poland tried to protect the gold value of the zloty by redeeming its own notes and contracting the circulation, with the

result that from June 30, 1925 to December 31, 1925 the bank-note circulation declined form 503 million zlotys, constituting 67 per cent of the country's total Polish money circulation of 747 million zlotys, to 381 million zlotys, constituting only 47 per cent of the total Polish money circulation of 815 million zlotys. During the same period the Bank's percentage of gold and gold devisen reserve against notes outstanding declined form 47 per cent to 34 per cent. Meanwhile the Government's issues of Treasury notes had been continually increasing thus counteracting the currency contraction which the Bank of Poland had been carrying through at the sacrifice of so much of its gold reserves. The circulation of Government Treasury notes which stood at 108 million zlotys June 30, 1925, representing 14 per cent of the country's total circulation of Polish money (747 million zlotys), rose to 282 million zlotys, representing 35 per cent of the country's total circulation of Polish money (815 million zlotys) by December 31, 1925.

66. It is the judgment of your Commission that the large issues of Government Treasury notes during the latter half of the year 1925 was one of the principal causes of the breakdown of the Polish gold standard and of the depreciation of the zloty. Whether or not the political and economic exigencies of those critical months justified such extreme measures as these large issues of government paper money is a question upon which your Commission have no judgment to express. That these large paper money issues were an important influence in the depreciation of the zloty, however, your Commission are convinced.

67. In this connection Mr. Kemmerer in a letter to the Minister of Finance under date of February 26, 1926 said:

"It was unfortunate for Poland that, during the year 1925, after the reaction set in and while the Bank of Poland was reducing its bank-note circulation, the Government placed in circulation, apparently chiefly for fiscal purposes, such a large quantity of government paper money as to prevent any appreciable contraction in the currency from taking place at the time the Bank's reserves in the form of devisen were being so rapidly reduced. A contraction of reserves without any corresponding contraction of fiduciary money in circulation is usually a dangerous procedure, and one that tends to break down public confidence. Only in times of extreme emergency like war or other public disasters, and when no other recourse is available, should a government issue money for

fiscal purposes. A country's monetary supply should be a function of trade demands and not of fiscal needs. The issuance of money whether it be fiduciary silver coins or paper money, with the primary purpose of obtaining government revenue, usually leads to monetary disaster.

"The Government, in my judgment, should continue the recently adopted policy of not issuing more government notes and should retire as soon as practicable a substantial part of the government notes already issued. As a general policy, the Bank of Poland should issue all the country's paper money, and the Government should limit itself to the minting of coins".

68. Your Commission confirms this recommendation. They believe that the weakest element in Poland's present currency and the most threatening danger to currency stabilization is the large circulation of these Treasury notes, behind which there are no gold reserves and against the increased issue of which there are no adequate restrictions. They view with great concern the increase in the circulation of Treasury notes that has taken place since last January. The line of least resistance if future governments should be hard pressed for funds is in danger of being the obtaining of funds by still further issues of Treasury notes. So long as the danger exists that the Treasury notes which circulate as money may be issued in substantial amounts from time to time to meet the fiscal needs of the Government, just so long will the fear of such issues impede the restoration of public confidence in Poland's currency. After the world's experiences with currency inflation since 1914, investors everywhere become quickly frightened by inconvertible issues of government paper money, and such issues are one of the surest ways of keeping foreign capital out of any country.

69. Such issues of Government Treasury notes place the Bank of Poland in a difficult position as regards its responsibility for conserving the Polish money market and maintaining the gold standard. The Bank is required by law to keep substantial gold reserves, and to pay reserve deficiency taxes at progressive rates whenever the reserve falls below the normal legal minimum. After the proposed stabilization plan goes fully into operation the Bank will be required to redeem its notes in gold or gold drafts on demand. If the gold standard is to be firmly established and effectively maintained the Bank must be in position to protect its gold

reserves by means of its discount policy, and by means of its control over the supply of circulating media and over the foreign exchanges. It cannot exercise an effective control if the Government itself has large powers of note issue, and may at any time exercise those powers in such a way as to contravene the policy of the Bank as it did during the latter half of 1925.

70. Your Commission therefore recommend that legislation be immediately passed absolutely prohibiting any increase in the issue of circulating Treasury notes above the maximum amount already issued and put in circulation. They recommend further that plans be adopted looking toward the gradual retirement of all Treasury notes now in circulation, and the substitution therefor of Bank of Poland notes and fiduciary coins, and that certain government revenues be specifically pledged for the gradual retirement from circulation of the Treasury notes now outstanding. For this purpose your Commission would suggest that as one source of revenue the Government follow the practice recently adopted by the Republic of Colombia for retiring from circulation its uncovered circulation of Government notes, namely, that the Government use for that purpose its share of the annual profits realized by the Bank of Poland. If this plan should be adopted it should not go into operation until after the distribution of profits resulting from the proposed devaluation of the zloty shall have taken place. Another source of revenue that might wisely be used for this purpose is the seignorage profit realized by the Government on the coinage of silver, nickel and copper coins.

71. In considering the question of the gradual retirement of these Treasury notes from circulation the facts should be borne in mind that they were put into circulation merely as a temporary measure, and that their replacement in the channels of circulation by Bank of Poland notes and fiduciary coins will not result in a loss to the Government each year, as is sometimes claimed, of an amount equivalent to the annual interest on the amount now in circulation. The Government realizes substantial seignorage profits from its coinage of fiduciary coins, and also from its right of participation in the profits of the Bank of Poland. The larger the amount of bank

notes that are kept in circulation the larger will be the Bank's profits and therefore the larger the Government's profits from the Bank.

Circulation of Fiduciary Coins of Silver, Nickel and Copper

72. A country's currency may be inflated and its gold standard broken down just as effectively by over-issues of fiduciary coins as by over-issues of government paper money, and in both cases the cause of the inflation is likely to be the same, namely, the desire of the government for revenue for meeting its fiscal needs. In several instances in recent monetary history the gold standard has been broken down by over-issues of fiduciary silver coins motivated by the Government's desire for the seignorage profits. Unless careful limitations are placed upon the coinage of fiduciary coins in Poland so that the amounts in circulation are kept within the limits of legitimate trade needs there will be the continual danger that excessive coinage of fiduciary silver coins will drive gold out of circulation, deplete the Bank of Poland's gold reserves and ultimately force the Bank to suspend gold payments. Great care therefore should be taken that fiduciary coins be not minted in excessive quantities. To this end your Commission make the following recommendations:

73. (1) That the present legal limitations on the legal tender quality of these small denominations be retained.

74. (2) That the policy of receiving such coins in unlimited quantities in payment of all government taxes and other government dues be followed, and that they be made receivable in all payments to the State railroads, State monopolies, Post Office and Postal Savinge Bank.

75. (3) That the Government impose upon the Bank of Poland the obligation, both at its head office and all of its branches, to give out silver, copper and nickel coins at par in exchange for the Bank's own bank notes, and to give out its bank notes at par in exchange for silver, copper and nickel coins; p r o v i d e d that the exchanges demanded are in sums of 100 zlotys or multiples thereof, and p r o v i d e d further, that in case branches of the Bank at any time do not have sufficient coins of silver, nickel and copper to meet the above

mentioned demands for such coins, they may delay making the exchanges for a period sufficient to enable them to ship the said coins from the central office in Warsaw to said branches.

76. (4) In view of the Bank's obligations to maintain the gold standard in Poland, and of the obligations described in paragraph (3) above, the Government should assure the Bank that the supply of such small coins in circulation shall at all times be adequate to enable the Bank to meet the demands made upon it in regard to the exchange of such coins for its own notes and, equally, that the supply shall at no time be so excessive as to make the Bank's obligation to give out its own notes in exchange for said coins burdensome or such as to threaten the gold standard. To this end the Government should coin silver, nickel and copper coins for the Bank whenever the Bank's Council by a vote of three-fourths of the full membership and the approval of the Bank's President request the further coinage of such money, and the Government should respect the opinion of the Bank by not coining such money whenever the Council of the Bank believe the amount in circulation is adequate.

Bullion Value of Polish Silver Coins

77. One question that must always be considered in connection with any plan involving the devaluation of a country's monetary unit is the question of the effect devaluation will have upon the relationship between the bullion value and the money value of the country's fiduciary coins.

78. Poland's Monetary Decree of April 30, 1924, as revised June 23, 1924, authorizes three silver coins, of the denominations respectively of five, two and one zloty. These three coins all have a gross weight of five grams to the zloty. The five-zloty piece is .900 fine and the pieces of two zlotys and one zloty are .750 fine. This gives the five-zloty piece a fine silver content of 4.5 grams per zloty and the other two coins a fine silver content of 3.75 grams per zloty.

79. If the zloty should be stabilized at the gold value of 9 zlotys to the dollar, as recommended, the bullion value of these coins at the price of fine silver on August 13, 1926

the latest date for which figures are here available, of 62 cents an ounce, would be equivalent to the following percentages of their respective money values.

5 zloty piece	81
2 zloty piece	68
1 zloty piece	68

80. The five-zloty piece would be worth approximately as much as silver as it would be worth as money if the New York price of silver should rise to 76 cents an ounce and would therefore, at or above that price, be in danger of being sent to the melting pot or of being exported as bullion. The one-zloty piece and the two-zloty piece would not reach their bullion pars and therefore not be in danger of being melted down and exported unless and until the New York price of silver rose above 92 cents an ounce. Except during the latter part of the period of the World War and the years immediately afterwards, namely, the period of 1916—1920 inclusive, the New York price of silver has not reached 92 cents an ounce since 1892, nor 76 cents an ounce since 1893, so that Poland's present silver coins might be continued after the devaluation of the zloty without much danger of their being driven to the melting pot by a rise in the price of silver. Inasmuch, however, as the five-zloty piece has not yet been put into circulation and as the proportion of silver it would contain, if coined under the present law, would be needlessly large, your Commission believe that it would be in the interest of economy as well as of safety, if this coin is to be minted, to readopt the original fineness for it of .750, thereby again making all three of the silver coins of the same fineness and of weights and fine silver contents exactly proportionate to their respective values.

81. Even with these weights and this fineness Poland would be giving a larger silver content to her fiduciary silver coins in relation to their gold values than is given by most other countries. The present does not seem to be an appropriate time for a general recoinage of Poland's silver coins with a substantial reduction of their fine silver content, but the fact should be recognized that after the proposed devaluation of the zloty shall have become effective, Poland's

silver coins will be needlessly expensive, in fact among the most expensive in the world. As soon as the difficulties and criticisms incident to the devaluation of the zloty have been passed and economic conditions in Poland have become more normal, a recoinage of Poland's silver coins on the basis of silver contents more in harmony with those of other leading countries should be seriously considered.

CHAPTER III

The Time of Stabilization

82. Having considered (I) The Rate of Stabilization and (II) The Method of Stabilization we now come to (III) The Time of Stabilization. This subject divides itself into three parts:

1) The time to stabilize in fact,

2) The time to stabilize legally, and

3) The time for the Bank of Poland to accept the legal responsibility of paying its notes and deposits in gold or gold drafts on demand.

83. Obviously these three elements in a complete stabilization plan might be adopted at one and the same time as was done recently in the Union of South Africa, Great Britain, Colombia and Chile, or they might be adopted at different times as in the recently inaugurated stabilization plans of Germany, Sweden and Austria.

Alternative Possibilities

84. The question as to whether it is desirable to postpone for a short time, after actual stabilization has been effected, the legal promulgation of a stabilization law and the further question as to whether the actual resumption of gold payments should be postponed until some time after legal stabilization shall have become operative, are two-sided questions, and each side can be supported by the authority of recent successful experience. These questions will be considered later. With reference to the question as to when effective stabilization at the new rate should be undertaken your Commission make the following recommendation:

Need of Effective Stabilization

85. If the rate of stabilization of 9 zlotys to the dollar recommended is adopted, your Commission believe that effective stabilization at this rate should be undertaken at once and that the Bank of Poland, with the cooperation of the Government, should use every reasonable means in its power to maintain exchange henceforth at approximately this rate. As a matter of fact the zloty has been stabilized at approximately 9 to the dollar since July 22. This policy should be continued.

86. Yor Commission believe that the two financial reforms most urgently needed in Poland are the stabilization of the currency and the permanent balancing of the budget. Neither of these reforms could long endure without the other. Here the Commission are concerned only with the currency.

87. Many of Poland's present economic difficulties are due to currency instability and in the judgment of your Commission very little healthy economic progress can be made in Poland until the currency is stabilized and until the public both in Poland and abroad have confidence that the new gold monetary unit is firmly established and will endure.

Relation of Currency Instability to High Interest Rates

88. Your Commission have heard much about the great scarcity of capital in Poland and about the prohibitively high interest rates prevailing in the country, and they believe that these evils are in a large degree due to currency instability. Your Commission, however, do not believe that the above-mentioned evils are so great in fact as they appear to be on the surface. Take, for example, the difficulty of high interest rates in Poland. The official discount rate of the Bank of Poland is 10 per cent, one of the highest official discount rates in the world. The Federal Reserve Bulletin in its issue of July 1926 gives the prevailing discount rates of 31 central banks throughout the world, and of all of these 31 banks there was not one with a discount rate above 10 per cent and there were only four with a 10 per cent rate, namely, Bulgaria, Esthonia, Greece and Poland.

For all 31 banks the average official discount rate was 7 per cent. The prevailing market rate for zloty loans in Poland, it is said, varies anywhere from 16 per cent to 36 per cent, there being a few loans at as high as 60 per cent. Such rates of interest are of course a very serious handicap to the industry of any country, and one wonders why capital in enormous quantities does not flow into Poland under the attraction of these high interest rates from countries where the rates are very much lower.

89. On closer examination, howerer, one finds that these high interest rates in Poland have in a large proportion of the cases been more nominal than real. From July 1919 until the currency was stabilized with the new zloty in the early part of 1924 the gold value of the Polish mark declined continually and rapidly. For July 1919 the average gold value of the Polish mark, as measured by exchange rates, was 6.88 cents United States currency and stabilization was finally effected in February 1924 at the rate of 1,800,000 Polish marks to one zloty of 19.3 cents. During the 55 months between July 1919 and the time when stabilization was finally effected, namely, from July 1919 to February 1924, ehe gold value of the zloty rose in seven months and declined in forty-eight. Creditors who had mark debts outstanding during this period lost heavily. Since in few cases was the rate of interest charged sufficient to offset the loss in the principal and interest due to currency depreciation, the true interest rate measured in either gold values or purchasing power was strongly negative. In fact, in a large proportion of the cases the creditor was paying the debtor for taking his money. One would hardly be justified in complaining of a high interest rate on most loans during this period.

90. Although the period of the stabilized zloty from June 1925 to June 1926 was a period of great economic and financial stress and strain and uncertainty, none the less the nominal interest rate tended downward. This was a period of rapidly rising gold prices, however, and as the Polish wholesale price index number rose from 100.6 in June 1924 to 119 in July 1925, the value of the gold zloty itself, namely, its purchasing power over goods at wholesale, declined in those 13 months about 15 per cent, thus eating up all or most of the money interest realized by creditors on the

better grade loans. The period during which the zloty was kept at gold parity, however, was short and before confidence in the new currency was fully established, the crisis of the latter part of 1925 set in, and again the gold value of the Polish monetary unit began a rapid decline, falling from an average value of 19.19 cents United States currency in June 1925 to an average of 9.58 cents for May 1926 and then reacting to an average of 10.9 cents for July. Of those 13 months the average gold value of the zloty rose in four months and fell in nine. Most creditors having zloty accounts during this period suffered heavy losses as a result of currency depreciation, as did also nearly all creditors having obligations maturing during these thirteen months which had been incurred during the period of the stabilized zloty. Probably in a very small proportion of the zloty credits during this period has the interest rate been sufficient to compensate even for the loss of the principal due to the depreciation of the zloty. Take, for example, a loan of 10,000 zlotys made in June 1925 at an interest rate of three per cent a month and maturing in June 1926. Computing the gold value of the loan and the gold value of the repayment (principal and interest) on the basis of the average exchange rate in Warsaw on New York for the month the loan was made and the month in which it was paid the facts are as follows. The lender gave the borrower 10,000 zlotys having a gold value of $ 1,930, and the borrower repaid the loan, principal and interest with 13,600 zlotys having a gold value of $ 1,346.40. On the gold basis this was negative interest of 30 per cent per annum. In other words the creditor gave the debtor 30 per cent for borrowing his money for a year. On the basis of purchasing power over commodities at wholesale there was likewise negative interest as from June 1925 to June 1926 wholesale prices rose form 119 to 174, representing a decline in the gold purchasing power of the paper zloty of 31½ per cent. Reducing the 13,600 zlotys (principal and interest) paid at maturity by 31½ per cent one gets 9,316 zlotys in the purchasing power of the zloty of June 1925 that were paid back giving negative interest of nearly 7 per cent. This may be an extreme case but it is highly probable that most zloty loans maturing between September 1925 and June 1926

yielded negative interest. In general the interest rate prevailing on dollar loans during recent years has been much lower than that prevailing on zloty loans. The nominally high rates for zloty loans, however, the causes of which have not been generally understood, have undoubtedly tended to push up the rates charged for dollar loans to higher figures than they would otherwise have reached.

91. When one considers the large number of commercial failures that took place during this period and the heavy losses incurred by creditors from the failure of debtors to meet their obligations, and when one also considers the trouble and anxiety involved in such loans for the creditor, he should not be surprised if people having money prefer to bury it in the ground or send it out of the country rather than lend it out. He likewise should not be surprised if the borrowing classes seemed particularly anxious to borrow under such conditions and willing to pay very high nominal interest rates.

92. This, moreover, is not the type of "high interest rate" that attracts foreign capital. Most of such interest rates are in fact not true interest at all but rather high though inadequate insurance premium charges made by the creditor to cover the danger of losing his principal through failure of the debtor to pay, or through the depreciation of the monetary unit in which the repayment will be made.

93. In conditions like these interested foreign investors see the Polish people hoarding their money rather than investing it in Poland, or see them trying to get their capital out of the country into safe foreign investments even at very low rates of interest, and they also see the Government trying to prevent capital in Poland from getting away, through laws restricting "capital exportation". Why, they naturally ask, should foreigners under such conditions send capital to Poland?

94. A similar situation existed in Germany, with extravagantly high nominal interest, rates during the period of the rapid depreciation of the German mark. Shortly after the currency was stabilized, however, the interest rate began to decline rapidly and now is fairly normal.

95. When Poland effectively stabilizes its currency and maintains its stability by adequate reserves and a vigorous financial policy over a reasonable period of time, confidence in the zloty will be reestablished, money hoarded in Poland will be taken out from its hiding places and invested, Polish capital that has been invested abroad will come home and foreign capital will be attracted to Poland in substantial quantities. Then and only then can Poland expect a scale of interest rates like those of other advanced countries, as she had prior to the War. Being convinced that this is true your Commission believe that an immediate stabilization of the currency is urgent, and they believe that if the rate suggested of 9 to the dollar is adopted, stabilization will be possible through the use of the present resources of the Bank of Poland, including the additional reserve funds it will obtain as a result of the devaluation, in the manner described in the "Memorandum on Revision of Articles of Association of the Bank of Poland". As later pointed out, however, your Commission believe that in the interest of safety and for the sake of inspiring strong public confidence in the stabilization plan both at home and abroad, a foreign credit of ten to fifteen million dollars (not involving the pledging of the Bank's gold or other reserves) is desirable for carrying through the stabilization plan most effectively.

Arguments for Delaying Legal Stabilization for a Considerable Period

96. Assuming that actual stabilization should be undertaken at once, the next question is: When should the new monetary unit be publicly announced and made legally effective? The answer to this question is not an easy one as there are some valid reasons favorable to delaying legal stabilization until actual stabilization has been maintained for a considerable period of time, while there are other equally valid reasons in favor of legally stabilizing at an early date. Each plan has its advantages and its disadvantages and a sound decision can only be arrived at by weighing the arguments on both sides.

97. There are two important arguments advanced in favor of delayed legal stabilization, one of them is economic and the other is essentially political. The economic argument may be termed the argument of "caution" and the political argument is the argument of "allaying popular opposition".

98. The argument of „caution" may be briefly stated as follows: "Poland undertook to stabilize on a gold basis once and failed. She must not fail again. For this reason a trial period involving no official commitments is desirable. Perhaps a nine to the dollar rate is not adapted to the needs of the country, or perhaps it will prove to be an impossible rate to maintain. Conditions in the country are still unstable, the budget has been balanced only for a short period, there is still much unemployment, the question as to whether Poland will be able to obtain an adequate supply of foreign credit in the near future is still an open one. Therefore, why not quietly stabilize without saying so and without making any commitments, and then if the plan works after a reasonable period of trial, clinch actual stabilization by legal stabilization".

99. The argument of "allaying popular opposition" is briefly as follows: The zloty was stabilized a little over two years ago at the value of a gold franc. On this basis there was an adjustment of outstanding debts through the Lex Zoll which involved great losses to the creditor classes. The securities under this law have not yet all been issued and few of the settlements have been made. Many creditors are still rankling under what they believe to have been the injustice of this arrangement. The depreciation of the zloty since August 1925 has made matters still worse. In the belief that the zloty stabilization of 1924 would be permanent, many long-term contracts were made while the zloty was at par, the public bought governmental and corporation zloty bonds, they withdrew their hoarded dollars from their hiding places and deposited these along with stabilized zlotys in the banks. The depreciation in the zloty during the first year has cut down the gold value of these credits about 42 per cent.

100. "All of these creditor classes are still hoping that the zloty will either be restored to its former parity with the gold franc, or at least stabilized at a gold value much higher than the present one. They will continue to hope so until legal stabilization is announced, and, if this announcement comes early, it will come as a shock and will arouse much opposition to the plan and give rise to widespread demands for a revision of the Lex Zoll and for the valorization on a higher gold basis than the new parity of all zloty obligations now outstanding".

101. Is is now argued by some that laboring men and merchants who are content to receive the present paper zlotys in payment for services and goods at current prices would immediately demand large advances if stabilization at a gold value like nine zlotys to the dollar should be officially announced at an early date.

102. For these reasons it is argued that it would be wise policy to continue the actual stabilization for a substantial period of time until the public become used to the new rate and until they have practically given up all hope of a return to the gold franc par, and then, to make this de facto stabilization legal.

The Argument for Legal Stabilization at an Early Date

103. There are two important arguments in favor of legally stabilizing the zloty at an early date. Briefly stated they are as follows:

"Poland's present economic ills are due in large degree to a lack of confidence, first, among her own people, and second, among foreign business men and investors. This lack of confidence is due largely to the heavy losses the public have suffered in recent years as a result of currency depreciation and to their fear of future losses from the same cause. The first requirement for the restoration of confidence is a vigorous financial policy on the part of the Government and the Bank of Poland. The quicker a strong public confidence in the enduring stability of the zloty can be inspired the sooner will the hoarded money of Poland be put to work and foreign capital be attracted to the country.

105. "But how can the public have confidence in the zloty if the Government itself and the Bank of Poland publish to the world their own lack of faith in their ability successfully to stabilize the currency at even such a low rate as nine to the dollar, by being unwilling to assume the responsibility of definitely committing themselves to maintain such a rate? If the responsible authorities themselves lack confidence in their ability to maintain the gold value of the zloty at approximately its present rate, why should the public, after the disastrous experiences of recent years, again stake their savings on the zloty by depositing them in the banks, by buying zloty bonds or by otherwise becoming creditors on zloty contracts?"

106. "The more the public try to meet the risk involved in using the zloty by recourse to the use of dollars the less the demand for zlotys and therefore the more likely is the zloty to depreciate".

107. "Governments in Poland, as in other countries, are subject to the ups and downs of politics. Unless a definite commitment be made by the present Government as to the rate of stabilization, any new government that may come in will have a fairly free hand in changing the d e f a c t o rate. Furthermore, the public will reason that if the gold value of the zloty is not clinched by an official commitment the Government may at any time under the pressure of fiscal needs of the State or of political pressure on the part of exporters, debtors or other interested classes, again depreciate the currency by a resort to inflation on the excuse that the d e f a c t o rate has proven itself not well adapted to the peculiar needs of Poland".

108. "The curse of nominally high interest rates for zloty loans will continue until the public have confidence that the zloty will not depreciate during the life of the loans. Until that time the hoarding of dollars in Poland will be continued. Polish capital will seek protection in foreign investments and foreign capital will be reluctant to come to Poland. A legal stabilization of the zloty backed by an announcement to the public that the Government and the Bank of Poland are determined to use every means in their power to maintain the new rate and will accept full respon-

sibility for doing so is one of the surest ways promptly to restore confidence. In reforms where a strong public confidence is imperative it is never wise to act weakly. The publlc trusts only the policy that is both positive and vigorous.

109. "A second reason for legally stabilizing in the near future consists in the fact that the Bank of Poland cannot legally realize the profits that will come to it from devaluation until devaluation is legally effective. The Bank needs these profits promptly for increasing its legal reserves, raising its capital stock and inaugurating the reforms recommended by your Commission in its "Memorandum on the Revision of the Articles of Association of the Bank of Poland".

Conclusion as to Date for Legal Stabilization

110. Weighing the arguments on both sides of this question your Commission are of the opinion that legal stabilization at an early date is desirable, but they would recommend that it be postponed until the Bank of Poland's legal reserves can be increased to at least 60 per cent of its note and deposit liabilities by means of the profits that will accrue to it from the legal devaluation of the zloty and by means of any money that may be made available to it through the proposed foreign stabilization loan of ten to fifteen million dollars.

Time to Resume Gold Payments on Demand

111. The third question relating to time in connection with the return of Poland to the gold standard is the question as to the time when the redemption of the Bank's notes in gold or gold exchange, in accordance with the proposed revision of Article 51 of the Bank's Statutes, shall be resumed. This article contains a sentence to the effect that:

"On and after a date to be fixed by an order of the Council of Ministers, on the recommendation of the Minister of Finance, based on a resolution of the Council of the Bank, the notes of the Bank shall be payable on demand at the head office of the Bank in Warsaw and payments may be made in any of the following forms, the option as to he form of payment being with the Bank".

The question is: When should the authorities exercise this option of beginning redemption of notes in gold and or gold drafts?

112. There is considerable opinion in favor of postponing the making of a definite commitment to redeem notes on demand for a considerable period after the new rate of stabilization shall have been announced. In nearly all countries that have recently returned to the gold basis after a period of depreciated paper money, there has been found among responsible government officials and bankers a great deal of hesitation in making a positive commitment to resume gold payments. The tendency has been to postpone again and again the date for resumption, or to leave the date uncertain for a long time. This policy is motivated by the fear that the minute gold payments are resumed there will be a heavy demand for gold for hoarding and a heavy demand for gold drafts for the purpose of getting capital out of the country while the exchange rates are favorable and before the collapse in exchange which pessimists anticipate takes place. It is argued that the central bank can protect the exchange better if it has a free hand to buy and sell as much or as little exchange as it desires and to whom it may see fit, and that in this way it can limit its operation to legitimate demands and can protect itself against runs and against demands for gold and gold credits to be used for the purpose of hoarding or of dangerous speculation.

113. While your Commission believe that there is some force in these arguments, they are of the opinion that the danger contemplated is usually greatly exaggerated and that the advantages of an early resumption of gold payments outweigh the disadvantages.

114. As explained in the Commission's "Memorandum on Revision of the Articles of Association of the Bank of Poland" in connection with the suggested revision of Article 51, the chief function of a central bank's reserve is to act as a regulator fund by which surplus bank-note currency is absorbed in time of currency redundancy and additional currency is placed in circulution in times of currency scarcity. A secondary function is that of inspiring confidence in the

currency on the part of the public. If the value of the currency is to be maintained at gold parity the Bank must, by redemption of notes in gold or by the sale of gold credits, withdraw from circulation redundant currency when it is presented and it must do this whether it is legally obligated to redeem its notes in gold (or gold exchange) on demand or not. Furthermore, in either case the confidence of the public in the currency must be maintained. In other words, if the Bank is to maintain exchange at parity it must adopt practically the same policy whether gold payments have been legally resumed or not.

115. But confidence in the currency, which is so necessary to the success of any stabilization plan, will be much stronger if the public have the legal right of redemption than if the privilege of redemption is entirely at the option of the Bank and may be withdrawn at the Bank's own will. When the public know that they can obtain gold or foreign gold credits readily on demand they do not care to obtain them, except to meet the legitimate needs of the country's foreign trade; but if they do not know whether they can get them or not, they are uneasy and play safely by accumulating a supply of gold and/or gold exchange as protection against the time when gold funds may not be available.

116. When England in April 1925 returned to the gold standard she resumed gold payments promptly, as did also the Union of South Africa, Colombia and Chile. Colombia resumed gold payments in July 1923 in the midst of the greatest financial panic the country had ever seen, but when the public saw that they could get gold freely they did not want it, and the very day on which gold payments were resumed the public deposited more gold in the central bank than they withdrew. Last January Chile resumed gold payments after being on a paper money basis since 1898 and, despite the predictieus that there would be heavy demands on the central bank for gold, the demands were very small and as soon as the public found that they could obtain gold easily their demand for it became slight.

117. Poland's position in this regard will be an unusually strong one for the following reasons:

118. (1) The country has had a favorable balance of trade for many months and there are good prospects that it will continue for some months to come.

119. (2) If stabilization is effected at the rate of nine zlotys to the dollar, as recommended, while the price level is so low as it is now in comparison with the price levels of most surrounding countries, the purchasing power of the gold zloty at home will be for some time greater than it will be abroad, and the restoration of the gold standard will probably be accompanied by a flow of gold credits into the Bank of Poland and a corresponding expansion of the bank-note currency of the country.

120. (3) When stabilization is effected the rate of circulation of the zloty will be decreased thus requiring more zlotys to effect the same volume of money transactions. People now are afraid to hold many zlotys in their vaults, their tills or their pockets. They pass them on quickly for fear they will depreciate in their hands. As in the case of the German currency at the time of the introduction of the rentenmark in November 1924, the new currency will turn over less rapidly than the old, and therefore more will be needed to perform the same volume of transactions.

121. (4) Restoration of confidence in the zloty will gradually lead to a displacement of the large number of dollars now in circulation by the zloty. The dollars will flow back to America and their place in the channels of circulation and in the hoards of the peasants, in so far as those hoards are continued, will be filled largely by Bank of Poland notes and Polish coins.

122. (5) Stabilization will be favorable to greater business prosperity in Poland and to the investment of foreign capital in the country. New internal production and increased trade will require more money.

123. (6) Under the plan of redemption proposed the Bank will be under no obligation to pay out gold coin or gold bars to people who wish to hoard gold or to use it in internal circulation, but will be free to limit its redemption of notes to redemption in the form of gold drafts on foreign countries, for which it may charge the gold-export-point premium.

124. (7) Should the demands for redemption be heavy the Bank would not only have the privilege, under the proposed amendment of Article 51 of the Bank's Statutes, to raise its discount rate substantially but would have the obligation to do so, thereby being free from the public criticism that often arises from advances in the central bank's discount rate.

Recommendation of an Early Resumption of Gold Payments

125. Your Commission therefore recommend that the redemption of the Bank's notes on demand in gold and or gold drafts be resumed at the time that devaluation is legally promulgated. The early resumption of gold payments is in harmony with the vigorous financial policy which your Commission believe both the Government and the Bank of Poland should take in order promptly to restore confidence in Poland's finances.

BANK OF POLAND.

MEMORANDUM

ON REVISION OF ARTICLES OF ASSOCIATION

OF THE

BANK OF POLAND

Memorandum on Revision of Articles of Association of the Bank of Poland

In response to a request made by the Bank of Poland, that the Commission make a report concerning the advisability of certain proposed modifications in the Statutes of the Bank of Poland, the Commission have the honour to submit the following Report. In making the Report the Commission have not limited themselves to the modifications in the Bank's Statutes suggested in the Bank's Memorandum, but have taken the liberty to suggest other modifications that in the Commission's judgment should be considered at the time the first revision of the Statutes is made.

Most of the modifications here recommended should be made at once, but some of them, notably those relating to the increase in the legal reserve requirement, the changed constitution of the reserves, the reserve deficiency tax when the reserve is below 40 per cent and part of the increase in the capital should not be put into operation until after the zloty is legally stabilized, in accordance with the plan recommended by your Commission in its Report on the stabilization of the zloty.

Article IV

The Memorandum submitted by the Bank recommends that this article be amended, by the addition of the words underlined, to read as follows:

"The authorized capital of the Bank amounts to 100 million zlotys, divided into one million shares of 100 zlotys each. The authorized capital may be increased to an amount not exceeding 150 million zlotys by an

affirmative vote of at least 9 members of the Council and of the President with the approval of the Minister of Finance".

"Any further increase of the authorized capital may only take place in virtue of a decision of the General Meeting of the shareholders as provided under Article 12".

Your Commission believe that a substantial increase in both the authorized and paid-up capital of the Bank is, at present, highly desirable, but that the increase proposed in the Bank's Memorandum is under existing circumstances insufficient. It is accordingly suggested that in the amendment the words, "250 million zlotys", be substituted for the words, "150 million zlotys".

In view of the functions that the Bank of Poland's capital must perform, of the economic importance of the country which it must serve, and in the light of the practices in other countries the present capital of the Bank of Poland is too small and the capital would still be too small in the judgment of the Commission if it should be increased only to 150 million zlotys.

The original capital of the Bank of Poland was paid in gold zlotys and at the beginning had a dollar value of approximately $ 19,300.000. At the present time nominal or book value of the capital (including surplus) is only 102,907.870 zlotys which, at the rate of 9.05 zlotys to the dollar, would be equivalent to $ 11,371.000.

Compared with the central bank capitals of other countries this is a small capital for a country of the size, population, economic development and prospects of Poland.

The following figures will show in terms of United States dollars at current rates of exchange, approximately the amounts of capital funds (capital and surplus) of a few central banks of the world, and also approximately the respective populations of the countries in which the banks are located.

Bank	*Capital*	*Population*
Bank of England (Great Britain) . .	86.0	44.7 [1])
Bank of France	9.8	39.6
Bank of Germany	57.5	60.0

[1]) *Great Britain and Ireland.*

Bank	*Capital*	*Population*
Bank of Denmark	10.3	3.4
Bank of Sweden	17.0	6.0
Czecho-Slovakian Nat'l Bank	12.0	14.0
Austrian National Bank	6.0	7.0
Bank of Norway	11.0	2.7
Bank of Hungary	6.0	8.0
Central Bank of Chile	11.0	3.8
Bank of the Republic of Colombia	7.6	6.6
Bank of the Republic of Uruguay	25.0	1.6
Bank of Poland	11.4	30.0

The capital and surplus of the 12 federal reserve banks of the United States amount to about 342 million dollars. Of the 12 banks the largest capital and surplus is that of the New York Bank, namely, about 95 million dollars, and the smallest is that of Minneapolis, namely, about 10.5 million dollars.

A bank's capital performs two important functions. (1) It provides the initial and the primary cash funds with which the bank carries on business. (2) It serves as a guarantee and pledge of good faith on the part of the stockholders to the public, whose confidence the bank invites when it asks the public to accept in return for the public's funds, the bank's promise to pay, in the form of bank notes and deposit credits. In case of the bank's failure every zloty represented by capital and surplus must be lost by the stockholders before the other creditors of the bank, principally note-holders and depositors, lose a grosz.

There is at present a great scarcity of short-time capital funds in Poland, largely as a result of the capital destroying and capital expelling influences of the war, of the ensuing period of inflation, and of the recent financial crisis. Furthermore in view of the absence of many large banks in Poland, of the unliquid condition of many of the banks and therefore of the very important role the Bank of Poland must play in providing the public with short-time capital funds, your Commission believe that the Bank of Poland could employ advantageously a much larger capital than it now has.

Moreover, in countries where the use of checks is so little developed as in Poland, and where, as a consequence, cash deposits in the central banks do not provide these banks

with larger amounts of money, the central banks need relatively larger capitals than they do in countries like England and the United States where the central banks receive large sums in the form of cash deposits. The deposits of the 12 United States federal reserve banks, for example, on April 21, 1925, amounted to $ 2,860 millions as compared with a note circulation of $ 1,662 millions. In other words the deposit liability stood in the ratio of 172 to 100 in comparison with the note liability. For the Bank of Poland on June 30, 1925 the notes in circulation were 448 million zlotys and the deposits 127 million zlotys, giving a ratio of 28 to 100. When central bank funds are not provided in substantial amounts by depositors, they must be provided more liberally by stockholders.

As regards the second function of a bank's capital, namely, that of inspiring confidence in the bank on the part of the public, it is clear that a substantial increase in the Bank of Poland's capital is desirable. The recent financial crisis and the subsequent depression assumed an importance greatly disproportionate to the so-called fundamental causes that are generally believed to have caused them, namely, the poor crops of 1924 and the tariff troubles with Germany. The people, reminiscent of the inflation troubles through which they had so recently passed, quickly lost confidence in the zloty and became panicky when they saw the exchange rate rising and the Bank's gold reserves declining. A substantial increase in the Bank's capital would help inspire confidence in the zloty both by strengthening the Bank's credit position and by making possible the holding of a larger percentage of cash reserves against note and deposit liabilities.

In considering the question of authorizing at this time an increase in the capital stock of the Bank of Poland the possibility should be borne in mind that, if in connection with the stabilization of the Polish currency there should be a devaluation of the gold zloty, the Bank would realize a substantial profit from the establishment of the new and lower value gold zloty. Items 1, 2 and 7 of the Bank's assets as shown in its published balance sheet, covering gold and foreign money in its vaults and abroad and foreign currency deposits, bills and other credits, are in terms of the present gold zloty. From these there should be a deduction of the

exchange difference item, number 3. On the other hand except for the item in the Bank's liabilities representing obligations in foreign moneys, all of the Bank's liabilities, including its full bank-note liability, are zloty obligations payable in current paper zlotys. A devaluation of the legal gold zloty that would increase all of the Bank's assets and all of the Bank's liabilities which are expressed in gold zlotys to their value in a new zloty equivalent to one ninth of a dollar would increase the Bank's assets much more than it would increase the Bank's liabilities to the public.

In accordance with Article 75 of the Bank's Articles of Association, a part of these profits would presumably go to the Bank in the form of surplus and for dividends, and another part — the major part, if the profits should be large — would go to the Government. If it should be decided to devaluate the Polish gold monetary unit, it is the judgment of the Commission that, after ample allowances were made for losses and the statutory amount of the year's profits were set aside to surplus, all of these extraordinary profits remaining should be turned over to the Bank's capital account, and the distribution between private shareholders and the Government in accordance with the provisions of Article 75 should be effected by means of a stock dividend. This would constitute a substantial part of the proposed increase in the Bank's capital.

Article V

The Bank suggests that Article 5 be amended by the addition of the words underlined below:

"The shares of the Bank are nominative and non-nominative. Each share issued by the Bank is entered in the register of shareholders kept by the Bank, in which the Christian name, surname, address and occupation of the shareholders are stated.

"The shares of the Bank shall bear consecutive numbers, the seal of the Bank and the signature of the President, the General Manager and the Chief Treasurer of the Bank. These signatures may be engraved.

"On the strength of the decision of the Bank's Council collective shares my be issued.

"With the approval of the President of the Bank nominative shares may be changed for non-nominative ones."

Your Commission understand that the object of this amendment is to avoid the large amount of clerical and other expense incident to numerous transfers of certificates covering only a very few shares. On this ground the change proposed appears to be justifiable, but the Commission is of the opinion that the advantages of nominative shares for a central bank of issue are so great that it would be wise to limit non-nominative certificates to certificates covering only a small number of shares, say 10 shares or less. A central bank with a monopoly of bank-note issue privilege, with the power to act as fiscal agent and depositary for the Government, holding a large part of the bank reserves of the country, and responsible for the maintenance of the country's gold standard, is "affected with such a great public interest" that the public has a right to know who the principal stockholders are. This, the experience of other countries has shown, may furthermore be of value from time to time in meeting unjustifiable attacks on the Bank.

Your Commission therefore recommend that to the first sentence be added the words:

"but non-nominative share certificates shall not be issued in denominations larger than ten shares, and may not exceed fifteen per cent of the number of shares issued."

Articles VII, XI, and XIV

By these Articles the rights to attend the General Meeting of Stockholders, to be eligible to membership on the Council of the Bank or on the Auditing Commission, and to participate in a request for a call of a special meeting of the shareholders, are limited to such holders of nominative shares, as shall be approved by the President of the Bank. The President of the Bank is a Government appointee.

Such a limitation upon the customary rights of shareholders is unsual, and in the judgment of the Commission is fraught with danger. Circumstances may arise at some future times in politically tense situations when the President of the Bank would abuse this power—from his decisions there

is no appeal—by excluding his own or the Bank's political or other enemies from the right to vote or the right to serve on the Auditing Commission or the Council. The history of other countries shows that central Banks of issue often become subjects of political controversy and of strong political animosities, and further, that the greatest single danger to central banks is probably the danger of political exploitation. Restrictions of the kinds here provided, moreover, might interfere with the saleability of the Bank's stock abroad. Persons abroad buying shares of stock would not know at the time of purchase whether they would enjoy the voting privilege or not.

Article LI

It is recommended that this Article be repealed and the following substituted therefor:

"The Bank shall maintain a gold reserve equivalent to forty per cent of its notes outstanding and deposits combined.

"This reserve shall consist of:

1) Gold coin and gold bars in the vaults of the Bank.

2) Earmarked gold coin and bars in banks of high standing located abroad.

3) Stable foreign currencies.

4) Credits payable in foreign financial centers, in currencies on the gold standard, and carried in the form of demand deposits with, and checks and drafts drawn at sight on, foreign banks of high standing.

5) Time deposits payable within 30 days or on not more than thirty days notice in banks of high standing in foreign financial centers.

6) Commercial bills of exchange, payable in currencies on the gold standard in financial centers abroad, with maturities not exceeding 90 days and drawn on, or endorsed by, foreign banks or bankers of undoubted solvency, and being paper of a kind and quality that is readily rediscountable in the central bank of the country in which it is payable.

7) Silver coin of the Republic of Poland, in an amount not greater than one twentieth of the total legal minimum reserve requirement.

"This reserve may be distributed among the above men-

tioned forms in such proportions as the Bank may consider desirable, provided, that in calculating the net reserve in order to compute the legal reserve percentage there shall be substracted from the total reserve, comprised by items (1) to (6) inclusive, (a) the proceeds of any outstanding loans which are collateraled by the Bank's own gold which is itself counted as reserve money and, (b) all obligations of the bank payable in foreign currencies within a period of 90 days, and provided further, that not more than half of the net reserve shall be carried in the form specified in items (5) and (6).

"On and after a date to be fixed by an order of the Council of Ministers, on the recommendation of the Minister of Finance, based on a resolution of the Council of the Bank, the notes of the Bank shall be payable on demand at the head office of the Bank in Warsaw, and payments may be made in any of the following forms, the option as to the form of payment being with the Bank.

1) Gold coins of the Republic of Poland of the weights and fineness provided in the monetary law.

2) Gold bars of approximately 100% fineness and of weights not less than 500 grams. Redemption shall be made on the basis of the pure gold content of Polish gold coins.

3) Demand drafts or three days sight drafts on London, New York, or on any other important foreign financial center chosen by the Council of the Bank and approved by the Minister of Finance. The premia charged by the Bank above the gold pars of the Polish gold zloty with the gold monetary unit of the country on which the gold drafts are drawn shall not exceed the amount necessary to cover shipping expenses for gold bars shipped in substantial quantities from Warsaw to the foreign financial center on which such draft is drawn.

"In other cities of Poland where the Bank has branches the notes shall be payable on demand in the same manner as at the head office in Warsaw, or, at the Bank's option, when sufficient gold coin is not available at the branch to make payment in said coin on demand, in demand drafts at par on the head office in Warsaw.

"To avoid appreciation of the Polish monetary unit above the gold value determined by the monetary law, the

Bank of Poland shall pay out its own notes on demand at its head office in Warsaw in exchange for:

1) Gold coins of the Republic of Poland at par when not worn below the limit fixed by law.

2) Foreign gold coins presented to the Bank's offices in Poland, at rates based upon their pure gold content, plus a charge sufficient to cover the expenses incident to the conversion of these coins into gold coin of the Republic of Poland. These rates and charges shall be determined from time to time by the Council of the Bank with the approval of the Minister of Finance and made public.

3) Full weight foreign gold coins or their equivalent in paper money and/or deposit credits payable on demand at par in such coins paid to the credit of the Bank of Poland's reserve account in the banks of important financial centers in which the Bank of Poland keeps a legal reserve account, provided, that for such payment of notes in Poland against gold deposited abroad, the Bank shall be permitted to charge a premium not in excess of the amount necessary to cover the expenses involved in shipping gold bars in substantial quantities from said foreign city to Warsaw, in addition to the expense involved in the coinage of such gold at the Polish mint into Polish gold coins".

General Principles that Determine the Percentage of Reserve Needed

A central bank with a monopoly of the bank-note issuing privilege, and charged with the responsibility of conserving a country's gold standard, and at the same time of keeping the currency and circulating bank credit elastic, should carry most of the country's gold reserve. This reserve should not only be adequate to the performance of the principal function of a central bank's reserve, namely, that of maintaining the parity of the bank's note and deposit currency with gold, by adjusting their supply to the varying demands of trade, but it should be also adequate to inspire a strong public confidence in the bank.

Any lack of public confidence in the bank lessens the willingness of the people to receive the bank's notes and to hold them, and therefore reduces the amount of these notes

that will circulate at gold parity. A decline in confidence depresses business and lessens the demand for money and at the same time causes the public in their money transactions to resort to the use of foreign moneys in which they have confidence. This makes a supply of bank notes, that would otherwise be normal for the circulation, actually redundant. The excess of notes in circulation is presented for redemption or for purchase of foreign credits and an abnormal demand is thereby created upon the bank's reserves. This sometimes leads to a panic fear, as in Poland during the latter part of 1925, which makes necessary heavy payments out of the reserve. If the demands are generously met and the circulation of money thereby adequately curtailed confidence is soon restored and business again becomes normal.

The need of inspiring strong public confidence in the reserve position of the central bank is particularly important in Poland at the present time. The public are abnormally distrustful on account of the heavy losses they experienced from war and post-war inflation. This distrust has been renewed by the fact that after the public confidence in the currency was restored by the stabilization of 1924—1925 and after the public had given up their foreign moneys for zlotys and had again begun to intrust their savings to the banks, they suffered from a second collapse of the currency. Confidence in the currency lost a second time is much more difficult to restore than it is the first time.

The chief function of a central bank's gold reserve, and one of which the confidence function just discussed is really a part, is that of serving as a regulator fund to adjust the currency supply to the varying demands of trade. When, under a normally functioning gold standard, the supply of money in any country becomes excessive relative to the demand, as compared with the supply in other countries, money becomes cheap at home relative to abroad, exchange rates advance toward the gold-export point, and, when that point is reached, gold is sufficiently more valuable abroad than at home to make its exportation profitable. The exportation of gold is an evidence that, under existing conditions of business, of confidence, and of monetary turnover, there is a relative redundancy of currency in circulation at home. Since paper

money (except that of the United States for the time being) has little or no international market, the redundant currency is drained off in the form of gold exports. These gold exports are continued until the exchange rate declines below the gold-export point and the currency supply is reduced to a quantity which places the price level of the country in equilibrium with the price levels of other countries, or, in other words, until the progressive reduction of the country's money supply has made the monetary unit so dear at home that further exportation of gold, or, under the gold-exchange standard, further depletion of gold balances abroad, becomes unprofitable.

Under conditions of currency redundancy and resulting gold exportation (or currency contraction accompanied by the depletion of foreign gold balances) the central bank must be in a position to give out gold freely, for exportation (or, in the case of the gold-exchange standard, to give out gold exchange) against its bank notes and deposit liabilities, for a sufficient time to relieve the country of its relatively redundant currency and to force exchange down below the gold-export point, thereby bringing the country's price level and discount rates back into equilibrium with those of the rest of the world.

The above brief and rather elementary description of the functions of a central bank's gold reserve suggests the principles that should determine its size. Obviously, the reserve should be sufficient to provide for the absorption, through redemption, of any notes in circulation that may be rendered excessive by the usual seasonal fluctuations in business. It should be large enough to do this and, in addition, to afford a reasonable margin of safety for extraordinary emergencies. If, to take an arbitrary example, the monetary circulation (coins and notes combined) needed by a country should vary in a normal year from 1.2 milliards of zlotys in the busy season to 900 million zlotys in the slack season, the currency system should provide the machinery for withdrawing 300 million zlotys from the circulation between the period of the busiest season and that of the slackest season, and for putting back into circulation 300 million zlotys between the period of the slackest season and that of the busiest season. In a country where there is much gold in active circulation, as in

England before the war, some gold coin will be withdrawn from circulation by the commercial banks and exported without making any demands directly on the reserve of the central bank. In order that a country's currency may be well protected and the gold standard firmly maintained, the gold reserve of the central bank should be large enough to absorb easily an amount of bank notes equal to the amount of money in circulation in the busiest season of the year in excess of that in circulation in the slackest season. Taking the above illustration, a reserve of at least 300 million zlotys would be necessary to effect completely the contraction of the currency from 1.2 milliards of zlotys to 900 million zlotys, and would be completely exhausted at the time of the slackest season. A substantially larger reserve would be needed for the maintenance of confidence and as a factor of safety for meeting extraordinary conditions like bad crops, business depressions and political disturbances.

A central bank's reserve schould not be looked upon as a "backing" for the bank-note circulation or an ultimate guaranty of the bank's ability to meet its bank-note liabilities. The other assets of the bank in large part perform that function. It is not a question of the ultimate solvency of the bank, but rather of a machinery that will adjust the supply of circulating media to the demands of trade, increasing the circulation when the demands increase and decreasing it when they fall off. In this way the currency is prevented from depreciating because of redundancy and from appreciating because of scarcity. A central bank's reserve is primarily a "regulator fund", not a "backing" for the bank-note circulation, and it functions succesfully only when it is actually used to decrease or increase the country's supply of circulating media.

This point is emphasized by your Commission because of its vital importance in coming to a decision as to what should be the proper legal reserve for the Bank of Poland, and because misconceptions of the real functions of a central bank's reserves are very common both in Poland and abroad.

If the principles just described are sound it is obvious that the percentage gold reserve that central banks should normally carry should be widely different in different countries. A small percentage reserve would ordinarily suffice in a country

having the following conditions: (1) A largely industrial economic life making the demand for money and credit fairly uniform throughout the year, and with small seasonal swings in business and comparatively slight variations in business activity from year to year; (2) A long and uninterrupted history of safe and sound currency and safe and sound banking so that the people who have placed their confidence in the currency and the banks have not suffered therefrom; (3) A high level of education among the masses of the people; (4) A comparatively calm population that is unexcitable and not easily induced to become frightened and panicky over money matters leading it to make "runs" on the banks and to hoard their money; (5) Good public credit in foreign markets; (6) Friendly neighbors and consequently little danger of economic disturbances due to political troubles with neighboring countries; (7) Strong confidence both at home and abroad in the political stability of the Government; (8) Strong commercial banks, most of whose loans consist of short-time commercial bills of a self-liquidating character which are being liquidated at maturity; (9) An active open market for commercial paper; (10) Substantial amounts of gold in active circulation.

The reverse of these conditions would demand high reserve requirements.

According to these principles, many conditions in Poland are of a character to demand a large legal reserve requirement for its central bank. In Poland, which is predominantly an agricultural country, the difference in the demand for currency between years of good crops and high world prices and years of poor crops and low world prices are very great, while the seasonal swings in the monetary demand are also large. Furthermore the events of the latter half of the year 1925 make substantial reserves for the reestablishment and maintenance of confidence in the currency important. "A burnt child fears the fire".

Light on the subject of what should be a proper legal reserve requirement for the Bank of Poland is given by a study of the requirements of other countries.

Legal Reserve Requirements of Central Banks.

Bank	Reserve against Notes.	Reserve against Deposits.
(1)		
U. S. Federal Reserve Banks	40% May be reduced on payment of deficiency tax.	35%

The average reserve against notes and deposits carried by the twelve federal reserve banks during the last four and a half years has been about twice the legal reserve mininum.

(2)		
Bank of England	19,750,000 pounds (about 15% of total bank-note issue) are secured by government and other securities: all other notes must have a reserve of 100% gold.	No legal reserve requirement but before the war the usual reserve was 40% to 50%.

(3)
Bank of France

No legal reserve requirements but before the war the Bank usually carried from 60% to 70% reserve against its notes and from 40% to 50% against its notes and deposits combined.

(4)		
Reichsbank	40% May be reduced on payment of deficiency tax.	40% This reserve may be in the form of liquid assets.
(5)		
Netherlands Bank	40%	40%

This was the legal reserve requirement before the war but was suspended in 1914. The lowest point ever reached was 32.6% in October 1914. In December 1914 the proportion of 40% metallic reserve was reached and the reserve against notes and deposits has since been maintained above that level.

(6)		
Bank of Sweden	Uncovered issue of 125,000,000 kronen (about 25% of total bank-note issue), 50% reserve against all further issue. Under special conditions reserve may fall below 50% on payment of tax.	No legal reserve requirement.

Bank	Reserve against Notes	Reserve against Deposits
(7)		
Bank of Switzerland	40%	No legal reserve requirement.
(8)		
Bank of Norway	Uncovered issue of 275,000,000 kronen (about 60% of total bank-note circulation); 100% reserve against all further issues. On payment of high tax issues may be made without 100% reserve.	No legal reserve requirement.
(9)		
Austrian National Bank	20% at present, — to be raised to 33 1/3% when specie payments are resumed.	Same as against notes.
(10)		
Czecho-Slovakian Bank	20% — to be raised 1% a year until 35% is reached (Issue of existing uncovered Government notes to be exempt from requirements). These notes are about 2/3 of present circulation.	Same as against notes.
(11)		
Bank of Hungary	20% — to be raised to 33 1/3% eventually. After specie payments are resumed tax is to be paid when reserve falls below 40%. Until specie payments are resumed reserve requirement does not apply to notes arising out of the Government debt to the Bank.	No legal reserve requirement.

Bank	Reserve against Notes.	Reserve against Deposits.
(12) **Bank of the Republic of Colombia** (Recently organized on plan recommended by Kemmerer Commission)	60% May be reduced on payment of deficiency tax.	Same as against notes.
(13) **Central Bank of Chile** (Recently organized on Kemmerer Commission plan)	50% May be reduced on payment of deficiency tax.	Same as against notes.

Your Commission do not favor the plan adopted by some recently organized central banks of starting with a very low legal reserve requirement and then raising the requirement over a period of years. It is believed that this plan usually involves a confusion of thought between the functions of a cash reserve and those of a surplus. Of course as a bank grows in size and prosperity it should increase its capital funds, namely capital and surplus, and it should increase the size of its cash reserves but there is no adequate reason why it should increase its reserve percentage against notes and deposits. Considering the fact that the primary function of a bank reserve is that of a regulator fund, as previously described, there would seem to be no reason why, if a given percentage reserve is adequate when the bank's note and deposit liabilities are a milliard of zlotys, it should not be adequate when they are two milliards. The amount of the reserve would then be doubled but there is no reason why the percentage should be increased.

From the standpoint of the reserve's function of creating and maintaining confidence in the bank, the legal reserve should be larger at the beginning when the bank is an experiment and is trying to establish itself in the confidence, of the public than later when it has proved its strength and

won the public's confidence. It is, moreover, easier to reduce a legal reserve requirement, that has once proven itself too high, than to raise one that has proven itself too low. After the unfortunate experience of 1925 it would be wise policy, in the Commission's judgment, to be very conservative on this point. The fact is noted that until the crisis of the summer and fall of 1925 the Bank of Poland always carried a reserve much larger than the legal minimum here proposed.

The Proposed Twenty Per Cent Fixed Minimum Reserve

Your Commission, after careful consideration, have omitted from their recommendations the provision contained in paragraph two, Article 51 of the revised plan suggested by the Bank. This provision is as follows:

"The 30% cover in gold and foreign assets against notes issued in case of emergency may be lowered, however, not below 20 per cent, in virtue of a resolution of the Council passed by a majority of not less than three-fourth of the votes returned, and confirmed by the Minister of Finance".

In view of the tax provisions recommended below in the revision of Article 53 your Commission believe that any stone-wall limit like the one of 20 per cent proposed would be of little or no value and under certain circumstances might prove positively harmful. A reserve functions freely only when it is used, and a dead reserve which cannot be used in any circumstances, not even in times of great emergency, might about as well be buried in the ground.

Generally speaking the sound principle to follow in times of business reaction and falling confidence is to give out freely in exchange for notes and to lend liberally to the best people on the highest grade paper, but only at high and continually rising discount rates. The surest way to restore confidence is to let the public know that the Bank will use its entire resources to meet its obligations promptly and will lend freely to responsible people. High discount rates are not serious if they do not continue over a long period of time, and they are likely to cause incomparably less harm to the economic life of the country and even to the export trade than would a suspension of gold payments.

High discount rates are easily reduced without disturbance to business when the emergency that led to them has passed, but gold payments once suspended and the gold standard once broken down can be restored usually only with great effort, great disturbance to trade and industry, great injustice in the relation between deptor and creditor, and over an extended period of time. With an absolutely fixed limit of reserve at 20 per cent conditions might well arise when a liberal use of the Bank's credits reducing the reserve from 20 per cent to 15 per cent, or even to 10 per cent, would restore confidence and prevent a suspension of gold payments, while if no such reduction could be made, an absolute stoppage at 20 per cent would result in the breakdown of the gold standard and widespread panic. If 20 per cent is an absolute limit the public will become uneasy as that limit is approached, whereas they are likely to be much less excited if they know that although discount rates may continue to go higher, there is no legal limit at which the Bank may absolutely refuse further credits or further redemption of its notes. In time of great emergency like a threatened war, when the public are becoming very panicky, the Government always has the privilege of declaring a moratorium or a series of "bank holidays" until the public becomes more tranquil.

To fix by law an absolute minimum of 20 per cent to a central bank's reserve is to make an official announcement to the public that a substantial part of the reserve is meant chiefly for "window dressing" and will never be permitted to function as a true reserve, no matter what the emergency. Your Commission believe that this would be unsound public policy.

Legal Reserves Against Deposits

Whatever may be the legal reserve required against notes, your Commission believe should likewise be required against deposits.

A bank deposit like a bank note is a liability of the bank payable on demand. The failure to meet either obligation is an act of insolvency. Each kind of liability may be transformed into the other at the will of the bank's creditor. Notes

may be deposited, and checks or deposits may be cashed in notes. Under the gold standard, the note is usually convertible on demand into gold or gold drafts, and the deposit convertible on demand into either gold and gold drafts, or into bank notes which are in turn convertible into gold or gold drafts.

Bank deposits like bank-note circulation have their seasonal movements and their ups and downs from year to year under varying crop conditions and varying degrees of industrial activity. For these variations in deposits as well as in notes the bank's reserve should be sufficient to function effectivelly as a regulator fund, taking up the slack in times of declining business activity and feeding it out in times of increasing business activity.

A development of the check system in the country with an increasing percentage of the total business being effected by checks or so called "deposit currency" and with a declining percentage effected by means of bank notes and other forms of money, would be for the most part merely a shift from the use of one kind of bank-demand obligation as a medium of exchange to another kind of bank-demand obligation, and there is no reason why such a shift should be accompanied by a decline in the percentage reserves the central bank should be required to hold against its demand obligations (bank notes and demand deposits combined). There would be such a decline if the present practice should be continued of confining the legal reserve requirement to notes and of making no legal reserve requirement for deposits.

In the recent development of central bank legislation there appears to be an increasing tendency to make the same legal reserve requirement against deposits as against notes. Certainly, when the deposits of the central bank are constitued largely by the reserve money of the other banks of the country and are therefore like the apex of an inverted pyramid of the country's bank credit structure, the public is vitally concerned with their adequacy.

The Federal Reserve Banks of the United States are required to have a normal minimum reserve of 40 per cent against notes and 35 per cent against deposits. For the Reichsbank the figures are 40 per cent against both notes and

deposits, but the composition of the reserve required against deposits is very different from that against notes. For the Netherlands Bank the percentage required before the war was 40 per cent against notes and 40 per cent against deposits. For the new national banks of Austria, Czecho-Slovakia and Hungary the percentages required are smaller but are the same for deposits as for notes. For the Bank of the Republic of Colombia, established in 1924 on a plan proposed by the Kemmerer Financial Commission, the required reserves are 60 per cent against notes and 60 per cent against deposits; and for the Central Bank of Chile, established a few months ago on a plan proposed by the Kemmerer Commission, the requirements are 50 per cent against both notes and deposits.

In the light of the principles and practices just discussed your Commission believe it would be unwise to follow the suggestion contained in the first two sentences of the Bank's proposed revision of Article 51, namely, that no legal reserve be required to be held against notes backed by the Bank's non-interest-bearing loan to the State. It is recognized, however, that this practice is followed in a few other countries.

A deduction of this kind in computing the percentage reserve your Commission believe involves a misinterpretation of the true function of a central bank's reserve. A debt of the State to the Bank may be as safe an asset whith which to support bank-note and bank-deposit liabilities as is commercial paper, but it is certainly not so liquid, and bank notes cannot be redeemed on demand either in non-interest-bearing State bonds nor in commercial paper. Such assets, no matter how safe they may be, cannot serve as a regulator fund for adjusting the supply of bank-note and deposit currency to the varying demands of trade, and that is the primary function of a central bank's reserve. For this purpose cash is needed either at home or abroad. Although foreign bills are not cash and may not be paid out in redemption of notes, they may be permitted to serve to a limited extent as reserves because they are so readily converted into cash in time of need. This is not true of non-interest-bearing Government bonds. If bank notes and bank deposits that are backed by commercial paper require a 40 per cent

reserve as a normal minimum, certainly those that are backed by such an unliquid asset as non-interest-bearing Government bonds require at least 40 per cent.

The important thing to do is to find out as nearly as possible what percentage reserve against notes and deposits is a reasonable normal minimum for functioning effectively as a regulator fund and to adopt that percentage, expressing it in the simplest manner possible.

If a central bank should actually need a 40 per cent legal reserve against its outstanding notes and should decide, in calculating its reserve, not to hold any reserve against half of its outstanding notes because they were backed by the Government debt or were in small denominations and therefore not very likely to be presented for redemption, then it would actually need to have an eighty per cent reserve against the other half. If the need of a 40 per cent reserve exists, that need cannot be juggled away merely by adopting another method of counting. Furthermore the intelligent public, both at home and abroad, interpret a bank's true reserve position to be the percentage of its cash assets to its total note and deposit liabilities, and attempt to make the reserve percentage appear to be larger than this true position are likely to do more harm than good.

Moreover, under such a plan as the one proposed, the legal minimum reserve requirement would become greater as the Bank's note and deposit liabilities increased. For example, a bank-note and deposit liability combined of, say 500 million zlotys, would require a reserve of 40 per cent of 450 million which would be 36 per cent of the total liabilities of 500 million. When the note and deposit liabilities had increased to 1000 million zlotys the reserve requirement would be 40 per cent of 950 million or 380 million which would be 38 per cent of the total. Such a growth of the required legal reserve percentage as the Bank's business expands is illogical. If a 36 per cent reserve was adequate when the liabilities were 500 million zlotys, the same percentage would presumably be adequate when they were 1000 million zlotys.

For these reasons your Commission recommend that the proposal to authorize the deduction of the 50 million zlotys

represented by the State's non-interest-bearing debt to the Bank from the note circulation in computing the legal reserve percentage be not adopted.

Suggested Provisions for Redemption of Notes

These suggestions of your Commission, if adopted would require the Bank to redeem its notes on demand, but would give it the option of redeeming either in:

(1) Gold coin,
(2) Gold bars, or
(3) Gold drafts.

If adopted they would place the notes on that form of the gold standard which is often called "a qualified gold-exchange standard".

The gold-exchange standard with varying qualifications is in successful operation today in many countries.

There are two functions that can be performed by gold coins that can not be performed by bank notes. One is the function of being shipped abroad in making payments in connection with international trade — and the other is the function of serving as a satisfactory form of money to be hoarded. Neither the Government nor the Bank needs to concern itself with this second function. Hoarding of gold should be discouraged rather than encouraged. On the other hand, the first function is extremely important, because it is largely through the exportation and importation of gold that the supply of a currency in a country is adjusted to the demands of trade, the supply being reduced when the currency is relatively redundant, and increased when it is relatively scarce, so that the monetary circulation of the country is kept in equilibrium with the monetary circulations of other gold-standard countries, and the gold standard maintained. For this purpose, however, redemption in gold drafts is practically equivalent to redemption in gold coin. When the currency supply is relatively redundant, as evidenced by the rise of exchange rates in, say Warsaw on London, to the gold-export point, gold laid down in London will serve equally as well as gold coin delivered in Warsaw to a person who wishes to ship gold to London. If the premium charged for the draft giving the purchaser the gold laid down in London

is no greater than would be the expenses he would incur in shipping the gold itself from Warsaw to London, in other words, if the rate would be no greater than the gold-export point rate, the man in Warsaw who wanted the gold in London would be as well served by receiving a draft payable in London as by being given the gold coin to ship to London.

So long as the bank notes of the Bank of Poland are convertible without restriction into gold drafts on cities like London and New York at rates not in excess of the gold-export points, these notes cannot depreciate. In order to carry on its foreign exchange business and also in order to keep itself in a thoroughly liquid position the Bank will probably always want to keep substantial credits abroad. The Commission's project authorizes it to keep part of its legal reserve in the form of deposits payable in gold in banks of high standing in important financial centers, and in commercial paper accepted or endorsed by such banks.

Furthermore, in times of emergency in Poland, if there were a sudden run on the Bank for gold, the Bank, provided its credits were good, would be able to borrow substantial sums abroad with which to meet the emergency, but it might require considerable time to bring them to Poland in the form of gold. They could, however, be utilized at once through redemption in drafts. In times of crisis the all — important consideration is prompt redemption.

Redemption of notes in drafts on the Bank's deposits of reserve money abroad contracts the circulation of money in Poland and reduces the reserve abroad. The contraction of the circulation in Poland tends to relieve the relative redundancy here that led to the presentation of the notes for redemption in drafts, and thereby tends to tighten up the money market and make money more scarce. This fact, together with the reduction of the Bank's reserve percentage through the decline of its gold balances abroad, bring pressure on the Bank to make advances in its discount and rediscount rates-advances which further check the drain on the reserves.

If the reserve should decline below the normal legal minimum the progressive tax on reserve deficiencies and the resulting advances in discount and rediscount rates would become effective and tend to check quickly any dangerous

reduction in reserves. The principle of the qualified gold-exchange standard here recommended works equally well in the opposite direction.

When money becomes relatively scarce in Poland as compared with abroad and this scarcity is registered by a fall in exchange rates toward the gold-import point and by an upward tendency in discount rates, banks requiring more currency for meeting legitimate public needs will have three recourses for increasing the supply of money in circulation. 1) They can import gold and have it coined at the Mint as in any other gold standard country. 2) They can deposit gold or its equivalent to the credit of the Bank of Poland in the Bank's reserve depositaries in, say London or New York, and by paying a premium sufficient to cover the expenses that would be involved in shipping gold from this foreign financial center to Poland and having it coined here, can obtain payment in the Bank's own notes. Such a transaction obviously gives the Bank 100 per cent reserve against the new notes it is issuing (in addition to its gold-import-point premium). It expands the currency in Poland by the amount of the deposit made in London or New York, and therefore has the same effect on the currency circulation that an equivalent importation of gold coin would have had. 3) They can rediscount their commercial paper at the Bank and take the proceeds of their rediscounts in bank notes.

No commercial bank, therefore, with cash funds abroad or with high grade liquid commercial assets at home would have any difficulty in getting more currency in case of a reasonable need for additional currency for legitimate commercial purposes, and the reasonableness of the need would be tested by the commercial bank's willingness to pay the price represented by the cost of importing gold or by the Bank of Poland's rediscount rate.

The „qualified gold-exchange standard" is less expensive than the straight gold standard and your Commission believe that it is better adapted to the needs of Poland. The question of the coinage of gold coins has been discussed in the former report. While the Commission believe that Poland should mint some gold coins of her own, they believe that any considerable circulation of gold coin in Poland would encourage hoarding, involve needless expenses and should not be encouraged.

Article LIII

This Article which provides for a tax on the Bank's reserves, the rate of which increases as the reserve percentage declines, your Commission believe is unsatisfactory either in its existing form or in the form given it in the proposed amendment.

As a purely revenue measure the base of the tax, namely reserve deficiencies, is an unwise one. The Government is already receiving from the Bank a non-interest-bearing loan of 50 million zlotys and participates liberally in the Bank's profits. Under the circumstances the levy of further taxes on the Bank for revenue purposes your Commission believe to be undesirable at this time. If, however, further taxation of the Bank should be considered necessary, we believe it should take the form of an increase in the Government's shares in the Bank's profits under Article 75.

In the form of the tax now existing or in the form proposed the rates of the tax are too low to exercise any considerable influence in the direction of forcing the Bank to maintain adequate reserves and to avoid inflation. This can be seen from the following table showing approximately the amount of circulation, the amount of the tax and the percentage of the tax to the circulation, that, under the tax provisions as proposed by the Bank, would result from 100 million zlotys of reserves, representing various selected percentages of the total bank-note circulation.

Percentage Reserve	*Amount of circulation a 100,000,000 zl. reserve would support. ("000,000" omitted)*	*Amount of tax per annum ("000"omitted)*	*Rate per annum of the tax. (per cent)*
51	196.1	980.5	0.50
46	217.4	1.434.8	0.66
41	243.9	1.609.7	0.66
36	277.7	2.777.7	1.00
31	322.6	3.226.0	1.00
26	384.6	4·872.0	1.27
21	476.2	9·049.0	1.90

Assuming that the Bank could keep the notes in circulation, could borrow money at 6 per cent per annum, and could

lend its notes at 8 per cent per annum, and ignoring administration expenses and assuming that the Bank's reserves had reached the low figure of 21 per cent; by borrowing, say, 1,000,000 zlotys a year interest, the Bank could issue against them approximately 4,762,000 zlotys, receiving a return of approximately 381,000 zlotys a year interest, from which its expenses would be: interest on borrowed reserve money — 60,000 zlotys —, and taxes — 87,478 zlotys — giving a total of about 147,478 zlotys. This would mean a net profit of approximately 233,522 zlotys, or about 23.3% per annum on the million zlotys borrowed. A tax at a rate so low as to make possible profits like these when the reserve percentage was as low as 21 per cent would hardly exercise a very repressive influence on note inflation.

Your Commission do not believe it desirable to impose any tax, like the one now existing, upon reserves when the amount of the reserves is above the normal legal minimum. In making a legal reserve requirement the Government merely fixes a limit which it considers a danger signal, and below which it believes the Bank should reduce its reserves only with caution and under the eye of an alert and critical public opinion. When a tax on reserve deficiencies is imposed this is intended to emphasise the warning of danger, and to penalize progressively inflation, thereby rendering inflation unprofitable to the Bank and increasingly expensive to the public. But above the normal legal minimum reserve, which is fixed in the interest of the public as one of the "rules of the banking game", the Bank should be permitted to vary its reserves with a free hand as dictated by its own judgment, in the manner best calculated to meet the ever changing needs of the public. If the normal minimum reserve requirement is placed at a conservatively safe figure, there is no adequate reason why the law should try to bring pressure on the Bank by tax provisions or otherwise to maintain a higher reserve. As stated before, a central bank does not need a larger percentage reserve as its business grows but it does need a larger capital and surplus.

Your Commission therefore recommend the discontinuance of all taxes on the reserves of the Bank of Poland as long

as the Bank is carrying a reserve above the normal legal minimum of 40 per cent here recommended.

In lieu of the revised form of Article 53 suggested by the Bank, your Commission recommend the following provisions for the taxation of deficiency reserves, provisions which are similar to those recently adopted in the reorganization of the German Reichsbank, in the recently established central banks of Colombia and Chile, and in the law of 1913 creating the American federal reserve system.

"Whenever the Bank's reserves against notes in circulation and deposits, constituted in conformity with Article 51, shall fall below the above-mentioned normal legal minimum of 40 per cent, and shall continue below this figure for five days or more, the Bank shall be subject to the following penalties which shall be payable to the Government and which shall be imposed on the basis of the average daily deficiency in the reserve percentage, by ten day periods, beginning with the day on which the reserve first becomes deficient. If the reserve falls below 40 per cent and not below 37 per cent, a tax of 3 per cent per annum on the deficiency below 40 per cent; if the reserve falls below 37 per cent and not below 34 per cent, a tax of 6 per cent per annum on the deficiency below 40 per cent; if the reserve falls below 34 per cent and not below 30 per cent, a tax of 10 per cent per annum on the deficiency below 40 per cent; and if it falls below 30 per cent, a tax of 10 per cent per annum on the entire deficiency below 40 per cent plus an additional tax of one per cent for each one per cent by which the reserve percentage falls below 30 per cent".

"Whenever the reserve percentage shall remain uninterruptedly for five days or more below 40 per cent the rate of discount, if it is below 6 per cent, shall be raised to at least 6 per cent".

"Whenever a reserve deficiency tax is payable, the Bank's rate of discount shall be raised by at least one-third of the percentage of the tax which is payble and this increase shall be in addition to the increase of said rate of discount necessary to meet the requirement of the preceding paragraph of this Article".

The above requirement that the discount rate be increased by a certain proportion of the rate of the deficiency tax is found in a number of other countries, including Germany, and removes from the Bank the onus of the responsibility — often unpopular — of raising the discount rate for checking a credit expansion that has reached the danger point.

Article LV

The Bank's memorandum suggests a revision of Article 55 by giving the Bank the power of "buying and selling government securities, bonds issued by local authorities and mortgage bonds".

If this provision means that the Bank may buy and sell such securities and mortgage bonds, merely as an agent, for the account of its customers, your Commission see no objection to the amendment, but would suggest that the words be added "as agent and solely for the account of its customers". If on the other hand it is intended to give the Bank unlimited authority to buy, sell and hold such securities and mortgage bonds for its own account, your Commission believe that the amendment is extremely unwise and should not be adopted. They see no serious objection, however, to granting the Bank the above privilege if it be restricted by the limitation that "the total amount of government securities including those of local governmental authorities and of mortgage bonds held by the Bank under authority of this article, shall at no time exceed ten per cent of the Bank's paid up capital and surplus".

The first requirement of a central bank of issue is to keep its assets highly liquid because its liabilities to the public are practically all demand liabilities chiefly of a kind that are "affected with a great public interest" since they consist chiefly of the money of the country and of deposits representing the reserves of the commercial banks. Government bonds and mortgage bonds are often very unliquid assets and this is particularly true in times of emergency when the heaviest demands are being made on the bank and when a highly liquid position is most urgent.

Furthermore in times of a general rise in the interest rates the market value of all long-term securities tends to decline and the marketability of the bonds at such a time is often greatly impaired.

The important fact moreover should not be overlooked that if the Bank possesses the right to hold government securities in large quantities it is in danger of finding itself frequently under heavy governmental and political pressure to assist the Government by buying bonds at times when government bonds are not easily marketed elsewhere. The heavy investment by central banks in government bonds, experience has shown, is probably the most common cause of the breakdown of central banks and their failure to maintain their bank notes on a gold basis.

Long-term government securities and mortgage bonds are a proper asset for savings banks, land banks and banks like the National Economic Bank. They are not a desirable asset for a central bank of issue.

The Bank is now carrying 50 million zlotys of the Government's debt as well as 25 million zlotys of government bonds taken from another government bank, and any considerable increase in this figure would be unwise.

On the other hand an exception to this rule might be wisely made by giving the Bank authority to make advances to the National Government for short periods, of say 90 days or less, against short time government notes, and in anticipation of government tax receipts. If this favor is granted the aggregate amount of such advances that could be outstanding at any one time should not exceed 20 per cent of the Bank's paid-up capital and surplus and there should be a provision that the entire debt must be liquidated at least once a year. It should be further provided, that the total amount of such securities so held at any one time, including the securities of this class held as collateral security to loans made to or paper discounted for responsible bank corporations or individuals, and also including securities discounted under authority of Article 60, shall not exceed 20 per cent of the Bank's total loans, discounts and investments.

Article LVI

This Article at present reads:

"The Bank may not purchase for itsown account any shares, with the exception of shares of undertakings intrust-

ed with the printing of the bank notes and other documents for the Bank. The Bank may not purchase real estate (with the exception of the cases provided for in Article 57), unless it be required for the offices of the Bank or the accommodation of Bank officials".

"The Bank may neither grant credits against its own shares, nor purchase them for its own account".

The Bank's memorandum of suggested changes recommends that this Article be revised to read as follows, the underlined words being additions to the Article:

"The Bank may not purchase for its own account any shares, with the exception of shares of undertakings intrusted with the printing of bank notes and other documents for the Bank and undertakings constituted with the approval of the Minister of Finance for the purpose of facilitating the Bank's activity determined under Article 1 of the Statutes. The share of the Bank in the authorized capital of the above mentioned undertakings must not exceed collectively 15 million zlotys".

"The Bank may neither grant credits against its own shares, nor purchase them for its own account".

Your Commission note that in the suggested revision there is excluded from this Article the provision so frequently found in the law governing central banks of issue in other countries, preventing the Bank from purchasing and holding real estate over and above that required for its own offices and the accomodation of the Bank's officials. In view of the unliquid character of real estate holdings and for the importance that a central bank of issue, whose liabilities to the public are all demand obligations, should always be in a highly liquid position, your Commission do not believe that the present restriction on real estate holdings should be repealed.

Article 1 of the Statutes which is referred to in the revision of Article 56 suggested by the Bank is very indefinite, and gives no idea of the type of undertaking that the Bank had in mind in suggesting this amendment. Your Commission believe that the type of undertaking here contemplated should be made more specific and they cannot express an

opinion on the desirability of this authority without knowing more definitely what is contemplated under it.

In view of the importance of encouraging the development of loans secured by agricultural produce, your Commission suggest that there be added to this Article a provision authorizing the Bank to invest in the shares of corporations organized for the purpose of building and operating public warehouses and grain elevators, to an amount not exceeding say, 10 million zlotys.

Article LVIII

The Bank's memorandum here proposes to amend Article 58 by the addition of the following paragraph:

"Agricultural bills arising out of such transactions as the purchase of seeds, artificial fertilizers, agricultural machines and tools may have maturities not exceeding six months. The total of such bills must not exceed 20 per cent of the Bank's portfolio".

Your Commission believe that this proposed amendment is a desirable one but would suggest the following wording, the reasons for which are self evident:

"Paper secured fully by agricultural products or live stock and agricultural bills signed by farmers arising out of such transactions as the purchase of seeds, artificial fertilizers, and tools and out of the purchase of agricultural machinery on which the indebtedness may reasonably be expected to be paid in full at the maturity of the loans, may have maturities not exceeding six months at the date of discount. The total amount of such paper must not exceed 20 per cent of the Bank's portfolio".

The suggested limitation on loans made for the purchase of agricultural machinery is to prevent long-time capital loans from being made on expensive agricultural machinery. Such capital loans are obviously not proper assets for a central bank of issue all of whose liabilities of the public are demand liabilities.

Article LX

The first paragraph of this Article reads:

"The Bank may discount State and Municipal securities as well as mortgages, and their coupons, provided they are matur-

ing not later than three months from the date of discount".

Your Commission suggest that this paragraph be amended by adding the words:

"and provided further, that the aggregate amount of discounts held under the authority of this Article and outstanding at any one time, shall not exceed 10 per cent of the Bank's paid-up capital and surplus unless such paper bears the signatures of at least two responsible names, and provided further, that the totat amount of securities of the Government and/or, of Municipalities, and/or) of mortgage bonds bought and held for investment, or rediscounted, or held as collateral security to loans made to or paper discounted for the Government, Municipalities, government institutions, banks or others, shall not exceed 20% of the Bank's total loans, discounts and investments".

The reasons for restrictions of this kind are discussed in connection with Article 55.

Article LXIII

According to paragraph b) of this Article the Bank may grant loans against "bonds bearing fixed interest on the Polish stock exchange".

It is dangerous for a central bank of issue to make loans to any considerable extent on the collateral or long-term bonds of railways, credit institutions or industrial corporations. Such loans are usually capital loans, and are likely to be frequently renewed and to be unliquid in times of depression. In the judgment of your Commission the holding by the Bank of paper collateraled by long-term bonds should be narrowly limited. In no event should such obligations be permitted to exceed 25 per cent of the bank's paid-up capital and surplus, in the case of a bank like the Bank of Poland, which has in its portfolio a large noninterest-bearing government debt, in this case, 50 million zlotys. Of course this requirement should be subject to the customary qualification that the Bank may take such bonds as additional security for loans previously made in good faith, and may hold such bonds for a limited time when they come into the Bank's possession as a result of the failure of the Bank's creditors to meet their obligations.

Article LXVI

This Article provides that:

"The debtor can repay his debt at any time before its maturity but cannot in that case claim the reimbursement of interest and other charges".

Your Commission believe that this provision is unusually and unjustly severe and would suggest that the Article be revised to read as follows:

"In case, a borrower wishes to repay any debt due to the Bank before its maturity he shall receive a rebate on the interest for the unexpired period of the debt equivalent to at least two thirds of the rate he originally paid, or two thirds of the rate then prevailing on a loan of this character, whichever of the two shall be smaller, but he shall receive no rebate on other charges connected with the loan".

Article LXIX

The second paragraph of this Article provides that:

"With the approval of the Minister of Finance the Bank may also accept interest bearing deposits".

It is unsound for central banks of issue to pay interest on the public's deposits and your Commission believe that it is unsound public policy to permit a central bank of issue to pay such interest. They would therefore recommend that this paragraph be repealed, except in so far as it refers to deposits of employees of the Bank of Poland.

A central bank which must be ready at all times to meet emergencies either in the form of the withdrawal of gold from its reserves — the central gold reserves of the country — or of demands for rediscount from member banks, must of necessity keep large reserves. If it is to keep large reserves and is to be administered primary reference to public service, it must not feel under the necessity of keeping its funds out at interest in order to be able to pay interest on deposits. A central bank which pays interest on deposits would need to have a larger field of operations with the public than is given to the Bank of Poland, and such an enlargement of its field of operations with the public would make the Bank an unduly strong competitor of other banks.

The deposits of the Bank will be of three kinds:

1) Demand deposits representing the reserve money of other banks.

2) Demand deposits of the Government.

3) Demand deposits of the public.

The first class, namely, demand deposits representing the reserves of other banks clearly do not call for interest. Such deposits of reserve money take the place of cash that would otherwise need to be held in the vaults of the depositing banks and vault cash does not earn interest.

The second class, namely, demand deposits of the Government, likewise do not call for interest. Most of them will be active check accounts. It should be noted, moreover, that the Government's 50 million zloty non-interest-bearing loan from the Bank and its large participation in the Bank's profits, as provided by Article 75, assures it a fair share of any profits that may be realized by the Bank from the Government's deposits.

As to the interest on deposits made by the public, your Commission believe that it would be unwise for the Bank to compete with other banks for interest-bearing deposits. The field of interest-bearing deposits should be left exclusively to other banks. It is the understanding of your Commission that the Bank of Poland desires the privilege of paying interest on the savings deposits of its own employees. To this privilege, if properly restricted, your Commission see no objection.

Article LXXV

The amendment here proposed by the Bank provides for a substantial reduction in the Government's share in the Bank's profits.

Your Commission do not believe that the Government's share in the profits realized by the Bank, under the provisions of Article 75 as it now stands, is excessive, and would therefore recommend that the proposed amendment be not adopted.

The Commission would recommend, however, that, as in the new Reichsbank law and the recently enacted Law creating the Central Bank of Chile, the 8 per cent dividend be made cumulative, so that each year the Government will receive no

share of the net profits unless and until the annual contribution to surplus required by the Statutes shall be made and a sufficient sum paid to the stockholders, dividend account to pay 8 per cent for the year and to make up any deficiencies that may exist in an 8 per dividend in previous years.

Article LXXVI

The second paragraph of this Article provides:

"The surplus can only be invested in Government bonds".

Your Commission recommend the repeal of this paragraph as soon as practicable. Government bonds are usually long-time securities the prices of which are liable to wide fluctuations. They are usually not a highly desirable type of asset for a central bank of issue whose assets should be readily convertible into cash on short notice without material sacrifice in values. Pressure on a central bank to require it to tie up any substantial part of its assets in long-time bonds, either government or private, is unsound banking and currency policy. It is sacrificing sound currency and banking principles to the fiscal needs of the state and as a long run policy is likely to cause even the government treasury more harm than good, for it is difficult for a State to have sound government finances if there are weak elements in its currency system.

THE REVENUE SYSTEM OF POLAND, WITH CRITICISM AND RECOMMEDATIONS.

CHAPTER I

General Survey

This report on the taxation system of Poland will be confined to an outline of the more important forms of taxation now in use in the Republic and to such comments thereon as will give clarity and emphasis to the recommendation which are being advanced for their improvement. The limited amount of traslated material available has made impossible a complete study of all regulations and executive orders issued in connection with the various laws. Every effort has been made to present here an accurate statement of the Polish tax situation, within the limits of the material supplied in English. The discussion of specific tax measures will be prefaced by a brief general survey of the revenue system, of the available statistics relating to the volume and the character of the national wealth, and of the administrative organisation.

The general scope of the Polish tax system, and the relative fiscal importance of its different parts, may be seen from the table on page 90.

The most impressive fact revealed by this summary of the revenues collected during the past two and a half year is the relative importance of the internal taxes as compared with the customs and the monopolies, as sources of revenue. The special capital levy, being but a temporary matter, is shown separately. Its budgetary significance has now become so small that it probably does not offset the irritation produced by its retention.

The increased revenue from monopolies in 1925 as compared with 1924 resulted from the extension of government

TABLE I.

Revenues collected in 1924, 1925 and the first five months of 1926, with percentages. (Thousands of zlotys).

SOURCE	1924		1925		1926		Ratio of collections to budget Estimate
	Actual Receipts	Percent of total	Actual Receipts	Percent of total	Actual Receipts	Percent of total	
I. Internal Taxes except Special Property Tax.							
1. Land Tax . .	48.229	4.03	49.300	3.71	29.139	5.29	58.27
2. Tax on Immovables	8.114	0.68	22.400	1.67	12.686	2.28	50.34
3. Tax on Capital and Rents	2.358	0.20	6.900	0.52	3.851	0.71	70.01
4. Industrial Tax	176.667	14.75	196.800	14.81	68 020	12.38	40.01
5. Income Tax .	40.147	3.35	61.600	4.63	39 200	7.12	56.00
6. Tax on Inheritance and Gifts	3.977	0.34	3.100	0.23	1.560	0.28	47.27
7. Excise Taxes	232.617	19.43	112.800	8.49	50.388	9.16	47.22
8. Stamp Taxes	75.783	6.32	111.100	8.36	46.851	8.51	42.01
9. Miscellaneous	17.336	1.45	25.700	1.93	12.726	2.30	—
Total Internal Taxes	605.228	50.55	589.700	44.40	264.326	48.00	—
II. Customs . . .	239.140	19.97	284.800	21.44	68.113	12.38	34.05
III. Special Property Tax . .	199.394	16.65	59.500	4.48	16.712	3.03	27.85
IV. Monopolies . .	153.636	12.83	394.900	29.72	201.453	36.63	44.32
Total II — IV . .	592.170	49.45	739.200	55.64	286.278	52.00	—
Grand Total . .	1,197.398	100.—	1,328.900	100.—	550.599	100.—	—

operations in the production of tobacco and spirits. The Government's attitude toward the organization and management of its public industries is in contrast to the policies that

have been applied at various points in the tax system. The large returns now being obtained, absolutely and relatively, from the monopolies may have the effect of diminishing, in the minds of some, the real significance of the regular or normal taxes, as they have for the present obscured their actual yield.

The large immediate profits of the monopolies, and especially the alcohol monopoly, may have the further effect, also, of causing the Government and the people to lose sight of the insidious dangers of this method of financing the state. There is no intention of making this report a pretext for the promulgation of propaganda against the use of alcohol. The physical and social dangers of the excessive consumption of spirits are recognized in every country. As the owner of the alcohol business and the beneficiary of the profits derived therefrom, the Government of Poland is in the embarrassing position of profiting from whatever excesses of alcoholism the people may commit. More than this, it becomes an active agent in promoting these excesses, for the sake of the revenues, and thus the financial situation and needs are allowed to blind statesmen and public alike to such dangers as may inhere in this policy.

The customs system, as a source of revenue, lies outside the scope of this report. In another section recommendations will be made regarding the organization of the Customs Service with a view to increasing the yield of these taxes. Despite the high importance attaching to this source of revenue in Poland in recent years, experience has shown that the customs duties are not very satisfactory as a major source of revenue, because of the swiftness with which the yield may vary in times of emergency, and also on account of the inability of the country dependent on such revenues to control the circumstances which give rise to imports or exports. International trade is peculiarly sensitive to such matters as wars, international financial revulsions, trade and tariff disputes, strikes, or other severe economic disturbances whether at home or abroad. The habit of depending in large degree on the revenues from this source causes the greater embarassment since it not infrequently happens that the

emergency which gives rise to the variation at the same time prevents or renders inconvenient the prompt introduction of other revenues.

In view of the small volume of internal taxes, both in absolute amount and in relation to the total public revenues, the problem of tax reform in Poland appears to be a question of securing a better equalisation of the burden. This is to be achieved partly through more efficient administrative procedure and partly through the correction of some unwise tendencies in the tax legislation of former, as well as of more recent times. These improvements are the more necessary since it is quite apparent that in future the Government must collect larger revenues than at present. There is a universal tendency for governmental costs to advance, as the population increases and the circle of public activities widens. As this expansion proceeds, defects in the equalisation of taxation become more apparent and such injustices as exist operate with a magnified effect. The unreliability of the customs, and the possibility of a change of viewpoint regarding the use of public monopolies, make it clear that the major part of the increased revenue of the future must be drawn from sources within the country, that is, from the ordinary, normal tax system.

It is necessary, therefore, that the Government concern itself seriously with the distribution of the tax burden and the economic and social effects of this distribution.

Other Characteristics of the Revenue System

In the first place, the laws are not always well drafted. The language is sometimes obscure, and its meanig is often further clouded by repetition and inconsistency of statement. These defects are by no means peculiar to the laws of Poland. Wherever they are found, they are usually attributable to the haste and carelessness with which laws are too often drafted or to the indefiniteness of the concept or purpose to be set forth. Tax laws are naturally complicated, even with the greatest exactness of language. Because of this tendency, every effort should be made to keep them free of unnecessary complexities and technicalities.

Secondly, the recent developments of the Polish revenue system have displayed an overemphasis of progression amounting to a misuse of that principle. The pressure for revenue during the trying times of the different currency crises was conducive to a disregard of matters of sound principle in tax legislation, although it is a fallacious notion to believe that more revenue can be secured in the long run by making every tax steeply progressive. Evasion, the diminution of capital accumulation, the discouragement of businness enterprise, greater administrative costs, all combine to reduce the yield. The fable of the goose that laid the golden eggs has no better application than in the case of excessive taxation. The indiscriminate use of progression ignores the fundamental principle on which this method rests, namely the comparative ability to pay of the several taxpayers, and gives rise to serious inequalities even among those who have the same ability.

A third characteristic is the indiscriminate use of exemptions. The combined effect of the various progressions and exemptions is obviously to free certain economic and social classes almost wholly from taxation, while it places the major portion of the burden on other classes. Quite apart from the question of economic justice, it should be remembered that class legislation is not a satisfactory cement with which to bind the foundation stones of a new democratic state.

Finally, there does not seem to be a clear understanding of the proper limitations which should surround the exercise of administrative discretion, with the result that there are practically no provisions of tax laws which may not be modified or suspended by subsequent regulation or executive order. The exercise of this authority has had peculiarly disastrous results in the processes of collection of taxes. The grant of extension, moratorium, or privilege of installment payments leads to a postponement of one tax or part of a tax until it finally falls due coincidently with another installment or another tax. The combined weight is naturally more than can be borne, and further delays are conceded with a still greater accumulation of burden at the end. The habit of dilatory settlement of obligations is bad training for citizenship. The government's claim for support should be a first

lien, to be discharged as promptly as any other obligation to pay. Wholesale moratoria of taxes are unsound and should be discontinued at once.

The statistics relating to arrears of taxes and compulsory collections are of interest in this connection. The following table presents the total of arrears for certain taxes as of July 1, 1926.

TABLE II

Arrears of Taxes, July 1, 1926.

Tax	Amount in arrears, according to reason for delay		Total arrears
	Deliquency of payment	Extension of period of payment	
Land Tax . . .	Zl. 13,103.401	Zl. 18,000.000	Zl. 31.103.401
Building Tax .	„ 9,970.070	„ —	„ 9,970.070
Industrial Tax .	„ 27,759.379	„ 5,000.000	„ 32,759.379
Income Tax . .	„ 11,108.216	„ 5,000.000	„ 16,108.216
Stamp Tax . .	„ 28,700.000[1])	„ 20,500.000	„ 49,200.000
Capital Levy .	„ 16,281.850	„ —	„ 16,281.850
Totals	Zl. 106.922.916	Zl. 48,500.000	Zl. 155,422.916

The arrears of these taxes alone is more than 10% of the total revenues collected in 1925 from al sources, and almost 24% of all internal taxes actually received in that year.

The prolongation of the term of payment is seen to be directly responsible for about one-third of the arrears of taxes outstanding on July 1, 1926. For what additional proportion this policy is indirectly responsible, through the false hopes that may have led to tax delinquency, no one can say. There can be little doubt, however, that demands for payment of the 48,000,000 zlotys of postponed taxes coming at a time when fresh installments of taxes are falling due, will contribute

[1]) *Includes 16,000.000 of fines and interest penalties.*

to futher delinquency and additional moratoria, and so, will perpetuate the necessity of compulsory collection. The total of the taxes collected by distraint in 1925 was 45,799,483 zl., to which should be added 5,506,646 zl. in fines and 2,914,556 in costs and penalties making an aggregefe of 59,220,587 zl. The year 1926 will come close to the same figure, as the similar aggregate for the first three months was 14,499,127 zl.

These figures will be interpreted by some as an indication of the poverty of the people. Such a view has some basis of truth; but it may also be said that this condition is the fruit of an improperly balanced tax system, the orderly fanctioning of which is obstructed by an excessive number of moratoria, suspensions, and other special favours which have created a state of mind antagonistic to prompt tax payment. The taxpayers are the victims of excessive administative solicitude. The tax calendar should be so arranged as to scatter the due dates of the several taxes throughout the year, with as much regard as possible to seasonal conditions in agriculture and industry. The policy of granting wholesale extensions should be eliminated, the load of back taxes should be written off in some way, and the Government should then proceed to collect each tax when it falls due.

The foreign observer is impressed also by the problems arising out of the lack of uniformity of procedure in different parts of the country. Any one at all familiar with the history of the Republic of Poland and with the serious problems and difficulties which at times have confronted it will readily understand why greater progress has not been made in the direction of greater uniformity of laws, administrative procedure and other regulations. It hardly need be emphasized that continued progress in this direction is eminently desirable. The most efficient administration of the tax system and the most equitable distribution of its burden are dependent in no small degree upon the elimination of the sectional differences of taxation practices and procedure.

Some of the more recent legislation is of general application, although the methods of administration are still in certain respects subject to local modification. Other important tax laws, notably the land tax, continue to perpetuate in full

vigor the marked differences between German, Austrian and Russian procedure.

The community has burdened itself with certain other charges which do not appear in the budget statistics of revenue and expenditure, but which are, nevertheless, the equivalent of taxes in their effects. These are the compulsory payments for various forms of social insurance. It has not been possible to obtain figures for the total amount of these levies throughout the country, but the scope of the insurance program indicates that the aggregate is large, perhaps one-third as large as the total of the national taxes. Some information regarding the relative burden of taxes and insurance charges has been presented to the Commission which suggest the cost involved in providing these insurance funds. The following are from the Posen district for the year 1924.

	Estates about 500 ha. includ. (30 ha. forest)		Estates about 1000 ha. includ. (85 ha. forest)	
	in %	for 1 ha.	in %	for 1 ha.
Taxes for State	21.5	7.80	21.5	9.52
Taxes for communities .	25.4	9.20	35.3	15.60
Different small taxes. .	0.3	0.12	0.5	0.24
Insurance (obligatory) .	13.3	4.84	12.5	5.52
Old age pensions . . .	7.5	2.72	4 2	1.84
Social Welfare	32.0	11.51	26.0	11.51
	100%	38.18 zl.	1000%	44.22 zl.
Capital levy		18.0		16.88
Income tax		3.12		3.64
		57.30 zł.		64.74 zł.

For the agricultural estate of about 500 ha. the social welfare charges in 1924 were 20% of the total burden per ha. while the combined cost of social welfare and old age pensions was 24.8% of this burden. For later years, when the amount of tax paid under the capital levy was smaller, these ratios would be correspondingly increased.

The total social insurance fund is accumulated by payments form the workers as well as from employers. In the above

instance, the workers contributed 8.57 zl. per Ha. which made a total of social insurance charge of 20.07 zl. per Ha. against the agricultural community.

In the case of business concerns, figures have been presented which indicate that the range of costs is from 6% to 14% of the labour bill, according to the nature of the business and the district in which it is conducted.

The introduction of an elaborate program of social welfare legislation was no doubt prompted by the highest motives of regard for the general welfare. In view of the depressed and generally disorganized economic conditions which Poland experienced in the early years of the national existence, some measures of this sort were no doubt justified. But any such program must be framed with reference to the country's long-run ability to support it, and with reference also to its effect on the recovery of economic life. Judged from this viewpoint, the existing scheme of social welfare legislation in Poland seems to be too ambitious. It threatens to defeat its ultimate purpose by restricting economic activity and development, thus creating a vicious circle which will render increased social aid necessary, while the sources from which aid can be drawn are prevented by the weight of these charges from expanding. It is especially undesirable to compel employers to contribute to social insurance funds at a rate higher than that required to meet the current requirements of accident and sickness relief, at a time when prohibitive interest rates are reflecting the scarcity of capital even if the money thus accumulated is being invested in other directions by the boards which manage these funds.

A rapid recovery of agriculture and industry would in itself be the most permanently valuable assurance of a higher level of social welfare, by providing more continuous employment, an increased productivity of labour, and better wages. As this development occurs, social welfare insurance becomes less necessary, while at the same time its cost is more easily carried. To use a local figure, there is danger of loading the social wagon so heavily that the underfed horses, agriculture and industry, cannot draw it at all over the road that has been so thoroughly soaked with depreciated currency. Lighten the load, improve the road, feed the horses, and in the end

a much larger burden of social welfare expenditure can be carried.

A final observation of a general nature relates to the desirability of codifying the laws. The system of diurnal publication of laws, regulations and decrees has ample precedent, but in the course of a short time the accumulation of material becomes so great, and it is in such disorderly arrangement, that it is extremely difficult for the lawyer, and quite impossible for the layman, to know what is the law in force on a given subject. This is especially serious in the case of the tax laws. There is a lack of harmony sometimes also, between the provisions of the tax laws and those of the civil and commercial codes. The latter are not always in agreement, either, since they represent the diverse legal concepts and commercial practices of Germany, Austria and Russia. In view of these diversities it is easy to understand the complaint frequently met with on the part of taxpayers that they do not understand the law and have no means of ascertaining for themselves what the law requires. Certain manuals or compilations of tax laws have been privately issued, but the fact that they must be purchased operates as a barrier to their general distribution. The Government cannot consistently demand its taxes without providing thoroughly adequate facilities by which taxpayers may inform themselves of the character and the extent of these tax obligations. Codification of the laws and gratuitous, widespread distribution of the text of the tax laws with the appropriate regulations, would clear up some of the misunderstandings and grievances which now result from the inaccessibility of the law, and strengthen greatly the Government's position in its peremptory demands for taxes.

The progress of tax reform and the direction which it should take depend on the amount and the character of the national wealth. Statistics on this subject are not abundant and not sufficiently accurate to be used in any other than a broad way, and as the basis for very general observations. The following appendix represents such material as is available relative to the estimated national wealth of Poland and the characteristics of the leading industries.

APPENDIX

TABLE III

General Statement of Poland's National Property

(From Statistical Annual, 1924 p. 11.)

In Milliards of Zlotys

Classes of Property	Former Austrian Poland	Former Russian Poland		Former Prussian Poland	Total
		Congress Poland	East Counties		
Land.	3.99	12.97			
Forests.	1.05	1.48			
Buildings, House Equipment, Industrial Establishments	5.07	20.46	5.27	22.50	88.41
Railways	1.16	1.81			
Roads	0.32	0.18			
Mines	1.94	0.69			
Movables and other Goods	4.47	4.75			
Totals . . .	18.00	42.64			

These figures indicate that the bulk of the national wealth consists of lands, mines, buildings and forests. Industrial and commercial undertakings form as yet but a minor part of the total. In the extent and productivity of her lands and forests, Poland ranks high among the nations of Europe. Thus, she is in 5th place in total area, with 588,000 square Kilometers; in 7th place in estimated national wealth, with 88 milliard zlotys; and in 6th place according to population, with 27,177,000 as of 1921. With respect to the suitability of

the soil for agriculture, Poland has a higher proportion of her land surface rated as arable land, namely 48.6%, than any other country of Europe except Denmark, which has 65.3%. According to statistics for 1925 published by the League of Nations and the United States Department of Commerce, Poland ranked first on the basis of cultivated land, with 49%, as against 45% for Belgium and 35% for Denmark. The response of the land to the agricultural efforts of the people is shown by the yields of crops and animals. These favourable results, as aggregates, are the result of the large area under cultivation rather than of exceptional yields per hectare. With the introduction of better methods of agriculture and the approach of the average holding to the size best suited to agricultural efficiency, a much better showing may be expected. The figures for 1922/23, and Poland's ranking among European countries in the volume of production of certain commodities, are given in the table which follows:

TABLE IV

Statistic of Agricultural Production, 1922/23 with Poland's Ranking among European Countries with respect to Each (except Russia)

From Statistical Annual 1924, p. 19.

Commodity	Quantity Produced 000 Quintals	Poland's Standing with respect to Production	Production of Leading Country in Each Case	
			Country	Production 000 Quintals
Rye	59,624	2nd place	Germany	66,815
Potatoes	264,942	„ „	Germany	325,789
Barley	16,555	3rd „	Spain	24,355
Oats	35,224	„ „	Germany	61,070
Sugar Beets . .	25,746	4th „	Germany	86,961
Wheat.	13,536	5th „	France	74,998

A similar comparison of live stock production is also given, in Table V below, as of the year 1922/23.

TABLE V

Live Stock in Poland, 1923, with rating in comparison with other European Countries (except Russia). In thousands.

From Statistical Annual, 1924 p. 19.

Classs of Animals	Number	Poland's Rating	Production of Leading Country in Each Case	
			Country	Number
Horses	3,290	2nd place	Germany	3,651
Horned Cattle . . .	8,063	3rd „	„	16,653
Pigs	5,287	„ „	„	17,226
Sheep	2,193	6th „	United Kingdom	20,621

While the country's ranking in the extraction of coal, oil, zinc and salt, and in the manufacture of pig iron and steel is by no means unfavourable, it is true that with the single exception of zinc, the proportion of the total annual European production of minerals and metals now coming from Poland is small.

Similarly the inventory of spindles spinning raw cotton, as of January 1, 1925, showed Poland in 10th place, with 1,247,000 spindles, which was only a small proportion of the total number of such spindles in use in European countries.

CHAPTER II

Tax Administrative Organization

The organization for the administration of taxes in Poland is the product in large part of historical circumstances over many of which the people have had little or no influence. The new Republic was compelled to erect within a short period of time, a framework of government upon the crumbling foundations of an old order, and it was therefore obliged to retain both the legislation and administrative machinery for which provision had already been made and to which the people of the different sections were accustomed. Some progress has been made since the birth of the Republic toward a uniform administrative procedure, but the nature of the reforms has been determined, in some cases by the earlier practices.

The organization charts presented in another section of the Commission's report indicate graphically the general scheme of tax administration and show its position in the Ministry of Finance. The more important relations between the several parts of this structure are here summarized:

1. The Minister of Finance and Vice-Minister in Charge of Taxation

The Minister of Finance is in command of the entire financial system, but by virtue of the extent of the field over which he has control his supervision of any part of it must, of necessity, be normally of a general sort. Much of his authority and responsibility is naturally delegated to the Vice-minister in charge of taxation or to the higher treasury offices. Upon him does fall, however, the legal responsibility for the following:

a) The interpretation, and even the amendment of tax laws, through regulations, orders, decrees, and the exercise of discretionary power respecting tax rates, exemptions, dates of payement and other matters. Many tax laws expressly confer upon him these and other discretionary power, to be exercised personally or through subordinates.

b) The appointment of administrative officials of the higher grades, either on his own initiative or with the advice of the heads of the Provincial Treasury Offices.

c) The review, in some cases, of appeals from assessments or other decisions of the lower Treasury Offices and boards of assessment.

d) Approval of claims for refund of excess taxes, and of claims for abatement of the assessments made by provincial treasury offices.

2. The Provincial Treasury Offices

These offices are twelve in number, and located in the provincial capital cities, except that the two eastern provinces of former Austrian Poland are combined under one office located at Lwow and two of the eastern Russian provinces are similarly served by one office at Vilno. Each of these offices is, for its territory, the general representative of the central treasury, and its functions are broader than the field of tax administration. With respect to the latter, however, the provincial treasury offices perform the following functions:

a) The appointment, by the chief of the office, of certain employees of the lower grades in the district offices.

b) The direct assessment of joint stock companies and the larger limited liability companies, for certain taxes.

c) The collection of information relative to business and incomes, for the uses of the district offices as well as for their own assessments.

d) Headquarters for the commissions of abatement which pass on appeals from the assessment and other decisions of the district treasury offices and the commissions of assessment attached thereto.

e) The exercise of a vague and uncertain supervision over the work of the district offices.

3. The District Treasury Offices

The territory served by each district office is ordinarily the starosty, or major subdivision of a province. In this report it is called the "district", and the tax office is referred to as the district office or simply the local tax office. In case the volume of business demands, the jurisdiction of these offices may be expanded or contracted correspondingly. In the larger cities as many such offices have been established as appear to be needed. Throughout the Republic the district offices have, as their most important function, the assessment of taxes in the case of all taxpayers other than those for whom the provincial treasury offices serve as the assessment agency, that is, for all except the corporations and the larger limited liability companies. The taxes which they must administer include all the so-called direct taxes, and in the smaller districts, the stamp taxes as well. In a few of the larger districts a separate division of the provincial treasury office is in charge of the stamp taxes. For the most important taxes, such as the industrial tax, the capital levy and the income tax, the administrative organization and procedure are similar, although for each tax an independent machinery of assessment is maintained, the only connecting link being the chief of the district office, who is required to serve as the chairman of all the assessment boards established for his district. Excise taxes are administered for each province by a division of the provincial treasury office.

As in the case of the United States, the local tax officials are on the "firing line" of tax administration in the sense that they establish direct relations with the great bulk of the country's taxpayers, determining the assessments upon which the latter are to be taxed, computing the taxes to be paid, collecting these taxes, and when necessary, instituting the procedure for compulsory collection of arrears of taxes, fines and other penalties. Indeed, for many of the taxpayers, the local tax office is the only governmental agency with which they ever come in direct contact, and their knowledge of the law, as well as their impressions of the fairness or the rapacity of their government, are all gained largely from their experiences at the hands of this authority.

The local treasury offices are, in one sense, the most important of all, since they constitute the administrative foundation of the entire structure. Their task is more difficult than that of the provincial offices, since they must deal with a larger number of taxpayers, the amounts of whose taxes are smaller and who are in a better position, on account of the obscurity which surrounds their statements of income and of business transactions, to evade their tax obligations. It follows that the Government has a serious obligation in making certain that the work of the local offices is done honestly, thoroughly and efficiently. Despite these obligations, it seems to be true in Poland as in some other countries, that the machinery of local tax administration is the weakest rather than the strongest feature of the system.

The relation of the central to the local tax administrative organization will be referred to in connection with the discussion of each of the more important revenue laws. The following recommendations are presented here, relative to the essential requirements for a proper system of tax administration.

Recommendations.

1. The establishment and maintenance of distinctly high qualifications for the personnel of the assessment staff and other important tax officials.

The task of determining the value of property for taxation imposes unusual demands, not only in the way of technical training, but also in the ability to judge persons, analyze motives, and to digest a mass of diverse information for the purpose of arriving at a just decision amid conflicting statements and other evidence. Such qualifications are not always obtainable, at least at the salaries which are paid to public officials, but they represent the standard toward which the Government should strive in making appointments to these responsible posts. Political affiliations should be subordinated, and the emphasis placed on the appointee's qualifications for the position in question.

2. The payment of salaries sufficiently high to attract and retain in the service men who possess the necessary technical and other qualifications.

It is no doubt recognized on all sides that the present scale of public salaries in Poland is too low and must be revised upward. When these increases are to be made and how much they will be must depend of course on circumstances. The important point is that the Government must establish a scale of salaries that will attract not merely the incompetents, but as well the men who are, or who can become, qualified to perform high-grade public service. A rigid selection must then be exercised in order to obtain for each kind of work the best available persons who are qualified to undertake it.

3. The provision of adequate and modern office facilities and other equipment for rapid and accurate work.

It should go almost without saying that all of the taxation offices of the country should be provided with maps, plats, filing cabinets, typewriters, adding machines, calculators, printed forms and such other specialized equipment as the peculiar nature of their work may require. These material aids are a part of the tools of the craft, and it is as unreasonable to expect workmanlike results from the tax assessor without the proper and adequate tools of his trade as it would be to expect high grade results from industry or commerce without improved machinery. The railroads and the public industries are encouraged to introduce improvements in equipment and methods; the army has the latest instruments and devices for defense and destruction; but the tax assessor gets along, and what is worse, is expected to get along, with the barest facilities and accomodations, and is often roundly abused for the work he turns out.

4. Development of a more vigourous and vital supervision of the local assessment of taxes under the general control of the Minister of Finance and under the direct responsibility of the provincial treasury offices.

The officials in charge of the local assessment should be subject to such degree of direction, supervision and control by the central administrative authorities as will insure, first, uniformly high grade work, and second, the establishment and maintenance of a proper conception of the long-run purposes of the levy and collection of taxes. A spirit of antagonism, suspicion and distrust among the people can easily

magnify many times the labour of assessment, while it defeats the primary objectives of securing public revenue and effecting an equitable distribution of the tax burden. On the other hand, an attitude of good will, reasonableness backed by firmness, and willingness to seek out all the facts before arriving at decisions for or against the taxpayer will in time diminish tremendously the intangible obstacles to a proper assessment. The responsibility for establishing and disseminating throughout the country such an attitude and policy rests primarily on the central administrative authorities. They must create and maintain such relationships with the local tax officials as will produce general recognition of the Government's policy.

These results, which are not to be looked upon as an unattainable ideal but rather as one capable of practical achievement, involve a certain degree of effective central control over the processes of assessment and equalization of taxation. It is apparent from an examination of the charts referred to, and from an investigation of the actual administrative procedure under various tax laws, that in practice a considerable degree of administrative decentralization is to be found in Poland at the present time. The personnel of the district office is appointed by the Central or the provincial Treasury Authorities. A mass of regulations, executive orders and other instructions emanates from the higher offices of the Ministry of Finance. Formal centralization is thus obtained, but there does not appear to be an adequate attempt at genuine supervision of the local assessments, and there is little or no check on the effectiveness with which these instructions are carried out. A complete realization of a program of adequate supervision would at the present time be subject to certain limitations on account of the continuance of vestiges of the diverse tax systems of the pre-Republic regime. The Government should be looking ahead, however, to the time when all these remnants will be cleared away, by making such progress as is possible in the direction of closer contacts and more direct supervision of the methods and the achievements of the local assessors.

The most important agencies in this process of knitting together the central and the local administrative organs are

the provincial treasury offices. These stand midway between the Ministry of Finance in Warsaw and the hundreds of assessors and other local officials throughout the provinces. With respect to their administrative functions in the field of taxation, they are analogous to the state tax commissions of the American States. With a fuller development of their powers of supervision over the work of the district offices, and the introduction of a policy of closely testing, inspecting and equalizing the results, the tax burden throughout each province can be made much more nearly equitable than at present. One of the most important tasks of the central ministry, or of the vice-minister in direct charge of taxation, would then become that of insuring uniformity of practice and results among the provincial offices, and of striking the keynote of equity and fair play with sufficient vigour and sincerity as to cause it to be heard in the outermost tax districts of the Republic.

5. More frequent and thorough inspection and testing of the results of local assessment, with the authority vested in the head of the provincial office to order reassessments when found to be necessary.

The attainment of substantial uniformity in the operation of the tax system, the goal toward which every Government should strive in the imposition of its taxes, involves, in addition to the program of administrative control thus far outlined, provision for examination and revision of the results. The assessment officials must not only be instructed in the way to do their work, and supplied with the necessary aids to its performance, but in addition, their results must be inspected and tested, and when serious inequalities, omissions or discrepancies are detected, they should be compelled to revise their findings in order to assure greater uniformity.

The provincial treasury offices are the logical center of the responsibility for inspecting and testing the results, as they are for the supervision and direction of the initial assessments. Some oversight is now being exercised, although the amount of actual inspection that occurs is dependent upon the number of inspectors available for the work. An adequate supervision of the assessments made by the district offices is dependent, also, upon the development of proper standards

by which the results can be measured. The intent of this recommendation is that the provincial treasury offices be charged with a more active responsibility for examining and testing the results of the local assessment, and that they be given greater authority to order reassessments of individuals or of whole districts, without waiting for appeals to disclose the existence of an unsatisfactory condition of the local assessments.

6. Greater responsibility should be vested in the chiefs of local offices in making assessments, while the boards of assessment should be eliminated or demoted to the status of advisers.

One of the most serious drawbacks to the present local tax administration in Poland is the series of cumbersome, and on the whole, incompetent commissions of assessment, composed of taxpayers subject to the particular tax in question. This method is now used in the case of the turnover tax, the capital levy and the income tax. The commission is the actual assessment body, and the work of the chief of the district office in compiling data relative to the returns emerges simply as a recommendation regarding the assessment to be placed before the commission. The district chief is, ex officio, chairman of each commission, but the latter is entirely free to disregard his estimate, although a dissenting action is subject to review by a commission of abatement attached to the provincial office if he vetoes the assessment.

The theory underlying these commissions which are one of the administrative inheritances of the former regime, is that the Government and all of its officials, are rapacious, and quite incapable of acting toward the taxpayer in a spirit of reasonableness, good will and fair play. Being a deliberative assembly rather than a group of experts on assessment, and having neither the time nor the disposition to make supplementary investigation of the status of taxpayers, their action is necessarily a resultant of guesswork, personal feeling, arbitrary rulings and the personal influence of the district chief. It is the antipode of careful, scientific investigation and reasoned deliberation on the facts assembled.

Since one object in retaining these commissions of assessment has been the safeguarding of the taxpayers' interests

against a rapacious government, they can be dispensed with upon the introduction of a reformed administrative procedure and a development of a different spirit and policy on the part of the Government toward those who must support it. It is not strange that after a century of experience under foreign rulers, the people should have a conception of the attitude of the government which leads them to demand this degree of protection for their own rights. The Republic of Poland is a government of, for, and by the people, and the people should be taught to see that the government seeks to protect their interest. As a realization of this comes there will be less objection to the introduction of proper administrative procedure, since it, too, is in the interest of a more equitable distribution of the burden of taxation,

The use of commissions of assessment, composed of taxpayers serving without pay, has been poor economy. The members of these commissions tend to regard themselves as counselors representing the taxpayers, rather than impartial public officials. Their inclination to favour their constituents, too often given rein without proper discrimination or adequate consideration of the facts, has without doubt lost to the Government more in revenues than would have been the cost of a somewhat larger staff of assessment officials, supplied with better equipment and more adequate facilities for their work than are now found in most of the district treasury offices.

7. The inauguration of a nation-wide, persistent campaign of education for officials and taxpayers on the meaning and operation of the tax laws.

The results desired, as suggested above, cannot be achieved without a continuous educational effort directed at both officials and taxpayers. The methods employed in some of the American States may prove suggestive for Poland. The local assessment officials in the states of Wisconsin, Minnesota, New-York, Massachusetts and other of the more progressive states are assembled at least once a year, usually at the state capital, for the purpose of receiving instruction in the meaning and application of the tax laws. Those attending these conferences are encouraged to ask questions, to present their problems, and to exchange views regarding the

proper solution of their local difficulties. Qualified representatives of the central tax administration, which in the American States is the state tax commission, instruct the assessors in their duties, and after the latter have returned to their work, the higher officials visit different sections for the purpose of addressing groups of taxpayers, interviewing those who seek further information, and inspecting the work of the local officials. The tax laws and all regulations and instructions, together with abstracts of court decisions, are printed for general gratuitous distribution. These methods are pursued regularly, year after year, and contribute in an effective way to the popular knowledge of the tax law as well as to a better understanding between officials and taxpayers. The provincial treasury offices are the logical centers for the organization and conduct of similar educational and supervisory efforts in Poland.

CHAPTER III

The Land Tax

The taxation of land is one of the oldest, and at the same time one of the most nearly universal, of all means of providing public revenue. The great advantage of this tax lies in the fact that real property cannot be removed or secreted, while its value is not ordinarily subject to extreme variations. With the growth of population and productiveness, its capacity to bear taxes tends to increase. In all advanced countries the taxes on land and buildings are an important source of revenue, and in some, notably the United States, the problems of their proper assessment are among the most important that engage the attention of tax administrators.

As the statistics indicate, land and buildings constitute an impressive part of the total of Poland's wealth. In view of the predominance of agriculture in its various branches in the national economy, this kind of wealth may be expected to bulk large in the national assets for a long time to come. It is reasonable, therefore, to regard land and buildings as one of the potentially important sources of public revenue, and to see in a properly constructed and administered tax on these forms of wealth a future revenue source of material importance.

At the present time, however, these possibilities are not realized. The taxes on land and on immovables produced in the year 1924, 56,343,000 zl. or 4.71% of the total revenue, and in 1925 the yield was 71,700,000 zl., or 5.37% of the total. It seems unlikely that much improvement may be expected here until the existing system of land and building taxes is thoroughly revised. This is a task of considerable magni-

tude, the accomplishment of which will require not only time but expert guidance. The difficulties are in part legal, and in even greater part social. The legal difficulties relate both to the administrative procedure of the collection of land taxes in several parts of the Republic formerly under separate alien domination, and to the diverse systems of land tenure which developed during the 19th Century in each of these parts. The social obstacles are even more deeply rooted, being bound up with all manner of popular idiosyncrasies and prejudices, and with the peculiar attachment which agricultural people always feel toward the land which they occupy. Despite these obstacles, however, the potential fruitfulness of the land and building taxes in Poland, and the advantages to be gained from an equal distribution of this part of the tax burden, are so great that the reform of this tax should proceed without further delay.

The diversity and complexity of the existing situation are so great that a complete statement of the details is not possible within the space available. The main outlines of the system will be indicated, however, to bring out more sharply the scope of the problem involved in the reorganization of this tax. In the subsequent discussion the land tax and the tax on buildings will be treated separately. In the European usage the land tax (impôt foncier) applies to rural land, and to the buildings used in the ordinary agricultural, forestry or other distinctly rural, as distinguished from urban, purposes. The building tax, or tax on immovables as it is known in Poland, applies to urban properties, and to such buildings in the open country or in small villages, as may be used for purposes of frade or industry. The line between the two taxes is essentially that between agriculture and urban or business premises.

Methods of Assessing the Land Tax

Four different methods of assessing the land tax are found in Poland, corresponding to the four distinct administrative systems which prevailed before the Republic was set up, namely, Congress Poland, The Eastern Provinces, former Austrian Poland and former German Poland. The principal features of each method will be briefly described.

Congress Poland. The basis of the tax in Congress Poland is the morg, a Polish land unit consisting of 0.56 Ha. A classification of lands, employing five classes for estates and four classes for peasant holdings, was worked out by the Russians, some time during the first half of the 19th century. The basis, presumably, was the quality of the land, but almost all records, maps and plats have disappeared, and of the system now apparently only a tradition remains. Revision of the classification is occasionally undertaken by the district treasury office, on the receipt of claims from the village communes, but the invariable effect of these revisions is to shift the land into a lower class. An elaborate scale of rates of tax per morg has been worked out, showing a rate per morg for each class in each district. The latest tariff of this sort was issued in 1866—68. It was necessarily based on its predecessors, for such schedules are a growth rather than an inspiration. They are a mere crystallisation of the habits and customs of past generations. Distance from a market, a vital consideration for the peasant farmer, appears to be the primary factor governing the variations in rates.

Owing to the existing classification of land and the schedule of rates, the computation of the land tax for Congress Poland becomes simply a matter of multiplying the number of morgs of land in each class by a proper rate of tax for each class. Since the rates vary in the different districts, these computations are made in the district offices, where the necessary records are kept. In the absence of recent accurate surveys, the number of morgs in a district, or in any particular holding, is not infrequently a matter of tradition and lively disputes with the assessing authorities are not uncommon. Owners of those lands which were held in fee simple at the time of the emancipation of peasants receive notice of the amount of tax due directly from the district office, and make payment to the cashier of this office. Notice of the tax assessed on peasant communes is sent to the headman of the village, and the amount due is apportioned by him to the individual land owners. Statements differ as to his procedure — the correct method, under the system, would be to base the apportionment on the number of morgs in each holding and in each class, since this is the manner

in which the tax due from the village is calculated. It is said that in many villages the distribution is at a flat rate per morg, regardless of the classification of the holdings.

Land owners in Congress Poland are subject to certain additional levies, one of which is peculiar to this part of the country while the others are applied throughout the nation. All of these are calculated on the basic rates. The first, an additional tax of 60%, was originally introduced in order to permit the assessment officials to make reductions in individual cases of need while preserving the total yield of the tax. The original purpose has long since been lost sight of and this advance is now collected from all owners alike. The second additional tax, amounting to 100% of the basic tax, has been introduced in 12/IV 1924. Finally, a system of degressive and progressive rates was introduced by the law of June 15, 1923. Comment on this feature of the system will be deferred for the present.

The Eastern Provinces. The system of land taxation in the Eastern provinces is in general similar to that of Congress Poland. Two classes of land only are taken into consideration, the first including arable land, gardens, orchards and hayfields, and the second including forests, marshy meadows, lands overgrown with shrubs, and similar inferior holdings. The tax rate per morg for each class in each district is determined by the Council of Ministers, the present tariff dating to 1922. The total tax is determined by multiplication, and the quotas thus ascertained for each district are apportioned in the districts, by the local assemblies, attention presumably being paid to crop conditions, location, quality of land, and other special factors.

German Poland. In former German Poland the basis of the land tax is the cadastral income. The term "land cadastre" means a survey of the area, qualities, and productiveness of each parcel of land. This survey is twofold in character: first, a determination of metes and bounds by a physical survey, and second, the gathering for each parcel, of the economic and physical data required for establishing an approximate net income. There is no limit to the subtleties of examination and classification which may be set up here, and the authorities may easily exaggerate the importance of

minor details, unless the survey is made and executed only along the main lines.

The cadastre for German Poland was begun in 1861. A number of years was required for its completion, but no subsequent revision has been undertaken, as the land tax was relinquished to the localities in 1893, after the introduction of the Prussian income tax. The Republic of Poland revived the levy as a source of state income in 1921, using as a basis for distributing the assessment the local records of the old cadastre. Such official records of the original cadastre as may have been kept are in Berlin, and no known copies are available in Poland. These local records consisted of the land maps and land register, in which were shown the area of each parcel and its classification according to the original cadastre. The latter has been entirely inflexible from the beginning, regardless of the changes in the use and the productiveness of the land. For example, land originally classified as forest land remains in that category, although it may since have been cleared and is now being cultivated intensively. No corrections have been made, either, on account of the construction of roads, railroads, and other improvements. Naturally, such a classification has lost all connection with present realities, and is quite unsatisfactory as a basis for distributing the tax.

On the basis of these records, the provinces of former German Poland are assigned a quota or contingent of land tax. This sum, which is determined by the Council of Ministers, is apportioned to the districts on the basis of the traditional records of the land cadastre, and in like manner the amount assigned to each district is apportioned to the individual land owners. The present figure for the cadastral income of these provinces is 39,539,413 zl., upon which a basic tax aside from progression or degression, of 9,486,012 zl. was levied for the year 1924. The rate of taxation on cadastral income was, therefore, 24,3%. These figures are all quite meaningless, except as they may indicate the extremely low level of the cadastral income.

Austrian Poland. The land cadastre in former Austrian Poland dates to 1869. It was modelled on the German plan,

but was in some respects an improvement, in that, better maps and more accurate surveys appear to have been made. The land classification is extremely elaborate. Ten different cultures of land are distinguished, and within each culture, such as forests, meadows, wheat land, rye land etc., eight subdivisions may be made, according to the characteristics of the soil, topography, crop yield, and other factors. The local records are kept in each district by special officers of the cadastral survey. The land maps and register of titles are kept up to date, so far as concerns ownership records, although the expence of this process is greatly increased by the large number of separate small holdings. There are said to be more than 20,000,000 recorded parcels of land in this section. The entire cost of surveys is not, of course, chargeable to the land tax, since it is necessary for other reasons to keep the title record clear. But the burden of the land tax, especially in the southern provinces, is such that the disputes over boundaries and areas of holdings are correspondingly more numerous.

According to the theory of the cadastre, the complete records should show, for each parcel, the actual net revenue over a period of years. The cadastral assessment is ussually based on the average income for several years, in order to smooth out yearly variations. The original Austrian plan was to conduct a complete revision of the cadastre every 15 years, and one such revision, more or less complete, was made in 1897. In the interim, the cadastral registers were supposed to be kept up to date by recording currently such changes and developments as might appear. The amount of field investigation and of bookkeeping involved in maintainig these cadastral records has proved so great that in Austria as in every other European country using the cadastre, the tendency was to copy former records, or even to fail altogether to make further notations in the register, or entries regarding cadastral income. In time, therefore, the early cadastral estimates of net revenue became fixed quantities which were added, subtracted or divided as titles to land passed.

Distribution of the Burden of the Land Tax

The statistics relating to the distribution of the land tax are not adequate for a complete study of this subject. It would be necessary, in any case, to supplement a statistical analysis by a more adequate acquaintance with local conditions than it has been possible to obtain in the brief time at our disposal. That the present tax is not distributed equitably among provinces, or among the land owners within any one province, is admitted by most persons competent to speak on the question. How great a degree of inequality exists, and upon what sections of the country is the burden most severe, are questions which can be answered with less assurance. Such materials as can be readily obtained, bearing on these questions, will be set forth briefly.

The following table presents a comparison of the avarage land tax per Ha in the different sections, with the average yield of the leading crops in quintals per Ha, for the year 1924.

TABLE VI

Average Crop Season of 1923-24. Quintals per Ha.

Section	Avge tax per Ha	Relative	Wheat		Rye		Oats		Barley		Potatoes		Sugar Beets		Avge of Relatives
	zl.		Qu	Rel	Qu	Rel	Qu	Rel	Qu	Rel	Qu	Rel	Qu	Rel	
C	2.69	100	10.1	100	8.3	100	10.4	100	11.0	100	119.4	100	177.7	100	100.0
E	1.21	41.3	7.8	77.2	6.4	77.1	6.6	63.4	7.5	68.1	83.0	70.0	115.8	65.4	70.2
S	2.57	95.5	4.7	46.5	4.9	59.0	6.6	63.4	6.8	61.8	103.9	80.7	165.2	92.3	67.4
W	3.16	117.4	17.1	169.3	13.0	156.6	17.2	165.9	7.4	158.1	139.0	116.4	221.9	125.0	148.5

X. C — Central. E — Eastern. S. — Southern. W — Western.

The average tax per Ha represents only the state tax and does not include the communal additions. Since the latter are for local purposes, some of which, at least, are a benefit to the local taxpayers or their property, their omission matters less in comparison. On the basis of average yields of crops, the superiority of former German Poland is quite evident. The land tax per Ha. is heaviest in these provinces, but the disparity of relative taxes is much less than that of comparative crop yields. On the other hand, the southern provinces had, in this year, distinctly lower crop averages than

either the central or the western provinces, while the average tax per Ha was almost as heavy as in the central provinces. The average of the relative figures ignores the comparative importance of the several crops in the agricultural economy, but whether this final unweighed average or the relative crop production of any of the cereal grains be used as a basis of comparison, the conclusion seems clear that, in relation to the central provinces, the southern provinces are overtaxed and the western provinces are undertaxed. If the comparison be confided to the figures for the average yield of potatoes or sugar beets, the disparities among the different sections become less, although the southern provinces appear to be somewhat overtaxed even on this basis.

This conclusion is sustained by some specific comparisons of the taxes paid by owners of adjoining lands in Galicia and the Southern part of Congress Poland, the only distinction being the imaginary political boundary line between the former Russian and Austrian territories [1]).

Thus:

1.

10 morgs of land of first class in Błonie or Grodzisk district (Russian Poland) pay the fundamental land-tax and 60% addition — 29.28 zlotys.

10 morgs of land in a subdistrict of the Krakow district where the land valuation is highest pay 64.61 zlotys plus 10% progression, i. e. 71.12 zlotys.

2.

Upon an area of 20 morgs in this district the amounts paid will be: 64.41 zl. in Russian Poland and 155.16 zl. in Austrian Poland. The latter case includes a 20% progression.

3.

10 morgs of land in Błonie district, composed of 5 morgs of first class land, 2 morgs of second class land, 2 morgs of hayfields in the third class and 1 morg of hayfield in the fourth class, pay 26.89 zlotys.

10 morgs of land in Bielsk district, where valuations are lower than in Krakow district, composed of 5 morgs of land

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[1]) *Ministry of Finance Report, 1925. Part 8. Page XXXI.*

in first class, 2.5 morgs in the second class and 2.5 morgs of hayfield in the second class, pay 64.03 zlotys.

4.

In adjoining districts, separated by the Russian frontier the amounts paid are:

10 morgs of first class land in Miechówce district (Russian Poland) pay 20.48 zl. while in the third subdistrict of Krakow district the same area pays 71.12 zl, including 10% progression.

5.

In the poorer districts: 20 morgs of first class land in Kozienice district (Russian Poland) pay 32.64 zlotys and the same area in Bóbrka district pay 75.00 zlotys while even 10 morgs of first class land, 5 morgs of second class land, 5 morgs of third class land in Bóbrka district pay 59.95 zlotys.

6.

In the poorest districts: 40 morgs first class land in Radzyn district (Russian Poland) pay 49.28 zlotys and in Bohorodczany 70.48 zlotys.

7.

The estate Wierzchowiska in Luhlin district (Russian Poland) composed of 2682 morgs pays 1.371.11 zlotys while the estate Borusowa in the Dąbrowa district containing 516 morgs pays 2.555.70 zlotys.

Progression and Degression

A law of June 15, 1923, introduced a system of progressive and degressive rates, the inrcease or decrease being graduated with respect to the basic tax. If this tax is under 8.80 zl. the reduction of tax is 50%, and if it is between 8.80 and 35.20 zl., the reduction is 20%. No change is made if the tax is between 35.20 zl. and 106 zl. The progressive scale is as follows:

Brackets	*Supplementary tax at following rates:*
If the tax is above	106 zl. but not more than 176 zl. 10%
„ „ „ „ „	176 „ „ „ „ „ 528 „ 20%
„ „ „ „ „	528 „ „ „ „ „ 232 „ 30%

Brackets			*Supplementarg tax at following rates:*		
If the tax is above	1,232 zl.	but not more than	2,640 zl.		40%
" " " " "	2,640 "	" " " "	4,398 "		50%
" " " " "	4,398 "	" " " "	6,158 "		60%
" " " " "	6,158 "	" " " "	8,796 "		80%
" " " "	above		8,796 "		100%

This feature of the land tax was introduced for political rather than for fiscal reasons. In fact, from the revenue standpoint alone, the changes have largely offset each other, as the following figures for 1924 show:

Amount of tax added on account of progression	zl.	11,037,086
Amount deducted on account of degression	"	7,738,622
Net revenue gain	zl.	3,298,474

The soundness of the political policy, as such, which is here illustrated is not in question in this discussion. Apart from the whole issue of agrarian reform, however, the agitation culminating in these changes in the rates may be regarded as symptomatic of the deep-seated evils of this tax as it is at present applied. That there should be evils and difficulties must be perfectly apparent from the foregoing brief review of the diverse and complicated systems of land taxation in the different parts of the Republic. The solution must be sought, however, in such measures as will preserve and develop the fiscal possibilities of this important tax, rather than in such steps, by whatever motive prompted, as will lead to its destruction.

Recommendations

1. The Government should resolve at once to save this important tax by proceeding to establish a new, uniform and equitable basis for its assessment.

This recommendation needs no argument, for it is generally agreed that the present system should not be continued indefinitely. Its retention is so obviously unjust that further delay in undertaking the task of revision is inexcusable.

It is not possible to forecast now the revenue that might be realized from a reconstructed and properly administered land tax. If the relative importance of the capital and product of Polish industry and commerce is compared with the value

of the land and the products of Polish agriculture, the volume of tax now being paid by the former will suggest, at least, the ultimate fiscal possibilities of the latter.

In fact, the discrepancy between the amount of revenue now being raised from the two taxes, the land tax and the industrial tax, is the strongest argument for the prompt reform of the former. An alternative to this step is the extension of the principle of the turnover tax to agriculture, since the commerce and industry of the country are already subject to the same taxes of other sorts as are now imposed on the land, and in addition, to the turnover tax. This would be unfortunate, since the administrative difficulties of the turnover tax render it unsuitable for application to the small farmers. But the present land tax is so low, in comparison with taxes now being paid by trade and industry that an upward revision is imperative unless some new, counterbalancing levy on the land is to be introduced to equalize the situation.

The stabilization of the gold value of the zloty at the level recommended in another section of your Commissions's report raises at once the question of a compensating valorization of the land tax. As pointed out in the Report on Stabilization, an upward movement of prices may be expected to occur in Poland, in view of the maladjustment of prices in this country with those of other countries. As these changes occur they will leave the cadastral assessment of the land tax further below the present true values of land than ever, and diminish by so much the already small fiscal significance of the tax. The discrepancy can be temporarily taken care of by an advance in the basic rates of the land tax. There could be little valid objection to such increase, in view of the removal of progression and in view also of the effects of stabilization. The device of higher basic rates should not be allowed to obscure the necessity of an early and thorough going revision of the fundamental assessment basis of all lands in the country.

2. The antiquated 19-th century style of land cadastre should not be used as the model in the new valuation, except in a simplified form.

This method of determining the taxable basis of land was devised by the German academicians of the middle of the last

century. It is extremely rigid in its application, and artificial in its results. It is inordinately expensive, and on account of the cost of revision is quite likely to be retained without modification, regardless of the economic and social changes which produce shifts in land values. The techniqne of recurrent land appraisal has been developed further in the United States than in any other country. If suitable arrangements could be made for the services of a competent American assessor of real property, who could spend two or three years at the job, with a free hand in planning and executing the work, the new valuation could be established and a modern technique introduced for carrying it forward from year to year. The fact that in the United States land is assessed on the capital rather than on the income value would not seriously affect the procedure, since the income value is the most important factor in the determination of capital value. It is recommended that the Government undertake to obtain such assistance for this important task.

3. The use of progressive and degressive rates of land taxation should be abandoned.

While this report follows the accepted and familiar terminology of the Polish laws, it is not strictly accurate to refer to the reductions of tax as a "degression", for the entire scale may be viewed as an irregular progression. The reductions to small taxpayers are rather in the nature of "abatements" of tax, than a true application of degression.

The tendency toward excessive use of progression without adequate understanding of the nature and the limitations of this type of rate scale has already been referred to (See above, pages 7 and 8). It is unsound, from the standpoint of financial theory, to apply progressive rates of taxation except in such manner as will take into account the entire capacity of the taxpayers subject to such rates. When the tax is levied on one form of property or one source of income only, it introduces serious discrimation among those subject to the tax. This discrimination is not merely between the large and the small taxpayers. A progressive tax applied to land alone leads to possible inequality of tax burden among the large land owners themselves, as well as between the land owners

as a group and the owners of other equally large accumulations of capital in other forms.

Consider first the case of the land owners themselves. It is admitted by all that the present basis of the land tax is very unequal throughout the country, owing to causes which have already been summarized. In adjoining districts, and no doubt within a given district, the basis of assessment of different parcels of land varies considerably. The levy of a uniform scale of progressive rates under these conditions penalizes the persons who are so unfortunate as to have a relatively high basic assessment, while it favors those whose basic assessment is low. Uniform supplemental rates cannot possibly correct inequalities of this sort. Unless the basic assessment is reasonably equitable, progression aggravates rather than corrects the evil.

Further, the use of progression in the case of a single tax, which does not take account of income from other sources, leads to unequal effects of the tax. For example, one land owner may possess, in addition to his land, profitable investments in banks, industrial corporations, or enterprises, while a second, having the same quantity of land of equal quality with that of the first land owner, may have no other wealth. The levy of a progressive land tax, which naturally takes no account of the total wealth of each, is a discrimination against the second land owner. The first finds it easier to pay his land tax, and thus to resist any pressure which such a tax might be expected to bring to induce the sale of his land, although he may be no more capable manager of his estate than the second.

The discriminination against land owners as compared with other classes of capitalists is equally difficult to justify. The owner of joint stock shares is not singled out for payment of a special progressive tax on these shares, in addition to the graduated income tax. Why, then, should an exception be made of land owners, who are subject to the income tax in addition to the progressive taxes on the land alone. It is well known, of course, that the latter tax is but one plank in the platform of those who seek to effect a so-called "agrarian reform", whereby large land holdings are to be sub-divided.

There are many angles to this issue, which as a whole lies outside the scope of this report. Upon the merits of the land reform program as such your Commission expresses no opinion. It can not approve, however, of the imposition of a progressive tax on land owners for the purpose of bringing about such changes in land ownership or land distribution as may be contemplated by the agrarian reform movement, for the following reasons:

First, the progressive land tax, as a fiscal measure, produces an inequitable distribution of the burden of taxes. This point has been elaborated above, and need not be restated. A tax law that is drafted so as deliberately to penalize one class of taxpayers to the advantage of other classes is a species of class legislation which should find no place in the statutes of a democratic state.

Second, an agrarian reform that is accomplished by means of a progressive tax on land would be unscientific, since such a tax is not at all selective in its operation. Reliance on taxation would diminish the interest in other means of effecting the desired reforms, and thus diminish the likelihood that a more scientific mode of procedure would be introduced, as for example, the sub-division first of all of the least efficiently managed and least productive of the large estates.

Third, as at present applied, the program of heavy taxation is inimical to the future of the country's forests. This is a further illustration of the non-selective operation of a progressive tax, for the owner of a large forest is subject to the same pressure to subdivide as the owner of large tracts of arable land. The effects of forest sub-division would almost certainly be disastrous, so far as the country's future timber supply is concerned. The most successful forest culture requires that large tracts of land be under unified management. The distribution of the forest into small holdings would increase the cost of gathering the timber crop, and in all probability would tend toward a more predatory type of forest exploitation than is found in the large forest, especially if the highest standards of European forestry practice are being applied therein.

Fourth, the use of taxation for ulterior social purposes rather than for revenue involves administrative waste. Such

a tax naturally involves some additional administrative expense, and its complications may lead to a heavy cost of administration. In proportion as the ulterior purpose of the tax is achieved, no revenue is collected. The net result is a diversion of the energies of the tax administrative organization into channels which yield little or no revenue, with the result that the other taxes are less efficiently administered and so tend to produce, likewise, a diminished revenue.

Fifth, the use of taxation to accomplish a social reform is sometimes futile, since it may be that those at whom the tax is particularly aimed prefer, for some reason or other, to pay the tax and continue the practice or the institution aimed at. Such a policy increases the revenue, and benefits the state to this extent, but it does little to remove the social injustice that may underlie the particular situation. Because of the unselective operation of a tax and the uncertainty of the results thus accomplished, it is more efficient and in the long run more equitable, to attack social problems directly rather than to lash at the Devil about the bush the with whip of progressive taxation.

Finally, and most important of all, the deliberate use of discriminatory taxation for the attainment of ulterior social ends is a dangerous precedent to establish. The power of taxation is the power to compel citizens to contribute to the support of the state. If this power is wisely used, the tax burden will be distributed with some regard to equity. If it is wrongly used, destruction follows in its wake, for as an eminent American jurist once observed "The power to tax is the power to destroy". It is a bad thing to give constitutional sanction to an avowedly discriminatory tax that is not definitely balanced by tax burdens falling upon other classes or groups of taxpayers, for such a measure is double—edged—it cuts in more than one direction. The advocates of a particular reform have their way today, and resort to discriminatory taxation to accomplish their ends. To—morrow another group has the reins of government, and they attack an entirely different problem by means of discriminatory taxation. If it is land reform today, it may be the restriction of population to—morrow. If progressive taxation is useful in restricting the numbers of hectares a man owns, why not employ it to pe-

nalize him for the number of children in his family? If the use of a progressive tax is constitutional in these instances, and every case of its application strengthens its constitutional position, what cannot be brought under its restrictive influence?

Your Commission hold that the task of providing the necessary public revenue in an equitable manner imposes so heavy a burden upon the fiscal authorities of the state as to absorb their entire energy and administrative capacity, and that they should not be expected, in addition, to become, the arbiters of social destiny by applying taxes which have as their principal object not revenue but some scheme of social reform.

4. The land tax should be retained for state purposes, and the communes or other local governmental organizations should be permitted to levy additional or supplementary rates, for local purposes. The Government cannot now afford to relinquish the whole of the land tax to the localities, and in the opinion of this commission, should not do so, for the following reasons:

a) When properly administered, the land tax is a stable, and at the same time, a flexible source of revenue. In view of the uncertainty of the yield of the customs, and even of the income and business taxes, owing to the development of conditions over which the Government may have no control, it would not be a wise policy to abandon to the localities this dependable form of taxation.

b) The budget of the Central Government is not now, and so far as the future can be foreseen, will not be in a position to make this change, since it would involve corresponding increases in the yield of other taxes.

c) The proper administration of the land tax requires central control and supervision in order to guard against the perpetuation of such inequalities as are the basis of the complaints againts the tax in its present form.

d) The removal of the state tax on landed property would result in certain classes of persons contributing a disproportionately small share toward the support of the central government.

5. Supervision of the communal budgets for the purpose of regulating the local tax burden on land.

Under the system here proposed, whereby the land will be uniformly assessed throughout the country, each hectare will contribute on a reasonably equitable basis toward the cost of the central government. The assessing authorities, under the direction and supervision of the central Ministry of Finance, are under moral obligation to effect a distribution of the burden of the land tax on such a basis as soon as this result can be accomplished. The total taxes paid by different land owners will vary, however, according to the relative levies of the local government divisions, communes or otherwise. The local subdivisions of government must be financed in some manner, and there appears to be no more acceptable source of revenue available to all districts than the land contained in each. The amount of the local addition to the land tax should be regulated, as at present, by the establishment of a maximum percentage of the basic tax, and in addition, by some degree of supervision over the local budgets whereby this tax will not be exploited locally to the neglect of the other available and appropriate sources of local revenue.

CHAPTER IV

Taxes on Buildings and Urban Lands

For purposes of taxation no distinction is drawn, in Poland, between the building and the land which it occupies. This accords with the general European practice of assessing income rather than capital value, and differs fundamentally from the methods used in the United States, whereby a seperate assessment is made of all urban lands and of the building or other improvements thereon. Urban land as such is subject to assessment, in Poland, only if it is unoccupied and adjacent to improved property.

The joint or combined assessment of the land and the building occupying it is more logical under the European plan of taxation on annual income than it would be under the American plan, since the aggregate income produced is a result of the combination. Should an extensive development of the long time leasing system occur here in connection with the newer methods of financing construction, as it has in the United States, a separate assessment of land and building will be more necessary and desirable. For example, when one person owns the land, but surrenders control and use of it to another under a 99-year lease, and the second erects a building on the land, it becomes necessary to keep a separate record of the owner and of the basis on which the successive owners should be taxed during the life of the lease. Contracts on the part of tenants to assume all taxes introduce complications, but do not set aside the necessity for the separate assessment. In this account of the building tax, or tax on immovables as it is called here, it will be understood that the reference is to the taxation of urban real property, that is, land and the building thereon.

As the statistics of national wealth suggest, the valuation of buildings in Poland must have been, at one time at least, considerable. There is no material available to indicate the relative valuation of urban real property as distinguished from farm lands. It is reported, however, that prior to the war the building industry was flourishing, and employed a large proportion of all industrial labour in the country.

Under these conditions a fairly good revenue should be expected from taxes on urban lands and buildings. The taxes paid on lands and buildings in the cities of Congress Poland in 1912 amounted to 17,485,000 gold crowns, as compared with a land tax of 13,693,000 gold crowns (impôt foncier[1]). In Galicia, the tax on immovables produced 11,300,000 crowns (batiments, 3.1 loyer, 8.2) for the year 1911, as againtst a land tax yield of 7,600,000[2]).

The city of Warsaw obtained the following revenue before the war from the additional tax on buildings (thousands of Roubles).

TABLE VII

Yield of Building Tax in Warsaw, compared with total municipal Revenues 1908—1913[3]).

Year	Tax on Bldgs	Total Revenue of City	Per cent Build. Tax to total Revenues
1908	3,228	10,445	31,8%
1909	3,356	9,679	34,7
1910	3,356	10,214	32,8
1911	3,367	11,019	30,6
1912	4,102	18,395	27,7
1913	4,102	15,082	26,5

The situation in Warsaw since the war is shown in the following table, which gives the yield of certain substitute taxes as well as of that on immovables, which is the building tax proper.

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[1]) *Annuaire Statistique Polonais, Cracovie, 1917, Table 161.*

[2]) *Ibid, Table 167.*

[3]) *„Obraz porównawczy budżetów m. Warszawy" Wacław Babiński. Warszawa 1913, Table II, pp. 38—39.*

TABLE VIII.

Yield of Building Taxes in Warsaw since the war [1]).

	Polish Marks (thousands)				Zlotys
	1920/21	1921/22	1922	1923	1924
Tax on Immovables	25,547	18,415	63,810	16,083	4,283
Tax on Lodgings	—	482,200	1,010,462	64,480,189	4,063,587
Hotels & Pensions	—	45,382	124,061	12,391,053	722,126
„ „ Transfers of Immovables	12,947	42,935	156,893	28,204.039	919,547
	38,494	588,932	1,955,216	104,791,364	5,709,540
Total Ordinary Revenue	370,215	3,385,328	9,251,241	147,135,597	31,949,719
%	10.4	17.4	2.11	9.1	17.19

It will be observed that the tax on immovables has produced a negligible sum throughout this period. For reasons which will appear later the tax on tenants, and that on hotels and pensions, introduced in 1921, have been increasingly productive.

In certain other respects, also, the present situation is in sharp contrast to that prevailing before the war. That little expenditure has been made on the maintenance of buildings is evident, for the visitor is impressed by the dilapidated condition of many structures, an external symptom of economic anaemia. Statistical evidence of the condition of the building industry throughout the country is not available. Figures have been supplied for Warsaw which indicate that the present value of buildings, taking into account the new construction, is about equivalent to the pre-war value, which was put at 600,000,000 roubles, on the basis of insurance appraisals of about one-fourth of the properties. The number of skilled workers employed in Warsaw from January 1914 to the outbreak of the war is given as 2,865. For the last three years these numbers have been as follows:

Year	*Number of Building Trade Workers.*
1923	3,679
1924	4,270
1925	2,655

[1]) *Annuaire Statistique de Varsovie, 1923—1924. Table 236.*

The increase during 1923 and 1924 above the pre-war level is to some extent apparent only, as the latter figure represents the employment for seven months only. The building activity in recent years was stimulated by the prospects of financial aid in construction, but it slackened decidedly as these prospects faded. The following analysis of the statistics of buildings completed in Warsaw in 1923 and 1924 throws further light on the building situation at that time.

TABLE IX

	Number of Buildings 1923	Completed in 1924
Total	433	372
Of these for dwellings there were built by:	189	197
a) The State	36	5
b) The City	5	1
c) Cooperatives	35	40
d) Private Individuals	113	151

Various causes have contributed to this result. The devastation caused by the war and by a prolonged occupation by enemy troops, during which time a system of requisitioning stripped many buildings of their copper and brass equipment; the decline in house rents during the war, owing to the mobilization of men and the deportation of the civilian population, were influences increasing the rate of building depreciation while they diminished at the same time the revenues available for maintenance and improvement.

The special causes of building depreciation ceased with the war, and their effects could in time have been made good, had a proper reconstruction policy been pursued. Some restrictions were doubtless necessary, but in your Commission's judgment the Government went too far, and maintained the rigour of these restrictions too long. To speak more plainly, the policy of strict restriction and regulation of the building situtation, entered upon for the purpose of protecting tenants, not only failed to protect many tenants against exaction, but checked so thoroughly the movement of new capital into the field of building

that the country faces today almost as great a scarcity of housing as it did at the time the policy was inaugurated.

The general policy referred to, which appears to be largely responsible for the adversity that has befallen the building industry, is that laid down in the series of rent limitation and lodger's protection acts. The control of rents and the protection of tenants during the trying times of war and reconstruction are laudable, but the method adopted was one which prolonged and aggravated the difficulties rather than solved them. Rising rents are an indication of building shortage, and the best means of combating the evil is by promoting construction. In view of the steady increase of population in Poland, it is quite apparent that additional housing will be required for an indefinite period. Since the building shortage was more likely to be a permanent than a temporary phenomenon, it is the more evident that the proper remedy would have been a greater ecouragement of building. For this activity the country has all the essentials — labour, materials and architects. Had the Government of 1919 attacked the problem in this manner, it would shortly have been under control if not entirely solved. Instead, the zeal to protect tenants against so-called "rent profiteering", as the former residents of the Polish cities and many other nationals flocked back after the German ban on their return had been lifted, led the Government into the inauguration and perpetuation of a policy from which it can now extricate itself only with considerable difficulty. The severe limitation of building incomes has checked new construction and prevented expenditures for building maintenance. The supply of buildings is but little increased, and the old buildings are in much worse condition than ever for lack of maintenance. So little has been accomplished, therefore, toward relief of the building shortage that a sudden removal of all restrictions would bring back the rent extortion crisis which they were seeking to avoid seven years ago.

Two features of the government's policy stand out as being especially objectionable. The first is the continued use of the pre-war rent without valorization as the absolute norm or standard by which all subsequent rent regulation is to be guided. There was never at any time prior to 1924 a disposition to modify this basis of regulation to accord with the

declining value of money during the successive periods of inflation, with the result that building incomes were virtually wiped out. It has been said that during the inflation of 1923 — 24 there was not a single house in Warsaw that commanded a rent per annum equivalent to one dollar U. S. currency, and that the total rental of the 11,400 houses in the city was not more than six hundred United States dollars.

Certain types of rented domicile were not subject to the rent limitation laws. It is stated, however, that less than 2% of the habitations were excluded. The terms of rent limitation have varied from time to time, but the provisions of the law of June 28, 1919 will suffice to indicate the general plan. According to the act, lodgings of one or two rooms were to be let at the same rent in marks as was charged in June, 1914. For larger apartments the following increases above the pre-war rent were authorized:

for lodgings of three rooms,	10%
for lodgings of four rooms,	15%
for lodgings of five rooms,	20%
for lodgings of six or more rooms,	25%

The effects of this policy in Warsaw may be judged from the fact that of the 156,409 separate lodgings in 1919, 103,012 or 65,8% of the total consisted of one or two rooms. The total rooms in the whole number of lodgings was 350,791, an average of 2.2 rooms for each lodging[1]).

The second feature of the government's policy, which completed the ruin begun by the first, was the refusal to sustain the building owners in their attempts at collection of the small rents that they were allowed to charge. Ejection at the termination of the lease was forbidden: the unemployed were granted moratoria in payment of rents for six months to a year, although this inevitably meant for them, gratuitous occupancy, since the total rent for a year would be a wholly impossible payment for anyone to manage who could not meet his monthly or weekly installments: and finally, little relief was to be

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[1]) *Publications of the Bureau of Statistics of the City of Warsaw, Resultats du Recensement des Immeubles et des Logements de Varsovie en 1919. Vol. II. Part II. Table 4.*

expected in the suits for the collection of arrears of rent, as these usually produced simply ridiculous results. In April, 1924 one landlord was awarded the sum of 10.000 Polish Marks, or Zl. .0005, as the rent for a furnished apartment of three rooms, ante-chamber, kitchen, with gas and electricity, for a period of 19 months. The Government itself was not above this kind of extortion, for a Tribunal, having occupied a five-room apartment in a provincial city for two and one-half years, wrote the owner on July 19,1924 that his rent for this period, amounting to 8,460 Polish Marks, could not be paid since the total was worth less than zl. .001. (Kurjer Informacyjny Sept. 5,1924).

The curious psychology underlying the whole plan is illustrated by the favouritism shown to tenants at another point. Since the owner could not eject the tenant or terminate the lease as long as the absurdly low rent was paid, the tenant acquired, for the time, a permanent right to the premises he occupied. Although nominally restricted in the disposition of his leasehold, it proved possible, even easy, for him to sublet, exchange, and even bequeath his rights, which had acquired a considerable cash value. The landlord who wished to move into his own building had to buy a relinquishment from one of his tenants. The supreme irony of the situation was the transfer of the privilege of rent exploitation from the building owners to those tenants who had possession in 1919. These tenants frequently exploited newcomers without mercy. One room of an apartment could be sublet, during the inflation periods, for more than enough to pay the original lessee's rent on the entire apartment. The real value of the building was transferred from the owners to the tenants who were fortunate to have possession in 1919, and these became in turn the true rent profiteers, under the protection and with the aid of the state.

An attempt was made to counteract the obviously evil effects of the policy of rent limitation by a grant of credits for new building. The original amount was to be for 500.000.000 zl., but as the financial difficulties of the central goverment and of the general credit system increased, this sum was curtailed to one-tenth, so the relief actually accomplished by this means was of little practical importance. Its chief effect

appears to have been the inauguration of a considerable amount of building which cannot now be completed for lack of funds.

The Taxation of Lands and Buildings

Urban

The taxes levied on urban lands and buildings fall into at least three groups, as follows:

1) The building tax, levied on the annual income value of the buildings, which is subject also to additional taxes for local purposes,

2) Taxes on tenants,

3) Tax on unoccupied land.

These taxes will be briefly outlined, in turn.

1. **Taxes on buildings.** The present building tax law dates from 1924. The income of all buildings completed before January 1, 1922, is subject to the tax. New buildings are to be exempt for 15 years. The rate of tax is tied up with the procedure for determining rents that was introduced in 1924. The attempt was made, in the Act of 1924, to improve the situation by introducing the following scale, which was based, as before, on the rent for June, 1914, now for the first time figured at its gold value. During the second quarter of 1924, (the law was dated April 2, 1924) rents were to be:

For stores which had a pre-war rent of more than 600 Roubles, 25% of the fundamental rent,
For one room, 5% of the fundamental rent,
For two or three rooms, 10% of the fundamental rent,
For four to six rooms, 15% of the fundamental rent,
For lodgings of more than six rooms, stores, pensions 20% of the fundamental rent.

During the second half of the year 1924 an increase equivalent to 4% of the fundamental rent was authorized for each quarter, while beginning January 1, 1925, the quarterly increase was to be 6%. All increases were to cease when the rent was once more at the pre-war level. It is surprising, to say the least, to find such a scale as this six years after the

beginning of the legislation which introduced the pre-war rent as the basis or fundamental rent, but inflation is a whirlpool, and those countries which are fortunate enough to escape without being drawn into the vortex cannot always lay their course immediately on the steering marks by which they began the voyage. If the above scale of increases is allowed to stand, the rent of one-room lodgings will be back at the pre-war level in the third quarter of 1928, ten years after the inauguration of the policy of holding rents at this level.

The tax on building income was fixed at 20% of the rent for the year 1924. Thereafter the rate is to diminish as the amount of the rent collected under the above scale increases, until in 1928 the tax rate is to be 7% on the rent.

This situation calls for two observations. The first is that the pre-war rent will be too low to represent accurately the true rental value of buildings in Poland in 1928. There is no country in which rents have stood still for so long a time, and it is certainly too much to expect, in view of the small amount of building and the rapid growth of population, that the supply of housing and the demand therefor can be equalized on the basis of the rental values of 1914. A further upward adjustment of rents will be natural and necessary, after the expiration of the rent limitation acts, in order to stabilize the rent situation. In fact, the stabilization of the zloty at the level recommended by your Commission should involve a separate readjustment of building rents as of other prices, to the new gold basis. If the present program of rent restriction continues in force without correction for the changed value of the zloty, building owners will be penalized still further as other prices rise.

The second observation is that the tax scale introduced on building incomes in 1924 is a most curious inversion of the principle of ability to pay. This scale applies the heaviest rate of tax in 1924, when the amount of rental income that could be collected was lower than in any subsequent year. The rate of tax declines thereafter as the amount of rent increases. It is useless now to comment on this kind of tax policy, which has presumably been in effect for two years, and which has, therefore, passed the stage of its worst effects.

It should be said, however, that even when the building situation again becomes normal, and when rents are once more high enough to stimulate the desired flow of capital into buildings, a tax rate of 7% will be too high for that part of the income that is obtained from the building, since it would be virtually equivalent to a tax on the gross income received from the investment of capital in buildings. This is a further argument for the separate assessment of the income value of urban lands and buildings, in order that a differentiation may be made, if desired, in the taxes levied against the income from each.

2. Taxes on tenants. It is difficult to ascertain exactly how many, and what taxes, are collected from tenants as such. Residents of Warsaw have been subject to some special exactions, for the provision of housing for student officers, for local purposes, as well as to the taxes for general purposes. One of the latter was the tax introduced for the purpose of providing funds to pay the interest and amortization charges of credits advanced to aid new construction. The tax rate was established and the levy made on the assumption that the full 500.000.000 zl. would be advanced, and the change in these plans has not as yet led to any change in the tax law although it has greatly diminished its effectiveness.

The plan for subsidizing new construction was to advance short-term credits at 6%, to an amount not exceeding 80% of the value of the building. At the end of a year and a half after completion, these credits were to be refunded through the national mortgage banks into long-term bonds, bearing 8% or more interest, one-half redeemable in 15 years and one-half in 25 years. The borrowers were to pay 4 — ½% interest on these bonds, and the difference was to be met by the tax on tenants.

The tax imposed for this purpose was to be collected only from the tenants of the buildings erected prior to January 1, 1919, and on occupied lands. The rate was to be 6% on the gold value of the pre-war rent, which was estimated to be about 450,000,000 zl. On this basis the tax would have produced 27,000,000 zl. annually. The collection was placed in

the hands of the municipal authorities, who administered it, on the whole, quite indifferently. The collapse of the credit program and the expectation that the law might be changed, an expectation all too well founded as shown by experience, made both collectors and taxpayers indifferent to the matter. Nevertheless, there was accumulated about 13,000,000 zl. from which the charges incurred on account of credits advanced can be met.

3. **Tax on unoccupied lands**. This tax applies only to unoccupied lots abutting on streets that are completed or in process, and to lots having inadequate buildings. The income value of such lands is determined by assessment commissions established by the municipal authorities, and, so far as can be learned, there is no supervision of their work or inspection of its results, by any higher administrative authority. These commissions also determine when existing buildings or structures are inadequate, within the meaning of the law. The tax rate is $\frac{1}{2}\%$, except for lands in the central parts of provincial capitals, where it is 1%. In all, there are 643 towns to which this tax applies.

Recommendations

1. The building situation should be reorganized.

It is perfectly apparent that renovation of the whole policy with respect to the construction and leasing of buildings or apartments must precede any attempts at their more vigourous taxation. The goose that lays the golden eggs appears to be so nearly dead, in this instance, that only strong measures of resuscitation will suffice. A plan of long term private financing of buildings, supported by taxes on tenants and owners, and the development of a program for removing the restrictions that have so heavily penalized the construction and ownership of buildings, should be worked out immediately. The details of such a plan lie outside the scope of a report on the system of taxation.

2. The Government should give assurances against a future repetition of an expropriation policy that will be sufficiently strong to create confidence and induce a flow of capital into building.

This proposition needs no argument in its defense. The decent and comfortable housing of the population should be one of the primary concerns of any government. The only way now in sight by which the necessary supply of housing accomodation can be provided is through the encouragement of savings and their investment in this form of property. The experiences of Poland in recent years have emphasized, at more than one point, the economic dependence of the state upon the good will and the active assistance and cooperation of the private capitalist. In no other sphere has this dependence received greater emphasis that in the matter of building a sufficient number of the right sort of houses for the people. There can be little doubt, from the evidence available, that building owners have suffered from encroachment on their rights of property amounting almost to expropriation. According to the instance cited above, the Government has, on occasion, been a direct party to such practices, while its unsound policy, has been responsible for the greater part of the difficulties now confronting the owners of buildings and the people as a whole over the housing situation. It is by no means certain that had there been no restrictions the investment of capital in building would have continued at a large figure in the face of the decline in gold prices during the inflation periods. The pressure for housing would have counteracted to some extent the effects of inflation, but the situation clearly called for a policy of encouragement instead of one of repression, if the problem of housing shortage were to be solved.

3. The whole program of limitations and restrictions should be brought to an end at the earliest possible date.

It is understood that in view of the condition of affairs that has come to pass, this program cannot be immediately revoked in its entirety. The whole community should be given definitely to understand, however, that this kind of favouritism is to end. As pointed out above, the lodgers protection legislation resulted chiefly in protecting those who were in possession in 1919, and in affording to them, instead of to the landlords, an opportunity for the exploitation of those who for any reason whatever, were subsequently compelled to seek a change of residence, or to obtain a residence,

for the first time. The newly married, students, commercial travelers, and employees, both public and private who were transferred from one place to another, were among the group most subject to this kind of exploitation.

4. The policy of exempting tenants in newly constructed houses from the tax imposed on all other tenants should be abandoned at once.

The reason for this discrimination appears to be the belief that in some way or other such an exemption stimulates building. As a matter of fact, the exemption of the tenants of a new building from a tax imposed on tenants as such probably does not appreciably benefit the owner, nor does it offer any appreciable inducements for investment in building, as long as the housing shortage is as severe as it now is. If it seems desirable to stimulate more rapid construction, it may prove advantageous to provide for complete or partial exemption of the building owner with respect to the income from his investment, for a period of years.

The value of a temporary tax exemption, and all such exemptions should be strictly limited as to time, can easily be over-estimated as an inducement to stimulate building. It has a certain effect, to be sure, but the period of exemption is usually short as compared with the life of the building, and the immediate advantage of the tax exemption is likely to weigh less with the prospective investor than his fear of a public policy which may possibly deprive him of his entire income or his rights of ownership.

5. Eliminate at once the policy of granting moratoria for the payment of rent and taxes.

As pointed out in the first chapter of this report, the practice of granting extensions has contributed to the demoralization of all tax collections, and it will continue to demoralize the whole situation as long as it is followed. The latest instance, in connection with the building tax, is the law of March 27, 1926, which suspended the quarterly increase of rent during the remainder of the current year. This law extends, also, the moratorium for payment of rent by unemployed persons from six months to one year. With respect to back taxes and back rents, some adjustment amounting to a large degree of writing off must undoubtedly

take place. The Government should face the future, however, and begin at once the preparation of a policy in which delays and moratoria will have little or no place. Its first concern should be with the establishment of a system of taxation that is just and equitable. The citizen's obligations to the state under such a system should not be subordinated to his other debts or other expenses. If it is necessary to relieve the indigent, it should be done in some other manner than by a series of decrees which interfere with the orderly operation of the revenue system.

6. Introduce a modern technique for the assessment of urban property.

While the full application of such a procedure must wait until the building industry has a sufficient vitality once more to stand the strain, the organization for the work should be going forward. Two or three years of preliminary collection and analysis of data are required, in any event, before it is possible to introduce taxes calculated on the new basis. Here, as in the case of the assessment of lands, the services of an expert American assessor would be extremely valuable. The enormous values of real estate in many American cities, the rapidity with which buildings are erected and torn down to be replaced by others, the volume of sales transactions, and the complicated contractual relations between owners of sites, owners of buildings thereon, and tenants, have presented problems of valuation which have been attacked and solved quite satisfactorily in a number of American cities. A competent American assessor, if given a free hand to organize his work, could within two or three years revolutionize the whole technique of urban property assessment. The most important thing needed here in this connection is an improved technique for ascertaining valuations rather than a radical change in the system of building taxation.

7. The separate assessment of lands and buildings in cities.

This is an essential feature of any improved system of urban real property taxation. The problem of valuation is so complicated that it becomes necessary to break it up into its components, which in the case of an urban property, are the land and the building or other improvement thereon. The analysis of value is facilitated by the distinction between site val-

ue, in the case of the land, and the cost of construction, in the case of buildings, with proper allowances for differing standards of construction and for depreciation owing to age and obsolescence.

The separate assessment of lands and buildings promotes also the allocation of the tax between the owners and the tenants. After the system of urban real property taxation has been revised, as proposed in these recommendations, and after the system of restrictive rent legislation has been cleared away or greatly modified, the taxes collected from tenants should be repealed, as the incidence of the tax on buildings is usually on them.

8. It is recommended that the rate of taxation for all lands and buildings, for all state purposes, be uniform throughout the country, and that the communal additions to the tax on urban real property be regulated in accordance with communal needs and the other sources of local revenue. The case for a uniform tax rate for state purposes is obvious. All urban property should contribute to the state treasury on an equitable basis, which is accomplished by establishing the true values of urban property and by levying a uniform rate of tax thereon. Since real property is a large factor in the wealth of any city, additions to this rate should be permitted for local purposes, but the amount that may be added should be limited in order to induce each municipality to develop its own peculiar and characteristic sources of revenue, thus avoiding an unduly heavy tax on the real property of any community.

CHAPTER V

The Business License and Turnover Tax

1. The system of business license and gross sales taxation was introduced in 1923, and is now operative under a law enacted on August 7, 1925. The Polish law was based on a somewhat similar Russian law, which in turn had been modelled after the French plan of taxing business by means of a combination of the patente with the industrial tax.

There are, in reality, two separate taxes imposed under this law. One is an annual business license certificate tax, and the other is a tax on gross income or turnover. In one or both forms, the tax applies to all businesses, occupations and liberal professions, with certain exceptions enumerated in the statute. Itinerant vendors pay only the license tax, while the professions are subject only to the tax on turnover. The central idea of the exemptions authorized has been to favour those undertakings operating as public welfare agencies, and those specializing in export trade. Strictly agricultural operations are also excluded, although the exemption does not extend to commercial dairies, breweries or distilleries, even though the latter are operated as adjuncts of farming for the purpose of utilizing the farm products, nor to lumbering.

2. **The Business License Certificate.** The law requires that a business license certificate shall be taken out by every commercial and industrial enterprise, unless specific exemption is extended. A separate license, at the appropriate rate, is to be obtained for each establishment, and at least one such license is required in the case of these profit-seeking enterprises which do not maintain a separate establishment. A similar requirement is set up for the industrial occupations

specifically mentioned in the regulations. The definition of a "separate establishment" is reasonably clear in the law. The Minister of Finance and the Minister of Trade and Industry act together as a final appeal board to decide uncertain cases. The licenses, which are valid for one year, are obtained during the months of November and December at the treasury offices of the district in which the head office of the concern is located, and the tax must be paid for a year in advance. Concerns beginning business after July 1 may obtain a certificate valid for the remainder of the year at half price. Seasonal activities also pay the half-yearly rate. The certificate must be conspicuously displayed in the office or place of business. Establishments having no license certificate, and those having a certificate for a lower category than that in which the enterprise properly falls, are subject to closure if the proper license is not obtained within two weeks from the date of the inspector's visit. Warehouses must be provided with a registration card, for which a fixed rate of ten zlotys is charged.

Immediately after the opening of the new year a thorough inspection of all premises subject to the license tax must be begun. It must be completed within a period determined by the chief of the provincial treasury offices. This examination is expected to yield information of value in assessing gross income for the turnover tax, especially in the case of those taxpayers who keep no accounting records and whose assessment of turnover is largely by presumption, as well as to afford a check on the application of the license certificate system itself. A record of the completed inspection must be endorsed on the certificate or registration card.

The rate scale is the most difficult part of such a tax, since it is necessarily inflexible and mechanical in application. In the present instance, the scale of rates is not only rigid, but complicated and unequal. Commercial enterprises are grouped in six categories and industrial enterprises in eight categories. The license tax for the commercial concerns in categories I, V-a and V-b, and for industrial concerns in categories I—V is the same regardless of the locality in which the business is conducted, while for all other categories of both commercial and industrial enterprises the rates are grad-

uated according to the size of the city in which the business is located. Warsaw stands alone in the highest grade, and all other cities, towns and villages in the country are arranged in four inferior grades. The actual license tax paid by any given business concern will depend, therefore, first, on its classification in accordance with some factor designated in the law, such as the number of workers, the units of output, or some purely physical factor such as the heating surface of steam boilers (in the case of steamships), and, second, on the place in which the establishment is located, except for those classes for which the rate does not vary with the location. The practical results of such an elaborate system of classification are certain to be incongruous. For example, the first commercial category contains the following:

1) All wholesale dealers,
2) Collecting agencies with a turnover above 500,000 zl.,
3) All banking houses and all short-term credit institutions having a turnover above 500,000 zl.,
4) Non-mutual insurance companies,
5) Contractors having a turnover above 400,000 zl.,
6) Commission dealers with branch offices, and warehouses accepting goods on deposit, whether granting credit on them or not,
7) Restaurants and other eating places having more than 20 employees,
8) Hotels having more than 100 rooms,
9) Pensions of more than 50 rooms,
10) Druggists employing more than eight persons,
11) Moving picture theaters seating more than 500 people,
12) Theaters, circuses, etc., seating more than 750 people,
13) Railways, both standard and narrow gauge.

The annual license tax on any individual concern in any of the above classes is 2,000 zl. regardless of where the enterprise may be located.

Your Commission do not understand the psychology underlying this classification, which is a typical instance of the system. The apparent intention has been to group together the largest concerns of the different branches of trade. Such a design is proper enough, but its execution in the above instance is baffling. Thus, for some kinds of business a mini-

mum turnover is set up, while in other cases all concerns in the business are included, regardless of their volume of turnover. Two other criteria are used for still different types of business, namely, the physical capacity of the building and the number of employees. There is some connection of course between these factors and the volume of business done, but there is no relation at all between the turnover of the largest pension, or drug store, or moving picture theater, and that of the largest banks, commission agents and wholesalers. The former may be the largest example of their class, but the entire group may be doing a volume of business far below that of the largest members of some other class, yet the rate of license tax is the same in both cases. The difficulties are inherent in the system of license taxation.

3. **The Turnover Tax.** The second part of the business tax is based on the turnover, or the gross income. This concept is not always defined in the same way, nor does it seem to be clearly stated. For example, there is express authorization of deduction on account of shipping and insurance expenses defrayed for the buyer, discounts, allowances for returned goods and for differences in quality between the sample and the lot sold. Losses by banks in their operations in foreign currencies and checks and in all sort of securities, are deductible from the gross turnover. (Regulations Art. 12). Oil wells are tenderly treated by Article 17 of the Regulations, which contain the following provision: "The value of crude oil and gas to be allotted as royalties to the lessors, and being already burdened with unearned income and capital tax, shall be excluded from gross profit constituting the turnover of the enterprise". No other businesses are authorized to deduct rents or royalties, although in these cases as well the income and capital taxes apply. If one enters the fields of deductions, one quickly loses sight of the objective of turnover, or gross income, as the basis of the tax.

The tax rate on turnover in general is 2%, with the following exceptions:

a) 1% on the turnover resulting from the sale of raw material raised or goods produced by industrial concerns, if the sale is to other industrial concerns for further manufacture, or for use in their own industries.

b) One-half per cent on the turnover resulting from dealings in articles of first necessity and in raw materials necessary for the development of home agriculture and industry, if the dealings be conducted by wholesale concerns, by professional buying or selling concerns.

c) 1 % on the turnover of enterprises carrying on retail trade in victuals.

d) 5 % on the sum total of commissions and all other remuneration received by all persons and concerns acting as commission merchants or commercial middlemen, whether acting as forwarding agents, carriers, brokers, or in any other capacity.

The discriminations in rate introduced by the above scale render necessary rather precise distinctions of terminology and practice. The law contains a definition of wholesale trade, which is to be considered the sale of all kinds of goods to merchants and industrialists, or to enterprisers having contracts with the Government or with commercial authorities for resale or further manufacture, and sale (by truckloads) to agricultural associations and producers. Evidence that the business is by wholesale is to be supplied by properly kept books. The Minister of Finance, in concert with the Minister of Industry and Trade, is to establish the list of articles of first necessity. It is further provided that in case of a "justified economic need" these two ministers, acting in concert, may reduce the rate of turnover tax to a minimum of 1 % on wholesale trading.

4. **Administration of the Law.** In contrast with the business license tax, this part of the law presents rather serious difficulties of administration. To meet these difficulties a cumbersome organization has been set up, based on the methods employed under the old regime for somewhat similar taxes. The problem of obtaining an accurate return from all who are liable to the tax is magnified by the fact that only a small part of those engaged in business or a profession keep books of account or other records by means of which their statements of turnover can be proved. The country is handicapped, moreover, by a shortage of properly qualified public servants to whom the responsibility of a law of this

character might be entrusted, while the extremely low scale of salaries in the public service operates as an effective bar to the entrance of persons having adequate educational and other qualifications.

The actual arrangements made for the assessment of the tax on turnover are taken from the procedure under the old regime, a procedure based on the principle of the participation of the taxpaying class in the processes of assessment and review. This participation was in part a heritage of the autonomous character of the local governing units, especially in Russia, and in part the result of a deep-seated conviction that the sole aim of the government was to squeeze as hard as possible, without regard to reason or justice, and that the taxpayers must be represented on the assessment boards in order to guard against this pressure. Under older theories of government there has been too often good ground for this conception of the attitude of the official toward the taxpayer. As examplified in the administrative organization of the business and industrial tax, as well as in the income tax, the attempt to democratize and decentralize the procedure of assessment has resulted in a cumbersome organization, over the results of which the central treasury office has no adequate control.

The District Board of Assessment. The district assessment board consists of a chairman, who is ex officio the chief of the district treasury office or his assistant: a representative of the district office for the collection of indirect taxes appointed by the chief of the provincial treasury office, and of 8 or 12 members, with as many deputy members chosen from among the industrial taxpayers. Half of the members and deputy members are appointed by the chief of the provincial treasury office on the advice of the chief of the district office, and the other half is appointed by the former from a list of candidates prepared by chambers of commerce and industry, chambers of craftsmen, and by professional trade organizations. These lists must contain at least three times as many names as there are members to be appointed. They should be persons well acquainted with the affairs of the district, and care shall be taken that large,

medium and small scale undertakings have representation. Only those industrial taxpayers are eligible who enjoy full political rights and who have never been penalized for offenses against the industrial tax law. Strict secrecy is enjoined and severe penalties are provided for the use of any information gained in this way for the injury of any person's reputation or business. The members and deputy members are appointed for four-year terms, one-half of each group retiring every second year. Written notice of the meetings must be sent at least five days in advance. Resolutions are valid only if at least half of the members are present. If this number is not present, however, a second meeting may be convened and the resolutions passed at this meeting are valid regardless of the number present. The notices usually contain the call for the second meeting to be held a half hour after the time fixed for the first one.

Determination of Business Turnover. Every person engaged in a trade, business or occupation subject to the turnover tax is expected to keep at least one accounting record, in which entries of the gross income will be recorded. Naturally these records are not always complete or accurate, and the statements of gross income as shown by this record frequently require investigation. A report, in the form prescribed by the statute and the regulations, must be filed with the chief of the district office not later than February 15, covering the transactions of the preceeding calendar year. On the basis of the date submitted with the return, and with the assistance of such other information as may have been collected by his assistants or by the provincial treasury office, the chief of the district office establishes his own recommendation as to the assessment of turnover for the year in question. If the taxpayer keeps books and submits them for examination, the turnover assessed may not be at variance with the book figures unless the fact is established that the record is incorrect.

The recommendations of the chief of the district office are presented to the district board of assessment which proceeds to make the definitive assessment of taxable turnover. Upon completion of the assessment, but not later than April 15,

notices must be sent to the taxpayers of the amount of tax due on the assessed turnover. The tax is payable before May 15. (Art. 81).

At this point should be noted the provisions relating to advance payments on account of the tax. All of the larger commercial and industrial firms, and especially those which keep regular books of account, are required to pay, during the taxable year, an advance on account of the tax. The largest concerns must pay monthly an amount equal to the tax on the turnover for January, while the others may either pay quarterly one-fifth of the previous year's tax, or monthly one-fifteenth of this amount. Receipts or copies thereof for these advances must accompany the returns, and the final statement is a demand for the balance of tax due.

The taxpayer who is dissatisfied with the assessment of turnover as determined by the board of assessment may appeal to the Commission of Abatement, which is an adjunct of the provincial treasury office. The constitution of this commission is parallel to that of the assessment board. The head of the provincial office or his assistant is ex officio chairman: two other persons from his office are also members, and two assistants designated by the Minister of Finance. In addition, the board consists of 8 or 12 members chosen from the industrial taxpayers. Half ot these are appointed by the Minister of Finance on the advice of the head of the provincial office, and the other half by the same minister from lists prepared by chambers of commerce and similar organizations. If the volume of business before any provincial office requires, the Minister of Finance may organize more than one abatement board.

Appeals must be taken from the decision of the assessment board by joint stock companies and limited liability companies within 14 days of notice, and by all other taxpayers before May 15th. Delayed appeals are summarily rejected, and those who without good excuse, have neglected to file a return, or have delayed, have no right of appeal. The action of the abatement board is confined to making such changes as it deems proper within the range established by the taxpayer's own statement as a lower limit and the assessment board's figure as an upper limit. If in its judge-

ment a higher assessment should have been made the documents are returned to the assessment board with a recommendation to this effect. The fact that an appeal has been taken does not relieve the taxpayer from the obligation to pay the tax as assessed by the original board, within the specified time, or from becoming subject to the penalties for delinquency. This requirement is in itself proper and is very generally found in tax laws. Its operation would not be a hardship here, were it not for the obstacles, legal and administrative, that are thrown about a recovery of excess taxes.

A parallel procedure of assessment and appeal is established for the joint stock companies and other assessed by the provincial treasury offices, except that the appeal for abatement in these cases goes to the Minister of Finance instead of to a higher abatement board.

The yield of the industrial tax for the years 1924 and 1925 is shown herewith:

TABLE X

Receipts from the Industrial Tax	*1924*	*1925*
Industrial Licenses	42,984,960	25,444,149
Turnover, enterprises not publishing accounts	79,268,366	114,680,067
Turnover, enterprises compelled to publish accounts	52,398,265	56,688,051
Totals	174,651,591	196,812,269

5. Recommendations

Before proceeding to the consideration of the specific recommendations, it must be said that your Commission, in offering these recommendations, do not thereby give its approval to this type of tax. The turnover tax has been in use here for some time, and the present circumstances of the treasury are such that radical changes in the established methods of taxation are for the moment inadvisable. Had it not been already in use, however, it is unlikely that such a tax would have been proposed. Your Commission consider a tax on gross income, or turnover, unsound as the principal, permanent means of taxing business, because of the great differences that exist in the relation between gross and net

income, not only as among different branches of industry and trade, but also among firms in the same line of business. A tax on gross income falls with very unequal weight, therefore, upon those subject to it, and thus violates an important principle of sound taxation. The Government should take thought of these inequalities, which are inherent in a general tax on gross income, and look forward to the time when other taxes on business may be substituted for the turnover tax. Meantime, the operation of the present law will be improved, in the opinion of your Commission, by favourable consideration of the following recommendations.

I. The law and the regulations should be rewritten and thoroughly revised with a view to simplifying the language and eliminating the attempts at elaborate distinction which are to be found in the present law.

The principal reason for this recommendation will be clear to anyone who reads the law and the regulations. Both are verbose, with unnecessary repetitions and over-elaborate distinctions. A careful and thorough redrafting should effect a considerable condensation without sacrifice of the essential meaning and purpose. Much of the unnecessary material appears to be due to the introduction of fine-spun differences relating to the classification of enterprises, the conditions on which exemptions or differences of tax rate are to be applied, and the close discrimination which is attempted in the use of definitions and special terms. Some of these distinctions will be rendered unnecessary, in any case, by the adoption of the other proposals herein advanced for the improvement of the business tax.

Precision of meaning and exactness of terminology are highly important in financial as well as in all other legislation. But the result of an over-emphasis in this direction is to set up in the law a large number of technical distinctions which find little or no parallel in the actual differences prevailing in the business world. Under the economic conditions which are to be found at the present time in Poland, it is probably true that a law drawn in more general terms would produce as satisfactory revenue results, while its application would be of benefit both to administrative officials and to taxpayers. A tax law filled with excessive refinements of

terminology not only arouses a certain resentment, on account of its obscurity, in those who must comply with its provisions; its complications also stimulate attempts at evasion through taking advantage of the technical distinctions which it contains.

II. It is also recommended that the following changes be made in the method of imposing the tax. First that the license tax only be imposed on the smallest concerns, and second, that the turnover tax only be collected from those concerns not subject to the license tax, so that no concern shall be required to pay both the license and the turnover tax.

The most important consideration in favour of abandoning the turnover tax in the case of the very small business concerns is the impossibility of making a satisfactory assessment of their gross income. Such concerns usually keep no books of account, and the tax officials are compelled to resort to detailed investigation of their transactions with wholesalers, with the railways, the customs, and various other agencies in order to arrive at a fair basis of assessment. When the inclination or the funds available for making such investigations fail, the assessing officials must fall back on guesswork, external appearance of the shop, the private life of the owner, and other impressionistic data, in the accumulation and assimulation of which the commission of assessment is an active and able coadjutor. Large numbers of these taxpayers appeal from the assessment, and further administrative machinery is set in motion. The whole procedure of assessing the smallest dealers and industrial workers on their gross income is costly. The total collection from these smallest turnovers is certainly a very small proportion of the total, and it is in large measure if not wholly swallowed up in the costs of assessment and collection.

The license tax is a form of taxation much better adapted to the case of the small dealers and producers than the tax on gross income. It is not difficult to administer, and should not involve excessive cost. An annual inspection will be required, with such occasional or random inspection as may be found necessary to check evasions and operations which contravene the law, but these can be quickly made since no extensive examination of premises or accounting records is

involved. The proprietor has either obtained his license certificate at the proper time or he has failed to do so. Compliance with the law is quickly ascertained by the inspector. The provisions of the present law relative to the conspicuous display of the certificate and endorsement thereon of the inspector's signature with the date of his visit, should be retained.

This tax should be collected annually, for a year in advance, and the premises of any undertaking found to be operating without payment of the tax should be subject to closure, as at present. The license should refer to the operation of a particular business upon or within certain specified premises. If the ownership of the business is changed but not its character, the license should be valid for the term originally covered by it. If a new location is taken or if different kind of business is started in the former location, a new license should be secured at the appropriate rate for the remainder of the term.

No change is proposed in the method of licensing warehouses.

The removal of the turnover tax from the smallest dealers calls for certain revisions in the rate of license tax. The present rates of this tax are so low in certain instances as to fail entirely to justify the administrative cost involved. With the turnover tax removed, it does not seem unreasonable that the minimum license tax be raised to at least twenty zlotys, with a graduation less elaborate than the present scale rising to 150 or even 200 zlotys, according to the point at which the shift is made to the turnover tax.

The second part of this recommendation, namely, that the turnover tax only be paid by all other concerns and individuals, is based on the fact that any system of flat license taxes is necessarily arbitrary and inequitable both within any given category and as among the categories of business concerns. This will be true regardless of the skill displayed in formulating the categories, on account of the infinite variability of net in relation to gross income. The discrepancies in the existing classification of commercial and industrial occupation are apparent, and are in themselves a demonstration of the inevitable inequality of such a tax.

The original business tax law (1923) required that the license tax be paid by every industrial taxpayer, but allowed a credit of this tax against the amount of tax levied on the turnover. This alleviates the inequalities of the license tax, but involves a large amount of useless and unnecessary expense of administration in the issuance of certificates and the inspection to check compliance with this feature of the law. It is of no positive advantage to the taxpayer or to the Treasury.

The argument has been advanced, in favour of the annual business license tax on all persons and concerns subject to the industrial tax, that it affords opportunity for inspection of the premises and records, thus providing data by means of which a more accurate assessment of the gross income can be made. But it is obviously unnecessary to levy such a tax in order to give the Government whatever powers may be needed for the examination of books, papers and witnesses in order to arrive at a correct assessment for any other tax. In any case, there is no necessity for the kind of elaborate and complicated rate schedule, with its minutiae of administration and its uncertainty of incidence, that is contained in the existing business license certificate system. If the inspection of business premises is necessary for any reason other than to gather information relative to tax returns and assessments, such as sanitary regulation, inspection of the conditions of employement, or other exercise of the police powers, an inspection fee to cover the cost is entirely proper. The use of a license certificate indicating satisfactory compliance with such regulations or orders as may have been issued is also appropriate. The charges made for such purposes, however, should bear some reasonable relation to the cost of the service and should not be established on an elaborately detailed classification of business, occupations and localities.

The level at which the transition should be made from license tax to turnover tax will always provoke discussion and dispute, wherever it is fixed. In view of the extremely limited number of concerns which keep accurate and complete records, it would be inadvisable to restrict the tax on turnover to such concerns only, although it is evident that the least administrative difficulty is encountered in applying

the tax to this class of concerns. Approaching the matter from the other side, it is evident that the tax should not be applied to concerns so small that the yield is largely used up in the cost of assessment and collection.

The general principle which should guide in the establishment of the dividing line between the two taxes should be stated in terms of cost of administration. Since detailed information on this point is not available, it is suggested as a provisional line of demarcation that the business license tax only be imposed on all industrial concerns in categories VII and VIII, and on all commercial concerns in categories IV, V-a, and V-b.

In making this revision, however, it is suggested that the classification of business activities be made more flexible so that a somewhat greater variety of dealings may be carried on without necessitating a separate license or a change of classification. The existing schedule is greatly over-elaborated and can be simplified into a few broad groups without serious loss of revenue.

III. The third recommendation is that a uniform rate of tax on gross income or turnover be introduced, in lieu of the present diversified rates. The reasons for this rocommendation are the following:

First, Some of the rates of the present law are entirely too high. A tax of 5% on the gross income of a business is an unreasonable exaction when this is simply one of many taxes imposed and not in lieu of all other taxes. A tax of 5% on gross income, when reduced to a percentage of the net income, becomes an extremely high tax. If there are special cases of dealers, as for example those who buy and sell gold and silver bullion, who are operating on an extremely narrow margin of profit, it may be better to exempt them entirely from the turnover tax, relying instead for their taxation on the income tax and perhaps a special excise tax, rather than to begin making discriminations in the rate of turnover tax.

Second, The rate should be uniform on all gross incomes subject to the tax. In contrast to the rate of 5% which must be paid by some classes of business, there are special rates of ½% and 1%, and the normal rate 2%, paid by all concerns not subject to some special rate. These differences amount to

a serious discrimanation against certain consumers, if it be held that the tax is shifted, or against certain classes of business, if the contrary view of its incidence be taken. As a matter of fact, the channels of merchandise distribution are so varied that no predictions can be safely made as to the degree to which these taxes accumulate as the goods pass to the consumer.

The whole question of rates is bound up with the theoretical problem of incidence. It is generally assumed that a sales tax is shifted to the consumer. The strenuous efforts of many taxpayers to avoid or reduce the tax indicate that they, at least, are not so positive of this result. If it be granted, however. that shifting does occur, the discriminations among the different classes of consumers which result from a series of tax rates is difficult to justify. On the other hand, the character of the exemptions stated in the law indicates that its authors did not always expect shifting to occur. But if the tax is borne by those who pay it, there is no evidence to indicate that it was imposed as an equalizing tax with the purpose of correcting inequalities in the general tax burden. These differences in rates may, therefore, increase quite as often as they diminish, this inequality.

Third, The present discriminations in rate compel business concerns to do a large amount of accounting which would be unnecessary if the rates were more nearly uniform, because the amount of turnover subject to taxation at each rate must be reported separately. A large proportion of the business concerns of the country keep only very inadequate accounting records and the administration of the rate sections of the law involves all the more of guesswork, which gives greater room for the free play of prejudices, personal animosities and like influences on the part of the members of assessment and abatement boards.

Fourth, A Uniform rate will eliminate the opportunity for securing special favours through rate discrimination and will remove any incentive that may now exist for securing such favours.

The actual rate to be imposed depends primarily on the treasury. It is doubtful if this rate should ever be more than $1\frac{1}{2}\%$ on the gross income, and even this rate may be higher

than the point of maximum revenue yield. The most ardent advocates of the tax on sales in the United States have never considered seriously a tax rate above 3% of gross income, while none of the few laws of this type that have actually been enacted have imposed a rate in excess of 1½%. Poland is in great need at the present time of an increase in her capital fund and of the development of her economic organization, whereby the production and marketing of goods may be facilitated. A tax that is somewhat less than the actual maximum capacity of commerce and industry to bear may yield much better results in the long run on account of its influence on the growth of the country, than one which is so heavy as to exert a repressive effect.

IV. It is recommended that no difference be made in the rate of industrial tax on account of the destination of commodities for the export market.

This recommendation involves the repeal of paragraph 15 of Article 3. This paragraph exempts from the turnover tax the gross income realized from the export of "all kinds of semi-manufactured and finished goods or such transactions with foreign firms as result in a favourable trade balance". The reasoning which underlies this recommendation is being set forth in a separate memorandum, and will not be restated here. (See Memorandum on Special Favours to the Export Trade).

V. It is recommended that no difference be made in the rate of industrial tax in the case of so-called "articles of first necessity", nor in the case of raw materials considered to be necessary for the development of home industry and agriculture.

The present law authorizes a rate of ½% on the turnover of wholesale concerns from articles of first necessity and from raw materials considered to be necessary to the development of home industry and agriculture. Retail dealers in victuals are taxed at 1% on the turnover of foodstuffs handled and at 2% on any other merchandise. The Minister of Finance and the Minister of Agriculture together compile the lists of articles the turnover of which is to be taxed at ½%.

These distinctions in rates have a popular and perhaps a political value, but little else. They are based, apparently,

on the assumption that every reduction in the rate of turnover tax is immediately passed on to the next buyer, and by him to the next, and so, ultimately, to the consumer. The law contains no statements of norm or standard by which the lists of articles of first necessity or of raw materials necessary to industry and agriculture shall be framed, but it would be easy to make a case for almost anyone of a very long list of articles under one or other of these heads. Whether these lists actually be long or short, it is impossible to prove anything definite with regard to the incidence of the tax in specific cases, although the cordial unanimity with which all classes of dealers and business men have attacked this tax in the discussions on this subject is at least an indication that these industrial taxpayers regard shifting as a difficult and uncertain process. The principal effect of the rate discrimination may be, therefore, a kind of tax exemption to the dealers subject to the lower rates.

Whether the dealer or the consumer is benefited, much of the advantage is lost by the expense and annoyance involved in keeping separate records of the turnover subject to taxation at different rates. The work of the boards of assessment is made more difficult, and the number of cases in which they must make arbitrary assessment of turnover is increased, by these same rate differentials. Since the incidence of the benefit of a lower rate of tax is quite uncertain, and since the costs of keeping the necessary separate records of turnover are quite definite and certain, it is recommended that the discrimination in favour of certain commodities in the present law be abandoned, and that all taxable turnover be taxed at a uniform flat rate.

VI. It is recommended, further, that the Government definitely contemplate the early elimination of the boards of assessment, and the reduction of the size of boards of appeal (abatement) to not more than five (preferably three) members.

The basis for the reasons in support of this recommendation has already been given in connection with the discussion of general administrative procedure. The present practice at this point is an outgrowth of the influence tending toward mutual distrust and suspicion between the Government and the taxpayers. Until there is prevalent a spirit of fair

play and an intention on both sides to assure reasonably equitable taxation, little can be done to remove the attitude which appears to render the existing cumbersome procedure necessary. The object of the assessment boards is to protect the taxpayer. Realizing this, the chief of the district office inclines toward a tentative assessment sufficiently high to allow for the necessary trading. The commissions of abatement, being composed also of taxpayers, naturally tend to oppose the Government, and in most cases except those in which spitework or other personal feelings for interests are involved, their influence is cast on the side of lower assessments. Both sets of commissions are often guided by personal feeling rather than by precise knowledge of the facts in individual cases. They can have but little of the latter of a sort that would enable them to determine correctly the gross income of a large number of separate concerns. Reports of inspectors and other data are before them. But it is obviously impossible for eight to twelve men to study the materials in each case independently with sufficient care to reach a reasoned conclusion. In view of the well known habits of such bodies the world over, it seems reasonable to conclude that the commissions of assessment are of little practical value and should eventually be abandoned. The district office should make the assessment and the chief of this office should be the responsible assessor for all other taxes administered by his office, as well as for the turnover tax. The equipment and personnel of the district offices should be sufficiently improved in calibre to give to their work the impress of justice and fair play to the taxpayers as well as to the government. The removal of the turnover tax from the smallest concerns will relieve the chief of the district office of a considerable labour that now yields but small results. Time is thus made available for a more thorough investigation and a more thorough assessment of the returns of turnover made by those who remain subject to this tax.

The reduction of the boards of review (Abatement) to three or five members is proposed in order to establish a review board which will be more nearly able to perform the real functions of such a board. The board of review composed wholly or in part of taxpayers has disappeared

almost entirely in the United States, except for the review in some states of the local assessments under the general property tax. Complaints are heard and assessments reviewed either by a county board of review, consisting of different elected county officials, or by a state board, consisting of the state tax commission or certain other state officers. It is generally admitted that the most competent reviewing body, after all, is the one which made the original assessment and the practice in the United States is coming more and more into line with this view. If the assessing officers be conceded to have a fair ability for their work, and an honest intention to deal fairly with both sides, their original assessment is not likely to be shaken except by the presentation of new evidence or a new interpretation of facts already set forth. All appeals should therefore go first of all to the original board of assessment, and only afterwards to a higher board of review. This arrangement would check many of the complaints which now go up to the commissions of abatement. The reduction of the number, together with the lessened volume of cases, should make possible a much more thorough study of the individual cases than can be had under the existing practice.

The decision of the appeal board in the cases which come before it, should, however, be final. The second paragraph of Article 91 now requires the case to be remanded to the original commission of assessment if the board of abatement finds the assessment too low. This arrangement should be ended at once, for the original commission has presumably done its best in the first assessment, and reference of the case for further revision is simply to invite it to take a chance at guessing how much the board of abatement will accept. After the right kind of study of the case, the appeal body knows or should know, fully as much of the details as the original commission, and should be required to assume the responsibility for the final assessment.

It is realized, in offering this recommendation, that a rather curious twist of the national psychology must be reckoned with, which accounts for the suggestion that these administrative changes be planned for, rather than introduced at once. The viewpoint in question is the popular conviction

already referred to, that the interests of the Government and of the taxpayers, are fundamentally opposed. It is said that in some village communes of Congress Poland, in which the headman is supposed to distribute the village assessments of land tax among the individual proprietors according to the amount and quality of each holding, the peasants insist upon an apportionment at a flat rate per hectare, although this obviously penalizes all but the holders of the very best land. Stated generally, an assessment, in which the people themselves have had a share, although it might be less equitable, appears to be preferred to any assessment, however worthy, in which they have had no share. As the Government justifies its assumption of a greater administrative control in the common interest, the machinery of assessment can be simplified and speeded up.

VII. It is recommended that the final paragraph of Article 89 be amended to read as follows:

"The Commission of Abatement, or the Provincial Treasury Office shall render a decision in respect of the claim within three months from the date on which the claim was filed".

In its present form this article allows the board to take six months in deciding on claims for abatement of assessment, and in case a request is made to the taxpayer for further information, an additional three months is allowed. This proviso is illuminating as to the legislature's conception of the procedure of the board of abatement, which is evidently expected, in some though not necessarily in all instances, to ask the taxpayer for further information regarding his taxable status.

The period now permitted for the decision of appeals and claims is longer than necessary, assuming that the commission of abatement attacks its work with the proper vigour. The maximum delay now possible under the law is ten months, since the chairman of the assessment commission may hold the papers in the case for one month before sending them to the appeal board. The taxpayer is required, however, to pay the tax on the basis of the original assessment, and in return the Government has the obligation to make certain that his request for a review of the assessment be promptly heard and decided.

VIII. It is recommended that a revolving fund of approximately 500,000 zl. be set apart from the proceeds of the industrial turnover tax, to be used for the purpose of making prompt payment of refunds allowed under this tax.

Article 98 provides that an unjustly assessed or excessive tax shall be refunded to the taxpayer within 60 days at the latest from the date of the claim, upon the recommendation of the provincial treasury office. On its face this provision appears to be satisfactory, but it does not reckon with the delays of office procedure, for which no penalty is provided by the statute; nor does it take into account the time consumed in ascertaining whether the taxpayer has any other obligations to the state against which this excess might be credited; and finally, it does not consider the excuse, frequently offered according to numerous statements made by officials and others, that there are no funds from which the repayment can be made.

The remedy for the last named difficulty is simple. The industrial tax law should contain a provision to the effect that out of the proceeds of the tax collected under it, a certain sum should be set aside for the purpose of making promptly the necessary refunds and adjustments. This sum, suggested above tentatively as 500,000 zl. should be kept replenished from new collections as refunds are made. The size of the fund should be governed entirely by the volume of adjustments found to be necessary. The Government requires an advance payment on account of the tax, in monthly or quarterly installments, and it should meet all counterclaims promptly and unflinchingly.

IX. It is recommended that the authority conveyed in Article 7 and 94 relative to the changing of dates of filing returns, making payments, and the reduction of the rates of tax, be withdrawn.

As pointed out in the general survey of administrative procedure, the practice of granting extensions, reductions of tax due, and other privileges and favours to taxpayers is one of the most demoralizing influences in the operation of Poland's tax system. It is as if the legislature realized that it was framing an unduly harsh measure, and was here

seeking to mitigate its worst effects by authorizing the Minister of Finance, directly or by delegation of authority to the provincial treasury offices, to grant extensions and reductions. The people quikly learn to take advantage of these remissions, and a vicious circle of inability to meet tax obligations is set up, since the postponed obligations are falling due concurrently with fresh installments of this tax or of some other tax. Thus the taxpayer's difficulties are never solved.

It is recommended that Article 76 be amended by adding the following: "If any taxpayer subject to this tax shall keep accounting records whereby the volume of gross income be satisfactorily shown, whether such records conform strictly or not to the requirements of the Commercial Code of that part of the country in which he resides or in which the business is located, the amount of gross income as shown therein shall be accepted as prima facie evidence of the actual amount of the gross income, unless it is proved, upon examination by properly qualified experts or inspectors, that the records are false, or are so irregular that they do not correctly reveal the gross income of the business".

This recommendation is made in order to meet the criticism which many taxpayers have brought against the law, to the effect that their records, unless kept strictly in accord with the requirements of the appropriate Commercial Code, are not accepted as evidence of their turnover (See Article 76 of the law and Article 78 of the Regulations). The most serious difficulty in the administration of a tax law of this type is the proper determination of the facts relating to the gross income. Comparatively few concerns actually comply with all the requirements of the Code relative to the form of their accounts, although a considerable number keep various kinds of records by means of which a fairly accurate statement of gross income may be shown. The intent of this recommendation is to encourage a somewhat more liberal construction of the taxpayer's statements, and to induce a more receptive attitude toward his return of gross income, than is possible under a strict construction of the present law and regulations. His records are hereby made prima facie evidence, not absolute evidence, and are subject to rejection if, upon inspection,

they are shown to be false or irregular. A somewhat larger staff of inspectors qualified to test the accuracy of accounting may be required to carry out this provision, but the Government has the obligation to provide the personnel as well as the other equipment for a fair and reasonable application of the law.

X. The discrepancy between the definition of a commission merchant or dealer given in the German and Austrian Commercial Codes and that found in the industrial tax law should be reconciled, preferably by revising the latter to conform to the former.

The conception of the commission agreement or contract in the industrial tax law is unduly severe, since it restricts such contracts to those in which a stated commission is agreed upon in the contracts. The German Commercial Code sanctions also as commission agreements those in which the principal contracts to receive a minimum price, and the agent agrees to accept as his commission all realized in excess of this price. The industrial tax law would construe such an agreement as an independent transaction, in which the agent would be liable to taxation upon the full value of the turnover, and not simply on the amount received.

The assessment of the tax on this basis is clearly excessive. The principal is taxed on his share of the receipts from the sale, and the agent should be taxed on his share or commission, whether it be stated as a flat sum, as a percentage of the sale price, or as a residual amount. Between principal and agent, the full sale price of the commodity as it passes to the next purchaser is taxed once, and thus the object of the law is attained. The Government cannot logically sustain, nor should it seek to uphold, a construction of the commission contract relation which has the effect of taxing the commission dealer on the full value of the goods handled by him for his principal.

CHAPTER VI

The Supplementary Property Tax

This is the title of a proposed tax which was submitted to the Diet on May 5, 1926. The general plan of such a tax is approved and recommended by this Commission, although the specific project of law in which the plan is at present embodied is not satisfactory at all points. Some suggestions will later be made for the revision of this draft of the bill, in order to eliminate the features which are not in accord with the best practice in property taxation. The reasons for the changes proposed will be given in connection with the discussion of those changes. Here some more general reasons for the attitude of approval which the commission takes with regard to this bill will be briefly presented.

In the first place, a supplementary tax on property has been found necessary and useful in several countries which have undertaken to plan the main part of their taxation system on an income rather than a capital value basis. Some of the Swiss cantons have followed this plan, and a tax on the capital value of property is the most important single source of state and local revenues in the United States. Although Poland has not yet succeeded in developing the income tax as the major source of national revenue, the tendency in various taxes is to base the assessment on the income rather than the capital value. It has been the general experience under such systems of taxation that the rates of taxation levied on incomes or on income values are seldom made high enough to provide all the revenue that is required, and various supplementary taxes are necessary. Among these, the supplementary tax on property is one of

the fairest and most equitable, since it applies to all owners of property and is levied on the property of each at a uniform rate. As is indicated later, the proposed progression and degression of rates cannot be approved. One of the strongest considerations in favour of such a tax is its equalizing effect in smoothing out the possible inequality in the distribution of other taxes. But the advantage of this equalization is destroyed by introducing progression or degression.

In the second place, such a tax makes it possible to impose some slight degree of taxation on all owners of property. The important thing about such a tax is that it should reach all property, and not simply a part of the property located or owned within the country. Large exemptions are contrary to the spirit of this tax, the equity of which depends on the universality of its application.

The principle of taxation on capital value, to the extent of a supplementary tax, is sound. Exclusive use of assessment on the annual income value, as in the case of the land tax and the income tax, results in the exemption of all persons who have no net income, or of such property as may be producing no net income. But such property is the recipient of the benefits of government, and the occasion of public expense, since the services of government are available to all regardless of the regularity or the amount of their tax contributions. There is no better reason for completely exempting from taxation those who are making no profit in their business than there would be for granting such persons freedom from their private debts. The government must be supported and the enterprises which fail have a tax obligation which should be met just as have those which prosper.

The rate of the supplementary property tax should be low, however, in recognition of the fact that those subject to it are also bearing a number of other taxes, such as income tax, turnover tax, stamp duties, or land tax, which are imposed either with respect to the use and ownership of property, or the income therefrom. The true function of this particular tax is to serve as an equalizer or supplement giving a certain flexibility to the budget receipts and at the

same time serving to distribute or equalize the tax burden among all the owners of property.

A third reason for supporting the proposed supplementary tax on property, assuming that in the future some additional taxation will be required, is that it permits the utilization of the technical staff that must be built up for the proper administration of other taxes. Hence the administrative cost of this tax should be low, after the first assessment. The inauguration of any new tax naturally involves a greater expense than its subsequent operation. The recommendations that have already been advanced for the reform of administrative procedure will necessitate, if accepted, certain increase of personnel and equipment. The proposal for a supplementary tax provides for a triennial assessment of property. The first of these will involve strenuous effort on the part of the new and relatively inexperienced staff, but thereafter the task should become much easier and much less expensive. In order to realize the greatest economy of administration, the district and provincial treasury authorities should proceed systematically with the accumulation of data relative to the course of property values during triennium, so that the definitive assessment can be quickly and efficiently made as of the stated dates.

This procedure will greatly reduce the cost of administering the tax, by smoothing out the burden over the period and it will also in addition contribute to the more successful administration of all other taxes, since the process of accumulating the information necessary to the proper assessment of one tax naturally yields material of significance for the assessment of other taxes. The tax assessment offices, provincial and district, should be continually at the task of collecting, analyzing and filing away information relative to the different taxes under their respective jurisdictions. In this way the actual determination of the taxable base, whether it be income or property value, or some other base, can be promptly and equitably ascertained when the legal date of assessment arrives.

2. Repeal of Certain Taxes Recommended

The adoption of the supplementary tax on property will permit the repeal of certain other taxes which are now in

use. These are the taxes which are levied on parts of the whole mass of property, such as the emergency capital or property tax, the tax on capital and rents, and that on safety boxes. A general or universal tax on property will be in itself the most equitable and most effective supplement of the existing taxes on income value, and should be made the sole equaliser in this respect. It will be unnecessary to argue at length for the repeal of the second third of the above taxes. Their yield is unimportant and their application is restricted to the owners of certain forms of wealth. In reality, the supplementary property tax embraces the objects aimed at by these taxes, which are thereby rendered unnecessary. The grounds for recommending the repeal of the capital levy, and the adjustments which should be made in that connection, will be presented briefly at this point.

The Capital Levy. While it is recognized that the desperate financial situation of the country in 1923 compelled resort to equally desperate measures if utter collapse were be averted, it seems clear now that in view of the lack of facilities for floating such a tax, its original contingent was excessive. The country could probably have provided the original quota if a somewhat longer term of payment had been permitted, and if better facilities had existed for financing the tax payments over a period through the use of short-term credit obligations. The proportion that has actually been paid on account of the installments of this tax is a fairly clear indication that too much was asked for, in too short a time. Such payments as were made came from current income or from accumulated working capital, and when these did not suffice, there was little or no opportunity of liquidating a part of the capital, whether in the form of land or other capital, since no market existed in which sales of such property could have been made for cash. The effect of the tax seems to have been, therefore, the reduction of the working capital of agriculture, commerce and industry, since the government's subsequent disbursement of the funds collected did not result in a replenishment of the cash balances of those who were making the heaviest payments.

Granting that mistakes were made in the original imposition of the capital levy, the question remains as to what should

be done about the remainder of this levy. If the proposed supplementary tax on property be adopted, there is no doubt that the attempt to collect further assessments on account of the former capital tax should be abandoned. The amounts now being received are small, and the budget estimates indicate that the Government has already concluded that little more is to be expected from this source. The weight of the original tax and the severe terms of payment produced much dissatisfaction with it, and this feeling continues despite the reduced quotas now being used in determining future installments.

The Government should announce at once, therefore, the suspension of all future levies on account of the special capital tax. It will be necessary, however, in this connection, to determine upon the amount due from each taxpayer subject to the tax on account of the unpaid portions of previous installments. Some persons have, with considerable sacrifice, paid all installments as they became due, while others have paid varying sums ou account of the different levies. The balances due should be collected in order to avoid the injustice that would be committed against those who have already met their obligations. The facilities granted to those who are delinquent should be reasonable, but they should not be so arranged as to endanger the ability of taxpayers to meet their future tax obligations under the proposed supplementary tax or under the other taxes that must be regularly imposed.

3. Certain Extensions of Taxation Recommended

On the other hand, the introduction of the supplementary tax on property involves a counterbalancing extension of the tax system at certain other points. The first of these is the elimination of the distinction between wages and other incomes under the income tax. The distinction, which is found in various income tax laws, is supposed to take account of the greater tax-paying ability that is represented by so-called funded or property incomes, as compared with the unfunded or labour incomes. No exact determination of this difference is possible, so that any scale of differential rates of income taxation becomes simply a guess, or an arbitrary matter. When it is considered, however, that the incomes from pro-

perty are now burdened with a great variety ef taxes, including the income tax, the land and business taxes, the capital levy, presumably to be replaced in future by the supplementary tax on property, and in addition to all of these, the local or communal additions to the various taxes, it becomes fairly evident that the effect of the existing system of taxation is to make a discrimination of indefinite amount against the property or funded incomes. In view of these considerations, further attempts at such discrimination in the income tax itself become not only unnecessary but unwise.

The balance of the weight of taxation over the whole population requires some modification at still another point. The income tax does not reach all the people and any changes made in that tax with a view to effecting a rough equalization between property and labour incomes would not affect the taxes borne by those who pay no income tax. In order to complete the process of redistributing the tax burden it seems advisable to make certain extensions of the excise system, at the time the other changes suggested are introduced.

The specific changes proposed in the income and excise taxes will be presented later. As stated above, certain changes are necessary in the draft of the supplementary property tax bill which was presented to the Commission for examination. These changes will now be noted, with the reasons in each case.

4. Recommendations

1. The tax should be called "The Supplementary Property Tax". This accurately describes it, and is in accord with the familiar German terminology, in which a similar tax is known as "Ergaenzungssteuer".

2. Articles 3 and 4 should be revised to read as follows:

"Article 3. The supplementary property tax shall be paid annually on the value of:

1) all tangible property located within the territory of the Republic of Poland, whether owned by residents or nonresidents, or by natural or juridical persons.

2) All intangible personal property owned by residents of Poland and by joint stock companies or limited liability com-

panies organised under the laws of Poland, except such as may be exempted under the provisions of Article 7.

3) For the purpose of this act the word "Resident" means a natural person who has his domicile within the Republic or who resides therein for more than six months of the year.

4) The word "Nonresident" means a natural person who has his domicile without the Republic of Poland and who resides therein less than six months in any year.

"Article 4. Estates of deceased persons and all property held in trust shall likewise be subject to the tax by this act, in accordance with the provisions of article 3.

The reason for these changes is that the bill as it stands imposes the tax on all property of residents, whether it is situated within or without the country. This is not a sound or a reasonable view to take of the scope and functions of the proposed tax. It is a tax on property, not on persons or on personal ability to pay. The only property over which the Government of Poland has jurisdiction, and for which it assumes responsibility, is that definitely located within its borders. The wealth that Polish citizens or residents may possess is taken account of in assessing incomes for taxation, since the income tax is primarily a personal tax, the weight of which should be determined by the total taxable income from all sources. But this is a tax on property, justified by the fact that the Government has jurisdiction over the property, and the tax should be co-extensive with that jurisdiction.

Since intangible property, such as shares, bonds, notes etc. have no definite situs, it has been customary in tax legislation since Roman times to assume a situs at the dom icie o the owner. This is done in the proposed amendment, and the tax falls, therefore, on all tangible property located within the Republic and on all intangibles owned by residents, except such as are represented by the tangible property subject to the tax, as provided in article 7.

These changes will also render unnecessary article 10, relating to reciprocity and retaliation in the case of properties owned abroad, since no attempt is to be made to tax such properties.

3. Article 6, paragraph 9 authorizes a lump exemption in the case of properties not exceeding 4.500 zl. This provision

should be repealed. Its principal object is the creation of a specially privileged class of exempt persons. If this tax is to succeed as a revenue measure and is to justify itself as a true supplementary tax on property, there must be no exemption of the above sort. The tax must apply uniformly and universally to all property in the country, without favor, and especially to all property that is susceptible to being used for productive purposes. Te second paragraph of article 53 should also be eliminated, since it refers to the same matter.

4. An exemption of household goods and articles for personal use (Article 9, paragraph 3), is more reasonable and can be approved, since it will operate fairly universally among property owners. The amount proposed in the bill is, in your Commissions judgement, too liberal.

It should be clear, also that the minimum exemption is to be allowed to each taxpayer, regardless of the total value of his household goods. In its present form the article suggests that the exemption is permitted only when the value of such property is not greater than the stated amount. This obscurity can be corrected by the following wording, which gives also the reduced amount of exemption recommended.

"Article 9:

3. "House furnishings and utensils for personal and domestic use to a value not in excess of 5.000 zl. regardless of the total amount of such proporty owned by the taxpayer. Articles used in the practise of a profession or occupation shall not be considered as house furnishings".

5. The first paragraph of article 11 should be amended to read as follows:

"All property subject tho the tax imposed by this act shall be assessed at its true value in money as of the first day of July of the year preceeding the triennial assessment period". For the purposes of this act, the words "true value in money" shall mean the price that would be paid at a voluntary sale of the property to a willing buyer.

These changes are necessary since the law nowhere establishes the basis of the assessment.

6. The second paragraph of article 10 should be repealed. This parugraph provides that the Minister of Finance, together with the Minister of Industry and Agriculture shall de-

termine the taxable basis of property for each assessment. If this means that these Ministers shall determine the proportion of true value at which each assessment is to be made, the provision is unnecessary, since the above proposal establishes the true value in money as the legal basis of assessment. If the meaning of article 10, par. 2 has been corectly stated, it is submitted, with all due respect, that this is a dangerous provision which should by all means be repealed. The only fair and equitable basis of property assessment, as many American states have learned from bitter experience, is the true value in money. Once this basis is lost sight of, the assessment becomes unequal in different districts, and the result is the kind of situation that prevails today in the land tax, with its widely differing bases of assessment. There is no advantage, in having a different basis announced for each triennial assessment. Any fractional assessment that the commitee of Ministers might determine upon would not save time or expense in the assessment, since the full value would need to be determined in any case. The success and usefulness of the tax depend in large measure on the firm maintenance of the full value standard of assessment.

7. Article 13 should be amended to read as follows:

"Article 13. The rate of the supplementary property tax shall be 5% of the assesed value of the property subject to the tax".

The present form of this article provides for a so-called normal rate of 5%, but it introduces a degressive scale for properties valued below 50,000 zl. and a progressive scale for those assessed at more than 250,000. The normal rate is to be paid therefore only on properties assessed between 50,000 and 250,000 zł.

The use of progression and degression in this tax is undesirable, and if persisted in, would probably impair seriously the usefulness of the tax. Enough has been said concerning the misuse of progression in Polish tax laws to make clear the reasons for condemning it here. It is sufficient to say, in summary of those arguments, that progression and degression violate the fundamental purpose of the tax as a supplement, that their use in a tax of this sort is a violation also of the principle of ability to pay on which progression is justified,

and that they would greatly increase the expense of administration. In order to assemble the total amount of each individual's property for the purpose of applying the proper rate of graduation, an immense amount of correspondence and interchange of assessment as well as delay the determination of the tax due in the case of persons having property in more than one tax district.

8. Article 14 should be amended to read as follows:

"Article 14.

1. All tangible property, both real and personal, other than that belonging to joint stock companies, shall be assessed in the district in which the property is located, and all intangible personal property shall be assessed in the district in which the owner resides.

2. The property of joint stock companies shall be assessed in the province in which the company has its head office".

The present form of this article provides for the assessment of each person's property at his residence. In case of persons owning property in one district and residing in another, the task of making a fair and acurate assessment is greatly increased by the remoteness of the property from the head quarters of the assessing authorities. The only sensible and logical procedure is to assess tangible property in the district of its location, where it can be viewed and where the local circumstances which affect its value can be better understood. Article 33 also becomes unnecessary and should be repealed.

9. Articles 16 to 17 inclusive of the proposed law provide for the usual type of assessment machinery, consisting of district boards of assessment and provincial boards of abatement. These boards are to be composed in part of oficials or employees of the several treasury offices, and in part of persons chosen from among the taxpayers.

The defects of this kind of assessment organisation have arleady been discussed at some length. The criticisms made in another connection apply here with full force, for the same weaknesses are present here as in the tax laws now in force. The shortcomings of this method are revealed by the following extract from Article 20 of the draft of the supplementary property tax bill:

"A necessary number of sub-committees of experts is to be formed from members and deputy members of the Board of Assessment for the preparation of the assessment of property, the collection of documentary material, the inspection of places on the spot, the checking of lists and returns, and the preparation of recommendations for the Board".

This article contains the assumption that the members and deputy members of these assessment commisions will be experts, whereas nothing is said of qualifications in the articles relating to their appointment other than that they must be property taxpayers, and that they must not have been convicted of an attempt to evade any tax. They are not and cannot be experts in any valid meaning of this term, except as by chance persons with unusual qualifications for the task of assessment obtain appointment.

Further, these persons are expected to organise sub-committees, upon each of which is thrown a mass of work, in part clerical, in part technical in nature. They are expected also to travel about the district, viewing and inspecting the properties to be assessed. Living and travel expenses are reimbursed, but no compensation is alloved for this work.

It is quite unreasoanble to expect that any group of men should leave their own businesses for a period of months and actually devote themselves with enthusiasm and efficiency to this work. The permanent adoption of this method of assessing the supplementary property tax will be very poor economy, and very bad management on the part of the Government, for there can be no doubt whatever of the low quality of the assessments that would be made under these circumstances.

In view of the dificulty of providing immediately the necessary staff of competent public employees to whon could be entrusted the work of property assessment, it is recommended that the present scheme of administration be retained for the first assessment only, and that before the second valuation must be made, three years hence, the Government take definite steps to replace the voluntary boards of assessment by a staff of competent assistants under the direction of the district treasury ofices. The general program for the reorganisation and equipment of these offices has arleady been outlined. Here again the experience of the American states

would be most helpful, for the whole mass of property in the United States is revalued for purposes of state and local taxation at least once in four years and in some states as frequently as every two years. The type of technical skill required and the details of organisation and procedure have been thoroughly worked out in a number of states, and with the advice and assistance of a competent American property assesor the necessary changes in the existing Polish system could readily be worked out in ample time for the second valution of property.

It is recommendend, however, that the number of members on the commissions of assessment and the boards of abatement be reduced. The former should not have more than eight members in all, and the latter not more than five. The bill provides for boards of from sixteen to twenty four members. These numbers should be cut down, first because of the greater difficulty of finding so large a group of really competent men in each district who are willing to serve, and second because a large board almost inevitably loses all capacity for prompt action and degenerates into an oratorical society. Fulfillment of the law demands prompt, decisive action as well as deliberation, but the right combination of these qualities is seldom found in any large committee.

10. Article 40 should be amended to read as follows:

"Article 40. Each district treasury office shall compute the tax due for each year of the assessment period on each separate parcel or lot of property, in the district, including intangibles reported by residents of the district, on the basis of the value thereof as established by the proper assessment authorities".

Each provincial treasury office shall compute the tax due on the property of joint stock companies having their head offices within the province, on the basis of the value thereof as etablished in the assessment.

These changes are suggested simply to bring the procedure of tax computation into line with the revision proposed for article 14, relative to the assessment of all tangible property in the district of its location.

11. Article 59 should be repealed. This article is as follows:

"The Minister of Finance is authorised to grant individual facilities in the payment of the property tax, to extinguish uncollectible taxes, and to reduce or forgive the fines for tardiness".

With all due respect for the Minister of Finance, it is submitted that this is an improper provision for a revenne law. The effects of similor provisions in other laws have already been discussed. The law should be no respecter of persons here. Dates for the payment of the tax are established in the law, and it then becomes the business of every person or concern liable to the tax to arrange his affairs so that he shall be able to meet his tax obligations. It is bad policy for the Government to extend to one person, or to some persons, facilities with regard to the time of payment or the proportion of a fairly assessed tax that they should pay, that are not available to all persons subject to the law. The amount actually determined by the proper assessment authorities is the amount that should be paid, and if fines are incured on account of delays or of other reasons, these too become a part of the state's just claim against the citizen.

The law provides when these are to be paid, and no other arrangements should be made or expected. The tax is a debt to the state and should be met with exactly the same punctuality that is expected in the case of debts owing to private persons.

12, Article 66 should be repealed. This article is as follows:

"The offences referred to in articles 63 and 64 shall not be punished if the delinquent corrects or completes his return or explanation before the proper authority, previous to the Treasury authority receiving information of the offense".

The specific offenses described in articles 63 and 64 relate to deliberate or wilful misstatement and submission of fraudulent returns or explanations as taxpayer or as expert examiner. It is doubtful if the delayed action of a guilty conscience should be allowed to save the person who has committed a deliberate offense against the treasury from the consequences of his act. Whether this point of view be adopted or not, the above article 66 would be a dead letter, if the experiences under a parallel provision in the income tax are acceptable as an indication, for it has been stated more

than once that when such a penitent comes to make his correction the Treasnry officials always claim previous knowledge so that in fact the remission of penalty here provided does not operate. The line between deliberate and unintentional misstatement is not easily drawn, but where it can be established beyond reasonable doubt that the error of statement was accidental or unintentional, a remmission or reduction of penalty is proper.

13. Articles 69, the last paragraphs of article 74 and article 75, illustrate the complications that are still being presented through the failure of the Government to provide for a general codification ot the laws.

14. More definite provision should be made for the filing of returns and payment of the tax in the case of estates under the control of administrators or other fiduciaries appointed by the courts, and by trustees who have charge of estates in trust. A new article should be inserted covering this point, following article 28 of the bill.

CHAPTER VII.

The Income Tax.

Before the war income taxes had been imposed only in the provinces of former German and former Austrian Poland. The pre-war income taxes of Germany and Austria differed materially at various points, but they presented the common advantage of having educated the citizens of these districts somewhat in the nature of this form of taxation and in the technique of its administration. The yield of the income tax in the German and Austrian sections of Poland for the year 1913 was as follows:

TABLE XI.

Assessment of income and tax collected in the provinces of former German and Austrian Poland, 1913. (Millions of Crowns).

Province	Annual Taxable Income	Tax Collected
Poznania	449	10
Prussia	379	8
Galicia	535	8
Totals	1,363	26

(Annuaire Statistique de Pologne, 1917, Table 173).

Experience with the income tax in the new Polish State began in 1921, and the main outlines of the present system were fairly well makerd by 1923. The financial difficulties of these years, together with the weaknesses of administrative procedure, kept the yield at a low level at first. For the year 1922 the receipts, in terms of gold zlotys, were 9,873,199, and

for 1923 they were 16,000,000 (Michalski. Podatki Bezpośrednie w Polsce, 1918-23, table opposite p. 144). These figures are quite uncertain, as much depends on the conversation factor used in calculating the gold value. The collections since 1923 have been as follows:

TABLE XII.

Assessment of income, with budget estimates of tax and actual collections, 1924-1926. (millions of zlotys).

	1924	1925	1926 (6 months)
Assessment of taxable income[1]) . . .	1,222,1	1,612,6	
Budget estimates of tax	77,0	75,0	
Actual collection	39,1	61,6	44,471

In view of the country's weakened condition, this growth in the tax is significant. It is important to note, also, that the assessment of taxable income for the whole of Poland in 1924 was less than that for the former German and Austrian provinces in 1913. The difference is due in part to the decline in incomes as a result of the war, and also to the decided difference between the minimum of income exempted in the present law and in the earlier German and Austrian laws. There is reflection here, too, of the difference in the effectiveness of administration.

After all other differences have been allowed for, it is apparent that the country is today less prosperous relatively than it was in the years prior to the war. The income tax cannot rise to a position of major importance in the Polish revenue system until the stream of income is itself enhanced by the restoration of stable economic conditions and the attainment of greater prosperity by all social classes. No one doubts the future of Poland in these respects, and it is safe to predict a substantial increase of the social income as this improvement occurs.

The realization of the fullest possibilities of the income tax is contingent, also, on the improvement of the tax law itself

[1]) *Including Silesia.*

and on its effective administration. From its nature an income tax is one of the most difficult of all taxes to administer propelly and effectively. It is necessary, therefore, to exercise particular care in the preparation and execution of such a law, if the most fruitful aud most equitable results are to be secured.

Your Commission have examined the income tax law now in force in Poland, and has found in it so many provisions which seem to require modification that it is recommending the substitution of a new law in lieu of a long series of amendments to the existing law. A project for such a law is submitted for consideration as a part of this report. An examination of the new project will reveal the points of difference between this bill and the existing law, and the accompanying discussion will make clear the reasons for the changes proposed.

Detailed criticism of the present law is hardly nesessary. Some of the more important objections to it, however, will be briefly summarized.

In the first place, the law, now in force does not distinguish at one important point between natural and juridical persons, with the result that the shareholders of joint stock companies are subjected to serious double taxation. The companies are taxed at the full progressive rates on their entire net income, and the shareholders are again subject to the same progressive scale of taxation on the dividends received, when included in their own incomes. The tax should be materially reduced either on the companies or on the dividend received by the shareholders.

There are some considerations in favor of each alternative. If the companies are taxed and the shareholders permitted to deduct dividends in making their returns, the assessment and collection of the tax are greatly simplified, and a heavy tax is imposed on that portion of the profits of Polish companies corresponding to the shares held abroad. Against these advantages must be set the objection that such a plan in contrary to the whole spirit and purpose of the income tax, and especcially the progresive income tax. Taxation of the companies on their income instead of the stockholders on their dividends does not always distribute

the weight of this tax upon the persons who ought to bear it. Progressive rates tend to increase rather than diminish the inequality. In fact, progression may result in burdening very unjustly some who should be taxed but lightly, or in taxing quite inadequately some others who should pay more heavily.

An example of the first inequality is the small shareholder in a large concern. According to the scale of progresive rates, this person, having but a small total income from his limited number of shares, should pay only a low rate of income tax. The imposition of the income tax at a high flat rate or at progressive rates on the net income of the company will result, however, in his actually bearing a heavy tax assuming that the incidence of such a tax is on the stockholders, for the severe tax will affect all stockholders proportionately to their investments. On the other hand, a person of large means may have holdings in each of several small concerns, from the aggregate of which he is receiving a large annual income. Each company, having only a small amount of net income, is taxed at a moderate rate in the progressive scale, with the result that the individual in question bears a weight of taxation not at all appropriate to his total income. On account of the manifold inequalities in the effect of the income tax when laid on the net incomes of companies, it is wiser to confine the tax paid by the latter to a moderate flat rate, and to require the individual shareholders to include their dividends with all other income.

Since the question of double taxation is involved, it may be asked why joint stock companies, as such, should be subject to any income tax at all as long as the shareholders are taxed on their dividends. Strict logic would require the complete exemption of the corporation from income tax if the shareholders include dividends in their returns of income. There are various practical reasons, however, for retainning on the Polish law, a moderate flat rate of tax on joint stock companies based on their net income. First, that portion of the profits not paid out in dividends is thereby levied upon; second, the income distributed as dividends on shares held abroad is taxed in some degree; third, the company as such, a juridistic person distinct from the shareholders who compose

it enjoys certain legal rights and privileges which justify the imposition of this form of tax. Finally, the treasury requirements are such that your Commission did not feel warranted in exempting corporations entirely from income tax. None of these considerations, however, warrant the imposition of severely heavy taxes on the net income of the company, coincidently with equally heavy taxes on the dividens received by the shareholders.

The true nature of the income tax favors the second alternative, of placing the main weight of the tax on the individual rather than on the business unit. This tax is essentially a personal tax. It should be paid by persons on the basis of their incomes. The receipt of an income is the test of liability to such a tax, and the size of the income becomes the decisive factor in measuring the weight of the tax. All of this rests on familiar and generally accepted reasoning regarding the nature of the tax obligation and the manner in which it should be distributed. So far as possible, taxes should be paid in accordance with the ability of the citizens to pay. Income is now generally regarded as the most satisfactory index of personal ability to pay, and an important task in the drafting of any modern income tax is the refinement of the income concept so as to arrive most exactly at the ralative ability of the individuals subject to the tax. The draft bill submitted herewith places the full weight of the progressive scale on individual incomes, and subjects joint stock companies to a flat rate on their entire net income.

A second criticism of the existing income tax law is that its exemption policy is not well considered. Funded incomes under 1,500 zl are not taxed, nor are wage and salary incomes under 2,500 zl. An exemption has been framed for small farmers that has relieved practically the whole of this class from the income tax. It provides (Article 15) that the gross income of an agricultural property containing under 15 hectares, and situated further than five kilometeres from the limits of a city containing more than 100,000 inhabitants. shall be taken as the equivalent of 4 quintals of rye for each hectare, at the average prices of the taxable year. The average price of rye per quintal in 1914 was 14.78 zl in Poznan, and 16.05 in Warsaw. Even at the higher average, the value

of 60 quintals of rye was less than 1,000 zlotys. Hence practically all farmers having less than 15 hactares were exempted, regardless of their actual income. Some would have been exempted without this provision, on account of their low income. Others should have paid some income tax. The objection to this type of exemption provision is that it does not discriminate accurately between those who should pay, and those who should not pay. The averages of rye production and of rye prices for 1924 show the following results. The central counties had an average yield of 8,3 quintals of rye in 1824, and the western counties had in the same year an average of 13 quintals of rye. At the average prices for this year, a farm of 15 hectares in Congress Poland would have had a gross income of 1,998 zł from rye alone, while in former German Poland the gross income from rye would have been 2,882 zl. The unwisdom of inserting a specific exemption of this type in a law in which all others are allowed only a fixed exemption of a different sort, is apparent.

The relatively high exemption for wages and salaries, together with this arranged scheme of rural income tax evasion, has limited materially the number of persons who are actually paying income tax. Some striking comparisons have been made for certain districts of former German Poland, where the pre-war minimum of exempt income was 900 marks. The following are taken from the report of Finance Minister Michalski for 1925:

In Pomerania:

a) District Brodnica, (3,211 income taxpayers in 1913, and 780 in 1925)

b) District Kartuzy, (3,631 income taxpayers in 1913, and only 312 in 1925).

In Poznan:

1. District of Inowroclaw

There were 4,493 payers in 1913, of whom 633 were farmers and 1,773 were salaried workers. The total had dropped to 688 in 1924, of whom 211 were farmers and 400 were salaried workers.

2. District of Koźmin

Total number in 1913, 2,301, of whom 1,336 were farmers and 676 were salaried persons. In 1924 the total had dropped to 803, of whom 378 were farmors and 115 were salaried workers.

3. District of Miasto

There were 26,471 persons paying income tax in 1913, and only 6,159 in 1924.

The personal nature of the income tax and the fact that it is especially well adapted for the application of the principle of taxation according to ability, require that it should be as broad as possible in its application and that the amount of income exempt from tax should be as low as is consistent with efficient administration. It is desirable, in any income tax, to free a certain minimum of income from the tax, for two reasons. The first is that it is not wholly consistent with the ability to pay principle to tax the income spent for a minimum of subsistence, and the second is the administrative expense of collecting the small tax that would be due from the lowest incomes. Such exemptions as are granted should be framed with regard to these considerations, and not with a view to exempting any aconomic or social classes from the tax. Whether an exemption is to be enjoyed or not in any individual case should be determined by the amount of the income rather than by any other factors which ignore this basic test.

A third criticism is directed against the distinction which is made between certain labor incomes or unfunded incomes, and all others. This distinction, expressed in various ways, is found in several income taxes, including that of the United States. Its inclusion in the latter, as in most of the other laws in which it occurs, was on grounds of expediency rather than of clear principle.

The argument that is usually advanced in favor of such a distinction is that the labor or unfunded income stops with the death or disability of the worker, while the income from property continues, although perhaps at a diminished rate, after the occurence of either of these contingencies. There is, in the possession of property, a security against sickness and other vicissitudes that the recipient of an unfunded income does not enjoy, except as he may save, or pay for insurance out of his income. In view of these considerations, some discrimination in favor of the unfunded income would be proper, if the personal income tax were the only tax imposed by th Government.

As a matter of fact, however, the nature of the tax system is such, in Poland as in other countries, that a number of other taxes are levied, and the majority of these burden, in one way or another, the owners of property rather than the recipients of unfunded incomes. When the whole weight of the taxes imposed by the central government, and in addition that of the taxes levied for municipal and communal uses, is considered, it seems clear that the existing Polish tax system bears more heavily on the recipients of funded incomes than on these who receive unfunded incomes. The practical effect of this system is, in itself, a discrimination in favor of the recipients of unfunded incomes. Further attempts to favor the latter in the income tax law are unnecessary.

The attempt to apply this distinction between earned and unearned incomes presents some troublesome complications. Some incomes obtained through the use of property are in part earned, as in the case of a man who personally manages his store or factory. Some personal service incomes are in part unearned, as for example the handsome salaries or other stipends (bénéfices à repartir) received by figurehead officials from the companies to which they have attached themselves. All manner of graduation may be found between these extremes, and no sharp line can be drawn between fully earned and clearly unearned incomes. Another instance is the case of partnership incomes, which under the existing Polish law are taxed, as unearned or funded income, whereas the British income tax, in recognition of the impossibility of making the dinstinction, treats all partnership income as earned income, while the law of the United States provides that an apportionment of such incomes shall be made under special regulations. On the other hand, it is possible by certain manipulation under the Polish law, to report the large bonuses (bénéfices à repartir) of dummy officials, as salaries, when they are in reality a method of distributing the profits.

As a matter of fact, the distinction between labor and other incomes in the present Polish income tax is largely illusory, so far as the differences in rates are concerned. The defects in the rate scale are discussed below. In the present connection it should be noted that the rates of tax on labor incomes and those on other incomes are practically identical

on incomes from 15,000 zl. to 200,000 zl. The latter incomes are subject to additional rates if above this maximum but for the greater part of the income scale there is no difference in tax burden. According to the viewpoint already expressed this is proper, but it cuts the ground from under the elaborate provisions of the present law for a separate scale of taxation of wages and salaries, since the difference in rates, even in the lower ranges of the income scale, are not large.

The case for the distinction is further weakened by the fact that the lower incomes from property are more likely to be obtained from a combination of personal effort and capital, and so to resemble more nearly the earned necessary incomes, than are the larger incomes. The results obtained from this close approximation of rates, so far as any advantage to labour incomes is concerned, do not justify the additional administrative complications presented by this feature of the law.

A fourth criticism of the present law is that the rate scales are too elaborate, and on the largest incomes, probably higher than the point of maximum revenue return. On the latter point it is impossible for anyone to speak with assurance. All depends on the breaking-point of Polish taxpaying morale. It is a fairly sound maxim of Public Finance that an excessive tax rate creates incentives to evasion so strong as to defeat the revenue purpose of the tax. Under the present law the maximum rate of normal progression is 25% on incomes of 192,000 to 200,000. But the so-called funded incomes above 200,000 are subject to an additional scale which carries the maximum rate on incomes in excess of 2,000,000 zl. to 40%. These rates are enforced on the entire amount of the income, and not simply on the part in excess of 200,000 zl. If to these rates for state purposes are added the rates for communal purposes which the provinces of former German Poland and Silesia are authorized to impose, it is clear that in these districts at least the breaking-point has been passed.

In costructing the progressive rate scale for the projected revision of the income tax it was assumed that the maximum rate of progression should not exceed 25%, with one qualifi-

cation which is noted below. There is no especial virtue in this figure that would not be found in any other nearby figure, nor is there any evidence to show that this is near the point of maximum revenue. Some maximum figure had to be chosen, and since the 25% level is found in the present law for both the labour income scale and the normal progressive scale for other incomes, it has been proposed as the maximum of the new scale.

There are two ways of applying a progression of rates. The method used in the existing law is to tax the whole income in a given bracket at the rate for that bracket. Another method is to tax the whole net income in the first bracket at the rate for that bracket and to apply the higher rates simply to the additional amounts of income shown in the successives brackets. This method, which is used in the United States, lightens somewhat the assessment of the tax on a given amount of income. The difference between the two methods may be illustrated by a sample scale, in which the following brackets of income tax rates are assumed.

The tax on 100,000 zl. of income at this scale of rates under the Polish system of progression would be 5,000 zl. The tax on 100,000 zl. of income would be computed by the second method as follows:

	Income brackets	*Rate*	*Tax*
Up to	5,000 zl.	1%	50 zl.
Above	5,000 to 10,000	2%	100
	10,000 „ 20,000	3%	300
	20,000 „ 50,000	4%	1,200
	50,000 „ 100,000 zl.	5%	2,500
		Total Tax	4,150 zl.

The choice between these methods depends on the Government's need for revenue, on the cacity of the tax administration to enforce a heavier tax without too much evasion, and on the ability of the taxpayers to stand the load. There is no advantage in levying taxes that are not collected, and that cannot be collected, simply in order to abate them by various concessions and facilities and remissions. While the country is still struggling with its problems of reconstruction and is seeking in various ways to stimulate the increase of capital funds for use in agriculture and industry, the method outlined as an

alternative to the one now in use seems preferable, since it tends to temper somewhat the weight of the progression. The rate scale of the proposed bill is based on this plan of progression, and the apparent complications of calculating the tax are solved, as will be noted by reference to article 10, by the simple device of carrying forward the amount of tax on the successive brackets.

The limited statistics of income that are available indicate a large volume of income above the 200,000 zl. level, concentrated in the hands of a small number of persons. Nearly one-fourth of the total income tax assessed in 1925 was levied on incomes above 200,000 zl. This large amount of tax resulted from the application of rates ranging from 25 to 40% on the whole amount of such incomes. While these rates are excessive, especially in view of the manner of applying the progressive scale and in view also of the local additions to the income tax, it would not be improper to levy a further small supplementary tax on incomes in excess of 200,000 zl. say a tax of 10% on such excess. The draft bill contains provision for such a levy, which is to be applied simply to the amount of income in excess of 200,00 zl.

A final criticism is directed at the administrative procedure of the existing law. This procedure is an assessment of incomes by commissions of assessment and a review of these assessments by boards of abatement. The treasury officials collect and digest material and preside at the sessions, but they have no definite authority over the assessments. In view of the extended criticisms which have already been directed against this method of assessment procedure in earlier chapters of this report, it is hardly necessary to cover the ground again here. The objections brought against the use of voluntary commissions of taxpayers in connection with the business tax and the supplementary tax on property apply with even greater force in the case of the income tax. The proper administration of such a tax requires, in unusual degree, the establishment of relations of mutual respect and confidence between the taxpayer and the assessing authorities. The taxation of incomes necessarily involves searching examination into the intimate aspects of business, and even of personal affairs. Success depends, therefore, upon very close and cordial

co-operation between the Government and the taxpayer. The former is largely dependent on the latter's statements and records. The attitude of the taxpayer, in turn, will depend on his sense of civic obligation, on his opinion of the justice of the law, and on the capacity and vigour displayed in its administration.

Since the income tax law must be administered vigourously in order to be successful, it follows that its provisions must appeal to the people generally as reasonable and equitable. There must be in the law a sincere attempt to determine taxable income, there must be a public keenly responsive to the moral as well as to the legal obligations of citizenship, and there must be a forceful but scrupulously fair and conscientious administration of the tax. The future of the income tax in Poland depends on the degree to which these conditions are met by the people and by the Government.

The draft bill here offered provides that the chiefs of the several provincial and district treasury offices shall become the official assessors of incomes, the former handling the joint stock companies and the latter all other taxpayers. Naturally this change will involve some additions to the personnel in these offices, and a thorough reorganization. The assessors of income are to be provided with such expert assistants as the volume and the nature of the work may require. The present law makes them responsible for assembling all of the data relative to the assessment of incomes, but in the case of the district offices, it does not trust to their judgment or their fairness for the final determination of the taxable income. The proposed change centers the authority and the responsibility for the local assessments in the district offices, under the command of the chief, and provides for an appeal to the provincial offices, which are to become, under the general scheme of administrative reorganization outlined in Chapter II, the central controlling and supervising agencies in the administration of all taxes. Various minor changes of procedure are introduced in connection with this major modification, but they will be touched upon in the running account of the provisions of the projected amendment.

The Bill in Detail. (References are to the draft of an income tax bill at the end of this chapter).

Article 1. This contains standard definitions of certain terms used throughout the bill.

Article 2. The tax is imposed on the total incomes of all residents, and on the incomes obtained by non-residents from sources within the country. The taxation of non-residents has ample precedent, but it gives rise to international double taxation unless provision is made for reciprocity. This is done in Article 2.

Article 3. This is a re-statement of Article 5, § 1 of the present law, relating to diplomatic exemptions.

Article 4. This article introduces the first important change in the law, which is the application of flat rates of normal tax to all incomes. Paragraph one provides for a normal tax of 3% on the incomes of individuals, and paragraph two for a flat rate of 6% on the income of joint stock companies. The case for the latter has already been stated above. This flat tax of 6% is in lieu of the graduated rates to which the net income of joint stock companies is liable under the present law. Shareholders will be taxed at the full rates on the incomes from their respective holdings.

The flat rate on invidual incomes is part of the plan for eliminating the distinction between labour and other incomes and for revising the progressive scale of tax rates. Under the present law the progression begins with the smallest amounts of income subject to the tax. The increase in the rate is so slight at first, however, being only 0.1% additional for each grade, that the advantage of using progres sion on the smallest incomes is negligible. It is believed that the proposed flat rate of tax on all incomes will more than make up for any revenue loss incurred by the sacrifice of progression in the lower income brackets, and will at the same time greatly simplify the collection of the tax at the source.

The use of a flat rate serves also to distinguish between those who have high ability to pay and those who have but little ability. The smaller income taxpayers will not be subject to progression, but will pay simply the normal rate of 3%. In fact, everyone will pay the flat rate, and the distinction which should be made between the recipients of large and small incomes will be expressed in the progressive rates which are applied to the former.

This article makes another important change, also, in reducing the minimum of exempt income to 2,000 zl. This reduction is made in order to broaden the application of the income tax and to obtain a contribution from a considerable volume of incomes which is not reached by the present law. This change is offset by a greater leniency toward the taxpayer than is found in the present law, in that each individual subject to the tax may deduct 2,000 zl. in computing the income subject to the normal tax. The present law exepmts completely labour incomes under 2,500 zl. and other incomes under 1,500 zl. but imposes the tax on the whole amount of any income which is in excess of these minima, without permitting deduction of any part of those incomes as a subsistence allowance. This is an undue hardship on the person who is unable to convince the assessment commission that his income should be just under the exempt minimum instead of just above it, and stimulates unnecessarily the efforts to escape taxation by an understatement of income.

Article 5 and 6 define gross and net income. The aim has been to set up standards which are generally recognized in income taxation and in approved accounting practice. They are a reorganization of the material contained in article 6 and 7 of the present law.

Article 7. This is a more exact statement of the method of apportioning income to the country than is contained in article 1 of the present law. The general rule is to regard the entire income of residents and of companies organized under Polish laws as originating within the country, for the purposes of the tax. With respect to the incomes of non-residents and of foreign corporations that part thereof is regarded as gross income within the country which consists of interest, dividends or personal service payments from residents or domestic corporations, and of payments for the use lease or sale of real property, patents, trade-marks and similar intangible rights within the Republic of Poland. From this gross income are deductible the expenses and losses properly allocable to such income, and the remainder is treated as taxable income arising or originating within the country.

Article 8. This article defines taxable net income, which is determined by deducting from gross income the legitimate

costs of producing the income and maintaining the capital. It assembles in one place the deductions which may be made, and thus makes clearer to the taxpayer just what he may deduct. In the reorganized form one inconsistency of the existing law is removed. Paragraph 4 of article 10 permits the deduction of insurance payments from gross income, when the total does not exceed 300 zl., for any one person nor 600 zl. for the entire family of the taxpayer and paragraph 3 of the same article permits deduction from gross income of payments for health and accident insurance, relief and funeral funds, and pensions, if the payments do not exceed 300 zl. There is no clear statement that income from such funds is taxable when received, while article 7 apparently excludes the amounts received from life or annuity insurance from the category of income. It is hardly consistent to exempt these items both as outgo and as receipts, and the proposed bill settles the difficulty by exempting all forms of insurance and other benefits of the kinds mentioned above, when received (see article 6), on the ground that these receipts, in so far as they were accumulated as contributions from the taxpayer, were once taxed as income before being paid into the fund from which they were later repaid.

Article 9. This article is a re-statement of article 8 of the present law, relating to the forms of expense that are not permitted as deductions from gross income. Paragraph 5 of the existing law relating to expenses incurred in gaining an income abroad, is omitted, since this matter is covered in article 7 of the bill.

Another inconsistency of the existing law is the treatment of family expenditures. Paragraph 3 of article 8 forbids deduction from gross income of household expenditures or those connected with the upkeep of the family, but article 7 (second from last paragraph) includes in the costs of production the "costs of feeding the members of the taxpayer's family permanently working on his land or in his forests, and in his commercial or industrial enterprises". The cost of maintaining the family can hardly be regarded as a legitimate expense to be deducted from gross income, since the head of the family has this burden and responsibility whether anything is pro-

duced or not. At any rate, according to articles 10 and 11 of the existing law, such deductions should be allowable only when the beneficiaries, i.e. the younger members of the family, are paying income tax on their own account.

Article 10. This article supplies a deficiency in the present law by giving more exact provisions for the taxation of estates and trusts.

Article 11. A supplementary tax at progressive rates is established by this article. The constructon of such a scale is always a matter of individual opinion as to how high the progression should go and at what rate it should advance. Statistics concerning the distribution of incomes in Poland are not available, but in order not to make too serious a break with the existing schedule the progression was allowed to rise to 25% on incomes above 200,000 zl., as in the present law. The attempt was made, however, to correct one tendency which the present Polish income tax displays in common with various other income tax laws, of increasing the progression more rapidly on the smaller than on the larger incomes. For example, incomes of 48,000 to 52,000 zl. are now taxed at 12.3% under the scale for wages and salaries, and at 6,396 zl. under the other scale, which is equivalent to a rate of from 1,32% to 12.3% according to the actual amount of income within these limits. This means that one-half of the maximum rate of regular or ordinary progressive tax is applied to income only one-fourth as high as the income subject to this maximum rate. The same tendency is found further down in the scale, for a tax rate of 6.5% is imposed on incomes of 14,000 to 15,000 zl.

This is a mistake which is frequently made in the construction of progressive scales. Its effect is to penalize relatively more heavily those with smaller incomes, provided they are subject to the progression at all. The scale employed in the proposed bill follows a more nearly uniform ascent, and thus lightens somewhat the weight of the progression on the smaller income. In conformity with the suggestions made on page above, a supplementary rate of 10% on the amounts of income which are in excess of 200,000 zl. is substituted for the extraordinary progression which is applied in article 23, to incomes above this amount.

Percentages are used throughout in determining the tax due. The device of carrying forward the total tax due on such amounts of income as fall within the inferior brackets diminishes the task of calculating the tax on any given income. This eliminates the necessity of such comparisons as are provided for in the final paragraphs of article 23 of the present law.

Article 12. Taxable income for the purposes of the supplementary tax is here defined. The object is to insure that all amounts of taxable income from all sources shall be accumulated together in order that each taxpayer shall be placed in the proper bracket of the progressive scale. In this assembly of the total net income is included the 1,000 zl. authorized as a deduction in article 4. From the total income there may be deducted, however, certain amount on account of marital status and the number of dependents actually supported by the taxpayer. The present law has a provision of similar import but of more limited application (Article 26), while for those who receive incomes under 7,200 zl. the rate is reduced by two grades for each member of the family after the first. The proposed article applies to all taxpayers regardless of their income, and is simpler in its operation than the similar provisions of the existing law.

Article 13—22. These articles contain the administrative provisions. The reasons for the changes which have been made in the present methods of assessing the tax have already been presented. Returns are to be made, either orally or in writing, in the form to be prescribed by the Minister of Finance (article 13). If they are made orally, the taxpayer's statements should be transcribed on a regular blank, in his presence, and this return, as filled out by the treasury official, notary, or other person authorized to receive such returns, should be signed by the taxpayer and by his amanuensis. All returns are to be made out on or before March 1, (article 14) unless for good cause a limited extension has beed granted. All returns shall he subscribed under oath. Information returns regarding payments made to persons liable to taxation under the act, are to be furnished by employers, business firms and government offices, as well as by all other persons making payments to or for the account of others (Article 15). These

returns are for the purpose of providing information relative to the receipt of income, whereby the accuracy of individual returns may be tested. The tax is payable in two installments as at present, the first being due when the return is filed and the second six months later (article 16). The use of checks in making payments is encouraged.

Article 17. The crucial change in administrative procedure occurs in this article, which designates the provincial and district assessors of income as the chief administrative officials in lieu of the assessment commissions required under the present law. The reasons for this change were presented at some length.

Article 18. The procedure for the collection of delinquent taxes fines and penalties is outlined, and the order is indicated in which the property and income of the delinquent taxpayer is to be levied upon in satisfaction of the Government's claim.

Articles 19 and 20. Provision is made in these articles for the collection of the tax on wages and salaries at the source, and for the records to be kept by withholding agents, as those persons are called who serve thus as unofficial tax collectors.

It is rocommended that the Government regard collection at the source as a temporary measure, to be given up as soon as the new machinery of income tax administration has gained a sufficient experience to take over the task of securing individual returns from the large number of persons whose incomes are now taxed at the source. Thirty years ago the collection of income tax at the source was regarded as the ideal method, to be employed as widely as possible. This method is found in England, where it is effective for upwards of three-fourths of the total income tax collected. Despite its advantages, however, the collection of such a tax at the source is quite burdensome on those who must serve as unofficial tax collectors, since they are put to an expense for clerical and accounting assistance that absorbs in some cases a large share of the tax collected. It is uneconomical to attempt the collection of a tax in a manner that involves such a heavy cost of administration, and rather unfair to compel the business community to assume this cost. The similar experiences encountered in the United States under

the federal income tax of 1913, were such that collection at the source was abandoned.

The immediate abandonment of this method of collection would be probably unwise in Poland, however, as the new administrative procedure will involve sufficiently extensive changes and problems to absorb, at first, the full energy and attention of the provincial and district offices. After a few years the transition can be made to a general plan of income tax assessment on the basis of individual returns, the accuracy of which should always be tested by information regarding the taxpayer from all possible sources. The information returns provided by article 15 should always be required. They will be even more necessary for a proper assessment on the basis of individual returns than they are under the present system.

Article 21. This article confers general administrative powers on the assessors of income, subject only to the direction and supervision of the Minister of Finance.

Articles 22 — 25. These articles relate to penalties. They cover much the same ground as the penalty provisions of the present law, with some slight changes in the amounts of fine or penalty imposed in certain cases.

Articles 26 — 27. A new machinery of appeals from the assessment is provided in these articles. The commissions of abatement are abolished and the provincial assessor of incomes is made the reviewing officer for the assessments made by the district assessors, with the privilege reserved to the taxpayer of a further appeal to the administrative tribunal of his province. This is an important change, the success of which will depend on the Government's ability to impress officials and taxpayers alike that its intention is to deal fairly and equitably with all parties, and also on the installation of men as provincial assessors who are able to carry out the Government's intention in a broad-minded and convincing way.

The remainder of the bill consists of some miscellaneous provisions which, with one exception, require no comment. The exception is article 30, which provides for the maintenance of a fund from which refunds are to be made. The object of this arrangement has already been discussed. While it may seem wasteful to keep such a fund, its existence will have a strong psychological influence in demonstrating to

taxpayers that the Government intends to play fair. In this connection the recommendation that each tax be regarded as standing on its own bottom is again stressed. The temptation to use any overpayment of one tax to settle other delinquencies is strong, especially when the Government has the money in hand. This temptation should be resisted, to the length at least of making a formal refund of the overpayment. Bailiffs may be waiting at the door to serve notice of compulsory levy on the recipient of the refund, but the Government in making it has kept faith with the taxpayer regarding the tax in question. This faith must be kept if the proper attitude of goodwill between taxpayers and tax authorities is to be maintained.

APPENDIX

to

CHAPTER VII

DRAFT OF A BILL FOR THE IMPOSITION OF AN INCOME TAX

Article 1. Definitions

For the purposes of this act and unless otherwise required by the context:

1. The words "Provincial assessor of incomes" mean the chief of the provincial treasury office.
2. The words "District assessor of incomes" mean the chief of the district treasury office.
3. The word "taxpayer" means any person, natural of juridical, or any fiduciary, subject to the tax imposed by this act.
4. The word "fiduciary" means a guardian, trustee administrator, receiver, conservator or any person whether natural or juridical, acting in any fiduciary capacity for any person, estate or trust.
5. The words "withholding agent" mean any person natural or juridical, required to withhold, deduct and account to the treasury for any tax due on payments of wages, salaries or pensions that may be taxable under this act.
6. The word "resident" means any person who is domiciled permanently or temporarily within the country and who spends therein more than six months of any year.
7. The word "non-resident" means any person domiciled in a foreign country and who spends less than six months of any year in Poland.
8. The word "person" includes individuals, fiduciaries, partnerships and corporations.

PART I

Art. 2. **Incomes Liable to Tax**

1. There is hereby established an annual tax on incomes.

2. Except as otherwise provided in this act, all persons who are residents of Poland shall be subject to taxation on their net incomes from whatever source derived, whether from whithin or without the country and all persons who are non-residents of Poland shall be subject to taxation on their incomes obtained from sources within the country. Provided, that non-residents of Poland shall be entitled to a credit against the taxes payble under this act, of the amount of income tax levied by the country of their residence upon their incomes taxable under this act, on condition that a similar privilege is accorded to residents of Poland with respect to the portion of their income taxable in foreign countries.

3. The taxes imposed by this act shall not be paid on incomes received by:

a) The state and its political subdivisions.
b) The church and other religious orders and denominations.
c) Endowed educational institutions.
d) Trade unions and similar organizations of workingmen.
e) Philanthropic, charitable and benevolent institutions, no part of the income of which accrues to the benefit of the individual members.
f) Cooperative associations, farmers' organizations and all other associations and organizations not conducted for the benefit of individual members; but the dividends, profits, interest or other income received by the members of co-operative associations shall be reported as income by the individual recipients thereof.
g) Veterans of the Polish insurrections and wars, with respect to the pensions granted to them under appropriate statutes.
h) Privates in the Polish army, with respect to their regular pay and allowances for active service.
i) Officers, chaplains and military officials in war-time, when drafted into detachments on a fighting bassis, with respect to their military pay.

Art. 3. **Diplomatic Exemptions**

1. The taxes imposed by this act shall not apply to the incomes of ambassadors, ministers, and diplomatic, consular or other official representatives of foreign nations, nor to the interest earned on their official bank deposits, provided that in the countries which they represent the same or analogous exemptions are accorded the representatives of the Polish Government.

2. Subject to the same condition of reciprocity, there shall be exempted also from the taxes imposed by this act all wages, salaries, and other compensation for personal service paid to their employees other than Polish citizens by ambassadors, ministers and diplomatic, consular or other official representatives of foreign nations.

PART II

Art. 4. **Normal Tax**

1. A tax shall be levied, assessed, collected and paid annually at the rate of 3 p. c. on the entire net income in excess of 2.000 zl. received during the taxable year by all persons other than joint stock companies subject to taxation under this act.

2. A tax shall be levied, assessed, collected and paid annually at the rate of 6 p. c. on the entire net income, whether distributed or not, received during the taxable year by joint stock companies subject to taxation under this act.

Art. 5. **Net Income Defined**

For the purpose of this act, the words "net income" shall mean the gross income less the deductions and credits allowed by this act.

Art. 6. **Gross Income Defined**

1. For the purpose of this act, the words „gross income" include gains, profits and other income derived from trades, commerce, sales, or dealings in property, whether real or

personal, growing out of the ownership or use of or interest in such property: also interest dividends and other income from bonds, shares, notes and other securities: also rents, royalties, and other income from lands, buildings and other movable or immovable property, whether received by owner or lessee: also all wages, salaries, commissions, fees, and other compensation for personal services, and all gains, profits, and income from any other source and in whatever form paid. The amounts of all such items shall be included in the gross income of the income year in which received by the taxpayer, unless, under the regulations prescribed by the Minister of Finance, any such amounts are properly to be accounted for as of a different period.

2. The words "gross income" shall not include the following items, which shall be exempt from taxation under this act:

a) Accretions to capital, except as provided otherwise in subdivision (4) of this article.
b) Sums received in amortization of debts.
c) The proceeds of life insurance policies and contracts paid to the taxpayer on the death of the insured.
d) The amount received by the taxpayer as a return of premiums paid by him under any form of health, accident or life insurance, endowment or annuity contracts, either during the term or at the maturity of the term mentioned in the contract, or upon surrender of the contract.
e) Interest upon the obligations of the Republic of Poland or its subdivisions, providing that at the time of their issue such obligations were expressly exempted from taxation.
f) Amounts received under workmen's compensation and similar social insurance laws, as compensation for sickness, injury or unemployment or on account of old age.
g) Amounts received by gift or bequest, but the income therefrom shall be included in the gross income of the taxpayev for the year in which it was received.

3. The money value of all receipts in kind shall be computed on the basis of the average prices thereof during the taxable year in the place from which the return of income is made.

4. The amount realized by the seller in excess of the cost of property sold shall be considered an increase of capital and not income: but the profits obtained from the purchase and sale of properties, real or personal, or of securities, shall be regarded as income subject to taxation under this act when such purchase-sale operations are conducted by a person or a firm which makes a business of buying and selling such property. The provincial and district assessors of incomes, and their agents or representatives shall have the right to examine the books of accounts, and to inspect the premises of all persons, firms and corporations sucject to income tax for the purpose of verifying their returns of income under this paragraph.

Art. 7. **Apportionment of Gross Income within and without the Country**

1. In the case of a natural person who is a resident of the Republic of Poland, or of a business concern organized or doing business under or by authority of the laws of Poland, and engaged in any trade, occupation or business the income of which is taxable under this act, there shall be taken into account in determining the tax imposed by this act, the entire gross income from all sources.

2. In the case of a natural person who is not a resident of the Republic of Poland, or of a business concern organized or doing business under or by authority of the laws of another country and engaged in any trade, occupation or business the income of which is taxable under this act, there shall be taken into account in determining the tax imposed by this act the entire gross income arising from or attributable to sources within the Republic of Poland.

3. The apportionment of gross income to the Republic of Poland, under the conditions contemplated in paragraph (2) of this article shall be made as follows:

a) The following items of gross income shall be treated as income from sources within the Republic of Poland.

I) Interest on bonds, notes or other interest-bearing obligations of residents, corporate or otherwise.

II) Dividends from domestic corporations.

III) Compensation for labour or personal services rendered in the Republic of Poland.

IV) Rentals or royalties from property located in the Republic of Poland or from any interest in such property including rentals or royalties for the use of or for the privilege of using in the Republic of Poland patents copyrights, secret processes and formulas, good will, trademarks, trade brands, franchises and other like property.

V) Gains, profits and income from the sale of real property in the Republic of Poland when received by taxpayers subject to taxation under this act.

b) From the items of gross income specified in subdivision (a) of this paragraph there shall be deducted the expenses, losses and other deductions which may be properly apportioned or allocated thereto, and the remainder, if any, shall be included in full as net income from sources within the Republic of Poland.

c) The following items of gross income shall be treated as income from sources without the Republic of Poland:

I) Interest other than that derived from sources within the country as provided in paragraph (1) of subdivision (a).

II) Dividends other than those derived from sources within the country as provided in paragraph (II) of subdivision (a).

III) Compensation for labour or other personal services performed without the Republic of Poland.

IV) Rentals or royalties from property located without the country or from any interest in such property, including rentals or royalties for the use of or for the privilege of using without the country, patents, copy rights, secret processes and formulas, good will, trade marks, trade brands, franchises and other like property.

d) From the items of gross income specified in subdivision (c) of this paragraph there shall be deducted the expenses, losses and other deductions which may be properly apportioned and allocated thereto, and the remainder, if any, shall be treated in full as net income from sources without the Republic of Poland.

e) Items of gross income, expenses, losses and deductions, other than those specified in subdivisions (a) and, (c) of this

paragraph shall be allocated or apportioned to sources within or without the country under the rules and regulations to be prescribed by the Minister of Finance.

Art. 8. **Taxable Net Income defined**

The taxable net income of an individual, firm partnership or corporation engaged in any trade, profession business or occupation the income of which is subject to taxation under this act, shall be determined by deducting from the gross income the following:

1) All the ordinary and necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including a reasonable allowance for salaries or other compensation for personal services actually rendered, in the conduct of said business, and including rentals or other payments required to be made as a condition to the continued use or possession of business property to which the taxpayer has not taken or is not taking title, or in which he has no equity.

2) All interest paid or accrued within the taxable year on indebtedness. If the interest is owed abroad no deduction may be made by a resident taxpayer, corporate or otherwise, unless satisfactory evidence is presented that the tax thereon has been assessed to the recipients.

3) Taxes, other than special betterment or improvement taxes, levied by the Government of Poland or its subdivisions, except those imposed by this act and except also the payments made on account of the special property tax of August 11, 1923.

4) Losses sustained during the taxable year if incurred in the trade or business and not compensated for by insurance or otherwise.

5) Debts ascertained to be worthless and charged off during the taxable year, provided the amount thereof has previously been included in a return of gross income under this act or under any preceding act imposing a tax on incomes in the Republic of Poland.

6) A reasonable allowance for the exhaustion wear and tear of property used in the industry or business including a reasonable allowance for obsolescence.

7) In the case of mines, other natural deposits and timber, a reasonable allowance for depletion and for the depreciation of improvements, according to the peculiar circumstances of each case, such allowance in all cases to be made under regulations to be promulgated by the Minister of Finance. In the case of leases the deductions allowed by this paragraph shall be equitably proportioned between the lessor and the lessee.

Art. 9. **Deductions not allowed**

No deduction shall be allowed, however, for the following:

1) Interest on capital belonging to the taxpayer and invested in the business.
2) Compensation paid for the personal services of the taxpayer, his wife or his children not yet of age.
3) Personal and living expenses of the taxpayer and his family.
4) Any amount paid out for buildings or for permanent improvements or betterments to increase the value of any property or equipment used in the business.
5) Any amount paid out in restoring property or in making good the exhaustions thereof for which allowance is or has been made.
6) Any amount expended for the amortization of debts, or the return of capital to partners or other owners, or the writing off of losses sustained in the past.
7) Other expenses and losses not connected with the gaining of income.

Art. 10. **Estates and Trusts**

1) The taxes imposed by this act shall apply to estates and trusts, which taxes shall be levied and collected annually at the appropriate rates specified in Articles 4 and 11 upon and with respect to the taxable income of estates or of any kind of property held in trust, including:

a) Income received by estates of deceased persons during the period of administration or settlement of the estate.
b) Income accumulated in trust for unborn or unascertained persons or persons with contingent interests.

c) Income held for future distribution under the terms of a will or trust.

d) Income which is to be distributed to the beneficiaries periodically, whether or not at regular intervals, and the income collected by a guardian of an infant to be held or distributed as the court may direct.

e) Income of an estate during the period of administration or settlement permitted by subdivision 3 of this article to be deducted from the net income upon which the tax is to be paid by the fiduciary.

2. The taxable income of an estate or trust shall be computed in the same manner and on the same basis as provided in this act for computing the taxable income of individual taxpayers, except that in paragraphs (d) and (a) of subdivision 1 of this article the taxable income shall include each beneficiary's share of such taxable income, whether or not distributed before the close of the taxable year for which the return is made.

3) In cases under paragraphs (a), (b) and (c) of subdivision 1 of this article the tax shall be imposed upon the estate or trust with respect to the taxable income of the estate or trust and shall be paid by the fiduciary except that in determining the taxable income of the estate of any deceased person during the period of administration or settlement, there may be deducted the amount of any income properly paid or credited to any legates, heir or other beneficiary. In such cases, the estate shall be allowed the same deductions as are authorized to individuals by paragraphs (2) and (3) of article 8; and in such cases an estate or trust created by a person not a resident of Poland, and an estate of a person not a resident of Poland, shall be subject to tax only to the extent to which individuals other than residents of Poland are liable under subdivision 2) of article 1.

4) In cases under paragraphs (d) and (e) of subdivision 1 of this article, the tax shall not be paid by the fiduciary, but there shall be included, in computing the taxable income of each beneficiary, his distributive share, whether distributed or not, of the taxable income of the estate or trust for the

taxable year. In such cases the income of a beneficiary of such estate or trust not a resident of Poland shall be taxable only to the extent provided in subdivision 2) of article 1, for individuals other than residents.

PART III

SUPPLEMENTARY TAX

Art. 11. Rates of Supplementary Tax

A supplementary tax on incomes shall be levied, assessed, collected and paid annually at the following rates:

1. On the entire taxable income, as determined according to the provisions of Part II of this act, of juridical persons of whatever nature, other than the Government of Poland and its subdivisions, that do not distribute their incomes among natural persons, three per cent.

2. On the entire taxable income of every natural person residing in Poland or having his domicile or residence within the country, at the following rates:

Upon an income less than 5,000 zl. a supplementary tax of one per cent.

50 zl. upon incomes of 5,000 zl. and upon incomes in excess of 5,000 zl., but not in excess of 10.000 zl. 2 p. c. in addition of such excess.

150 zl. upon incomes of 10,000 zl. and upon incomes in excess of 10,000 zl., but not in excess of 20,000 zl. 3 p. c. in addition of such excess.

450 zl. upon incomes of 20,000 zl. and upon incomes in excess of 20,000 zl., but not in excess of 30,000 zl. 4 p. c. in addition of such excess.

850 zl. upon incomes of 30,000 zl. and upon incomes in excess of 30,000 zl., but not in excess of 40,000 zl. 5 p. c. in addition of such excess.

1,350 zl. upon incomes of 40,000 zl. and upon incomes in excess of 40,000 zl., but not in excess of 50,000 zl. 6 p. c. in addition of such excess.

1,950 zl. upon incomes of 50,000 zl. and upon incomes in excess of 50,000 zl., but not in excess of 60,000 zl. 7 p. c. in addition of such excess.

2,650 zl. upon incomes of 60,000 zl. and upon incomes in excess of 60,000 zl., but not in excess of 70,000 zl. 8 p. c. in addition of such excess.

3,450 zl. upon incomes of 70,000 zl. and upon incomes in excess of 70,000 zl., but not in excess of 80,000 zl. 9 p. c. in addition of such excess.

4,350 zl. upon incomes of 80,000 zl. and upon incomes in excess of 80,000 zl., but not in excess of 90,000 zl. 10 p. c. in addition of such excess.

5,350 zl. upon incomes of 90,000 zl. and upon incomes in excess of 90,000 zl., but not in excess of 100,000 zl. 12 p. c. in addition of such excess.

6,550 zl. upon incomes of 100,000 zl. and upon incomes in excess of 100,000 zl., but not in excess of 125,000 zl. 15 p. c. in addition of such excess.

10,300 zl. upon incomes of 125,000 zl. and upon incomes in excess of 125,000 zl., but not in excess of 150,000 zl. 17 p. c. in addition of such excess.

14,550 zl. upon incomes of 150,000 zl. and upon incomes in excess of 150,000 zl., but not in excess of 175,000 zl. 20 p. c. in addition of such excess.

19,550 zl. upon incomes of 175,000 zl. and upon incomes in excess of 175,000 zl., but not in excess of 200,000 zl. 23 p. c. in addition of such excess.

25,300 zl. upon incomes of 200,000 zl. and upon incomes in excess of 200,000 zl. 25 p. c. in addition of such excess.

3. A further supplementary tax shall be levied, assessed, collected and paid annually at the rate of 10 p. c. upon the income in excess of 200,000 zl. of every natural person residing in Poland or having his domicile or residence within the country.

Art. 12. **Taxable Income defined for the purpose of the Supplementary Tax**

For the purpose of this act the term "entire taxable income" shall be understood to be the sum of the amounts of taxable income received by the taxpayer or reported by him, including all income on which the tax has been withheld at the source, and including also minimum exemptions, diminished by the following exemptions:

1. In the case of married persons, and heads of families, zl. 2,000, provided that husband and wife shall be allowed to deduct but 2,000 from their joint income. In case of separate returns the deductions may be made by either or divided equally between them. A married person living apart from husband or wife shall not be entitled to the exemption authorized in this paragraph, unless said wife or husband is actually dependent on the taxpayer for support.

2. For each child under eighteen years of age who is actually dependent upon the taxpayer for support zl. 300.

3. For each other person, whether related to the taxpayer or not, who by reason of physical or mental incapacity or disability, is actually supported by him, zl. 300.

PART IV

ADMINISTRATION

Art. 13. Returns

1. **Individual Returns**. Every individual who according to article 1, is subject to the tax imposed by this act shall submit a return under oath, in the form prescribed by the Minister of Finance, of the taxable income received by him in any year. The Minister of Finance may, by proper regulations authorize the return to be made orally to the chief of the district treasury office of the district in which said taxpayer resides.

2. **Returns by juridical persons**. Every corporation, partnership, firm or association, by whatever designation known and in whatever manner established or organized, subject to the tax imposed by this act shall submit a return in the form prescribed by the Minister of Finance, of all the taxable income received by each such corporation, partnership, firm or association in any year. The return shall be sworn to by the President, Vice-President, General Manager or other principal officer and by the treasurer or assistant-treasurer or, in case of a partnership by any one of the partners. If any foreign corporation, partnership, firm or association has no office or place of business in Poland, but

has an agent or representative in Poland, the return shall be made and sworn to by such agent or representative. In any case where a receiver, trustee in bankruptcy, or assignee is operating the property or business of a corporation, partnership, firm or association such receiver, trustee or assignee shall make out and swear to the return of such corporation, partnership, firm or association in the same manner and form now required of corporations, partnerships, firms and associations. Any tax due on the basis of such returns made by a receiver, trustee or assignee shall be collected in the same manner as if collected from the corporation, partnership, firm or association of whose business and property he has custody and control.

3. **Fiduciary Returns.** Every fiduciary shall make a return under oath for the taxpayer for whom he acts if the income of such taxpayer for any year from all sources shall amount to zl. 2.000 regardless of whether or not such taxpayer is liable to the tax imposed by this act. The fiduciary shall be responsible for making the return for the estate or trust for which he acts, whether such income be taxable to the estate or trust or to the beneficiaries thereof. Under such regulations as the Minister of Finance may prescribe, a return made by one of two or more joint fiduciaries shall be a sufficient compliance with the above requirement. The fiduciary shall make oath that he has a sufficient knowledge of the affairs of such individual, estate or trust to enable him to make the return, and that the same is, to the best of his knowlegde and belief, true and correct. Every fiduciary required to make a return under this act shall be subject to all the provisions herein which apply to taxpayers.

Art. 14. **Form of Return and Time and Place of Filing**

1. The returns required by Article 13 shall be made in the form and manner prescribed by the Minister of Finance. The returns of natural persons and of all partnerships, associations or other concerns not required to keep their accounts in the manner prescribed by law and to publish copies of their balance sheet statements in the official journal, shall be filed with the district asssessor of incomes in

the district in which the taxpayer resides, or, if a business partnership or association, in the district in which the principal place of business is located. The returns of joint stock companies shall be filed with the provincial assessor of incomes in the province in which is located their principal place of business.

2. All returns shall be filed with the appropriate treasury office on or before March 1st of each year covering the net taxable income of the last preceding taxable year.

3. The Minister of Finance may grant a reasonable extension of time for filing returns whenever in his judgement good cause exists, and the appropriate treasury office shall keep a record of every such extension and the reason therefor. Except in the case of a taxpayer or fiduciary who is abroad, no such extension shall be granted for more than three months.

4. There shall be annexed to such return the affidavit of the person making the return, to the effect that the statements contained are true. Blank forms for the returns shall be prepared and furnished by the Ministry of Finance, and an ample supply of such forms shall be available in all parts of the Republic on and after January 1st of each year: but failure to secure the forms shall not relieve the taxpayer or fiduciary or other person from the obligation of making any return required by this act.

Art. 15. **Information at Source**

Every individual, corporation, cooperative society or partnership, in whatever capacity acting, including every lessee or mortgage or of real or personal property, fiduciary, employer and every officer and employee of the Republic of Poland, or of any other province, municipality or other political subdivision thereof, making payment or payments to a person resident of Poland or to a person not a resident of Poland, but having an agent or representative in Poland or to an estate or trust in Poland, of rent, royalty, salary, wages, premium, annuity, compensation, remuneration, emolument or other fixed or determinable gain, profit and icome amounting to zl. 1,000 or more to any person or estate or trust in any

taxable year, and of interest and dividends in any amount shall make a return stating the name and address of every person to whom such payment or payments have been made and giving such information concerning such payment or payments as the Minister of Finance may require. Certified copies of the receipts for any or all of such payments shall accompany the return, if required by the Minister of Finance. Such returns of information shall be made on or before the 15th day of January of each year, covering the payments made during the last preceding taxable year and shall conform to all the provisions of article 13.

Art. 16. **Time and Place of Payment of Tax**

1. The full amount of the tax payable, as the sum shall appear from the face of the return, shall be paid at the office where the return is filed, in two equal installments. The first installment shall be paid at the time fixed by this act for filing the return, but in no case later than March 1. The second installment shall be paid on or before the first day of September following. Provided that any taxpayer may at his option, pay the entire tax at the time of filing the return. If the time for filing the return be extended by the Minister of Finance, interest at the rate of 8 p. c. per annum from the time the return was originally required to be filed, to the time of payment shall be added and paid.

2. The tax may be paid with check, but if a check so received is not paid on demand by the bank on which it is drawn, the taxpayer by whom such check is tendered shall remain liable for the payment of the tax and for all legal penalties the same as if such check had not been tendered.

3. The collecting office shall receipt, in triplicate, for each separate payment of income tax made by any taxpayer. The original shall be given to the taxpayer, the duplicate shall be filed in the collecting office, and the triplicate shall be sent to the central accounting office in the monthly settlement.

Art. 17. **Examination of Returns and Computation of Tax**

As soon as practicable after each of the returns prescribed by this act for the declaration of income under Parts II and III hereof have been filed, but in any case not later than

three months after such returns have been filed, the several district and provincial assessors of incomes, shall examine such returns and compute the tax, and the amount so computed shall be the tax. If the tax found to be due shall be greater than that shown by the return, the excess shall be prorated equally to the two installments and the proportionate amount due on the first installment shall be paid to the designated collecting office within sixty days after notice of the amount shall be sent by the appropriate district or provincial treasury offices, and the remainder shall be paid at the same time as and as part of the second installment. In case the entire tax is being paid in one installment the excess tax found to be due shall be paid within sixty days after notice of the amount shall be sent. If the amount found to be due as computed shall be less than the amount theretofore paid the excess shall be credited against unpaid installments, if any. If the amount already paid exceeds the amount determined to be the correct amount of the tax, the excess shall be refunded immediately to the taxpayer as provided in article 31.

2. If, in the opinion of any provincial or district assessor of incomes any taxpayer, fiduciary or other person required by this act to make a return has failed to make such a return or has made a return which is false or contains any untrue statement or is incomplete, he may require such taxpayer, fiduciary or other person to appear before him and to answer under oath any question relating to the income, to other matters covered by or which should be covered by the return, or to the determination of the tax. The provincial or district assessor of incomes may require any such taxpayer, fiduciary or other person to make a new return or he may himself make an estimate of the taxable income from any information in his possession.

3. For the purpose of ascertaining the correctness of any return or for the purpose of obtaining information when a return has not been made, the several provincial and district assessors of incomes may examine any or all of the books of account and papers of the taxpayer, fiduciary or other person required by this act to make a return, which relate to the income or to other matters covered by or which should have been covered by such return, or to

the determination of the tax. Provided, that such examination is authorized only to the extent required for the administration of this act and shall be conducted either in the office of the person to whom such books and papers belong or in some other place agreed upon between the provincial or district assessor of incomes and such persons.

4. The provincial and district assessors of incomes shall use all diligence and all legal means to test the accuracy of the returns received by them and to obtain all possible relevant information concerning the income taxable under this act.

5. If any taxpayer, fiduciary or other person has made his return later than the date speciefied in Article 13 or has made an incorrect or false or incomplete return, or has failed to make a return, the provincial or the district assessor of incomes to whom such return should have been made may give such person notice of the tax demand for payment as soon as practicable after the said first day of March, but such notice and demand shall not be made later than five years after the said first day of March.

Art. 18. **Procedure for Collection of Unpaid Taxes, Fines and Penalties**

1. The provincial and district assessors of incomes, and any other persons or officers to whom they may lawfully delegate such power, shall have coercive authority and jurisdiction to enforce the payment of any tax, fine, or penalty imposed by this act.

2. Whenever the provincial or the district assessors of incomes shall consider such action necessary, in order to effect collection of the delinquent tax without delay the judge of the civil court shall, upon request of the said assessors of incomes, issue an order of attachment and receivership.

3. The attachment and receivership shall be levied upon:

a) The income produced by the real or movable property of the debtor in case it is rented.
b) The money or other liquid assets of the debtor.
c) Stipends, salaries, pensions or business profits of the debtor.

d) Furniture of the debtor, or other personal effects, except such as may be exempted by law from seizure for the satisfaction of debts.
e) Real estate.

4. The debtor shall have the right to indicate the order of precedence in which his property, assets, and incomes are to be subjected to attachment for the collection of unpaid taxes, fines and penalties under this act, provided that the interests of the treasury are at all times sufficiently guarded.

5. Notaries and others who perform the functions of notary shall not receive or record any document or instrument providing for the sale, except by distraint as above provided, exchange or mortgage of real property unless there is presented evidence satisfactory to such notaries or other persons performing the functions of notaries that the owner of such real property has satisfied all claims of the national treasury against him with respect to any tax, fine or penalty imposed by this act during the first three years preceding or for such part thereof as this act may have been in effect. The following declarations may be presented as evidence:

a) a sworn statement that all previous taxes have been paid, and that no fines or other penalties remain unsatisfied.
b) presentation of the receipts for the payment of income tax for each of the three preceding years. The certificate that such evidence has been presented shall be attached or incorporated into the said document or instrument in order that such certificate may be copied whenever copy is made of the said document or instrument.

Art. 19. **Collection at Source**

Every person, firm or partnership or joint stock company, and every officer and employee of the Republic of Poland or of any province, commune municipality or other political subdivision thereof, shall withhold the appropriate tax payable under article 4 of this article in the case of payments to any individual liable to taxation under this act, of pensions, wages or salaries in excess of 2.000 zl. per annum; and in the case of payments of sums of any amount for casual services rendered by employees not on the regular payroll of

the person, firm, joint stock company, governmental office or other concern or agency making said casual payments, unless such casual payee at the time of receiving the payment, shall file a sworn declaration that his total income from all sources during the preceding taxable year was not greater that 2.000 zl. Such sworn declaration shall be corroborated by the payroll or other records of the person, firm or institution making the payment. Any person making a false declaration of the amount of his annual income shall be subject to the tax, and in addition to the penalties provided for the making of false declarations under this act.

Art. 20. **Records of Withholding Agents**

1. Every person, firm, corporation, officer or agency referred to in art. 20 shall keep a special record of the amounts of tax withheld in accordance with the provisions thereof, together with the name and address of each person for, or on account of which the tax is withheld. The Minister of Finance shall prescribe the form and the manner in which such records are to be kept. The regular books of account and the periodical balance sheets of the concerns required by law to keep and publish the same shall also contain a record of such amounts withheld.

2. The name and business address of every person, firm and corporation, officer or agency acting as a withholding agent in accordance with the provisions of article 20 shall be entered in a special register to be kept for each district, by the provincial assessor of incomes.

3. Each withholding agent shall make a settlement between the first and fifth days of every month with the district cash office for all of the taxes withheld during the previous month. The books and other records of such withholding agents shall be subject to examination and inspection at any time by duly constituted representatives of the district or the provincial assessor of incomes and by other Government authorities, for the purpose of verifying the statements and reports made by such withholding agents.

4. The receipt of the district cash office for any payment of a tax deducted and withheld under the provisions of this

act, shall be sufficient evidence that the person so deducting and withholding the tax is relieved of responsibility for such withholding and deducting, to the recipient of the income upon which the tax was deducted and withheld.

Art. 21. **Administration of the Tax**

Subject to the general direction and supervision of the Ministry of Finance, the provincial and district assessors of incomes shall administer and enforce the tax imposed by this act; provided that they may delegate any of the powers and functions imposed upon them by this act to any officer or employee in the respective provincial or district treasury offices or to any special agent whom they may be authorized by law to employ.

The provincial and district assessors of incomes or any officer or person designated by them shall have power to administer the oath to any person called to testify under the provisions of this act, and to compel the production of books and papers.

PART V

PENALTIES

Art. 22. **Penalties for delay in making return failure to make returns, and making false and incomplete returns.**

1. Taxpayers Returns

a) If any taxpayer without intent to evade any tax imposed by this act shall fail to file a return or give the same orally, at the time required by or under the provisions of this act, but shall voluntarily file or give orally a correct return of income and pay the tax within sixty days thereafter, the amount of tax due from such taxpayer shall be increased by one per centum per month or fraction of a month, from the date when such return was due to the date when the return was made. Provided, that such increase shall in no case be less than zl. 10.

b) If any taxpayer fails wilfully to file a return of income, or to submit the same orally, within sixty days of the time required by or under the provisions of this act, the appropriate

assessors of income shall determine the amount of tax to be assessed to such taxpayer, from such information as he may be able to obtain. The amount of tax thus determined to be due from such taxpayer shall be increased by five per centum for the first month or fraction of a month and two per centum for each succeeding month or fraction of a month from the time the tax was originally due to the time of payment.

c) If any taxpayer knowingly makes a return which is false or contains any untrue statement or is incomplete, such taxpayer in addition to the requirement for the payment of tax, shall be fined an amount equal to double the tax on the omitted income.

2. Fiduciary Returns

a) If any fiduciary without intent to evade any tax imposed by this act, shall fail to make the return required by art. 13 in the form and at the time specified in art. 14 but shall later voluntarily file, a correct return of income and pay the tax due within sixty days thereafter, said fiduciary shall be fined an amount equal to five per centum of the amount of the tax due for the first month or fraction of a month and two per centum of each amount for each succeeding month or fraction of a month, from the date when the return was due to the date when the return was made. Provided, That such fine shall in no case be less than zl. 50.

b) If any fiduciary required by this act to make a return for a taxpayer has failed voluntarily to make such return within sixty days after the time required by or under the provisions of this act, the appropriate assessor of incomes shall determine the tax to be assessed to such fiduciary from such information as he may be able to obtain and such fiduciary shall be fined an amount not greater than the tax due.

c) If any fiduciary required by this act to make a return for a taxpayer shall make a return which is false or contains any untrue statement or is incomplete, he shall be fined an amount not greater than the tax upon any income of such taxpayer discovered to be taxable and not shown in the return.

d) In each of the cases stated in this subdivision the tax payable by the fiduciary or by any taxpayer shall be increased as provided in subdivision b) of paragraph (1) of this article if the taxpayer for whom the fiduciary acts has connived with the fiduciary in the failure to comply with the provisions of this act as specified in this ordinal, without prejudice to any legal right which the taxpayer may have against the fiduciary.

3. Information Returns

Any individual corporation or partnership required by art. 15, or by the present article to make a return of information at the source, who shall fail to make such a return in the form and at the time specified or shall make a return which is false or contains any untrue statement or is incomplete, shall be fined an amount not in excess of 20 p. c. of the amount of net income which it failed to disclose. Provided, That such fine shall not be more than zl. 500.

Art. 23. Penalties for Delay or failure to pay Tax

1. If any taxpayer, fiduciary or other person required by this act to pay a tax shall fail to pay such a tax at the time designated in art. 16, the amount of the tax shall be increased by five per centum for the first month or fraction of a month, and two per cent. for each succeeding month or fraction of a month, from the time when the tax was due until it is paid. Provided, That such increase shall not be less than zl. 90. This penalty shall be in addition to any of the penalties prescribed by article 22.

2. If through no fault of his own, any taxpayer or fiduciary shall fail to receive from the appropriate assessor of incomes the statement of amount of additional tax due and demand for payment as prescribed by art. 17, and shall pay the tax within thirty days after finally receiving such notice and demand, the penalty prescribed by this article shall not be applicable to such taxpayer or beneficiary.

Art. 24. Other Penalties

1. If any person required by this act to make any return or to pay any tax shall, with intent to evade any tax imposed

by this act, violate any provisions of this act, he shall be fined not more than zl. 500, which fine shall be in addition to any of the other penalties prescribed by this act.

2. Any person who takes oath to any false statement in any return required by this act shall be guilty of perjury and subject to the penalty provided therefor by the Penal Code, which penalty shall be in addition to any of the other penalties prescribed by this act.

3. Any official or employee of the provincial or district treasury office who shall refuse or fail to perform any duty imposed upon him by this act or delegated to him in accordance with the provisions of this act, or shall permit or assist any person to evade any tax or other obligation imposed by this act shall be subject to immediate dismissal from the service and shall be fined not more than zl. 2,000, without prejudice to any penalties to which he may be subject under the Penal Code.

Art. 25. **Enforcement and collection of Fines and Penalties**

The fines and penalties provided by articles 22, 23 and 24 except article 24, paragraph 2, shall be imposed and collected by the provincial or the district assessor of income in the same manner as provided by this act for the assessment and collection of the tax imposed by this act. In case it appears to the Minister of Finance or to any provincial or the district assessor of incomes that any person is liable to any of the penalties provided by article 25, paragraph 2, he shall present the case with all facts and evidence pertaining thereto, before the proper judicial authority for prosecution.

PART VI

APPEALS AND REVISIONS

Art .26. **Appeal, Hearing, and Revision of computation of Tax**

1. If any payer, fiduciary or other person believes that the amount of tax imposed under this act or of any fine or penalty imposed under articles 22, 23 or 24 of this act, pay-

able by him or by the person for whom he acts, as determined by the district assessor of incomes, is illegal or unjust, he shall pay such tax, fine or penalty provided by this act, and thereafter at any time within six months from the receipt of the notice of tax, fine or penalty and demand for payment, he may appeal in writing to the provincial assessor of incomes for a revision of the computation of the tax, fine or penalty, and for a hearing. Such appeals may also be presented orally at the option of the taxpayer, to the district assessor of incomes who shall reduce the request to a written statement to be signed by the appelant taxpayer, and shall transmit the same to the provincial assessor within one week of the date of its receipt. The provincial assessor of incomes shall hold such hearing, giving due notice and an opportunity to be heard to the said taxpayer, fiduciary or other person. At any such hearing, the provincial assessor of income shall have authority to examine any or all of the books of account and papers of the said taxpayer, fiduciary or other person, so far as may be required for the determination of the tax, fine or penalty. The provincial assessor of incomes shall give due consideration to all facts and arguments presented by such taxpayer, fiduciary or any other person, whether presented at a hearing or not, and shall thereupon determine the amount of the tax, fine or penalty, in accordance with the law and the facts. This decision shall be rendered within three months from the date on which the appeal has been presented.

2. If the amount of the tax, fine or penalty as so determined is different from the amount which has been paid, the said taxpayer, fiduciary or other person shall pay to the district treasury office any additional amount that may be due, or shall refund or credit the excess of any amount paid over the amount of tax found to be due as provided in paragraph 1, of the article 17.

3. The foregoing provisions of this article shall apply, analogously, to the appeals of joint stock companies against the assessment of tax, or the imposition of fines or penalties by the provincial assessors of incomes, be taken to the Vice-Minister of Finance in charge of the administration of taxes,

who shall proceed to conduct hearings, and make such other investigation of the merits of the case as shall be necessary to a just decision.

Art. 27. **Appeal from the Decisions of the provincial Assessor of Income**

1. If any taxpayer, fiduciary or other person, after appeal to the provincial assessor, in accordance with the provisions of art. 26 believes that the tax, fine or penalty as above determined is illegal or unjust, he shall have recourse, not later than one week after the decision of the Provincial assessor of income, to the administrative tribunal of the province in which he resides. The procedure for filing this appeal and for hearing the case before this tribunal shall follow that laid down in the German, Austrian or the Russian Civil Codes, respectively according to the jurisdiction of each.

2. A similar privilege of appeal from the decisions of the Vice-Minister of Finance is accorded to joint stock companies, following the appeals referred to in paragraph 3 of the article 26.

PART VII

MISCELLANEOUS

Art. 28. **Secrecy of Returns, Penalty for disclosing Contents**

The assessors of income, their attorneys or agents, or other officers or employees of the Government of Poland or any municipality or other subdivision thereof shall not make known in any manner the amount or source of income, losses, expenditures, or any particular thereof set forth or disclosed in any return prescribed by this act, nor shall they permit any income, return or copy thereof or any book or paper containing any abstract or particular thereof to be seen or examined by any person except so far as is necessary in carrying out the provisions of this act. No person shall print or publish any income return or part thereof, or the amount or source of any income, profits, losses or expenditures, appearing in any income return; Provided, That nothing in this article shall be construed to prohibit the inspection of any returns by any judicial authority when required for the prosecution of any

case arising under this act or to prohibit the publication of statistics, so classified as to prevent the identification of particulars, reports or returns or the items thereof.

Any person who shall violate any provision of this article shall be subject to a fine of not more than zl. 2.000 or to inprisonment for not more than one year or both for each offense.

Art. 29. **Contract to assume Tax illegal**

1. It shall be unlawful for any person, or the Government of Poland, or of any province, municipality or other subdivision thereof, to agree to contract directly or indirectly to pay or assume to bear the burden of any tax payable by any taxpayer or fiduciary under the provisions of this act.

2. Any such contract or agreement shall be null and void and shall not be enforced or given effect by any court.

Art. 30. **Refunds**

The Government shall at all times reserve out of the proceeds of the tax collected under this act a sum not less than zl. 200.000 for the purpose of making prompt payment of all refunds of excess taxes, fines and penalties. Such refund payments shall be made by the national treasurer on vouchers drawn by the provincial assessors of income, with the approval of the proper authorities.

Art. 31.

This act shall become effective on the date of its promulgation. The first assessment of income under it shall be in the year 1927, upon the incomes received during the year 1926.

CHAPTER VIII

Excise Taxes

It was suggested in Chapter VI of this section of your Commission's Report that the introduction of the supplementary tax on property would warrant certain compensating changes at other parts of the tax system. One of these has been dealt with in the revised draft of the income tax law, by eliminating the distinction between the incomes from property and those from labour, and by the introduction of a normal flat rate of 3% on all incomes. The system of excise taxes seems an appropriate place at which to introduce further compensatory changes, especially with a view to reaching those persons who are not directly subject to either property or income taxes.

The scope of the present excise system and the relative fiscal importance of its various parts may be seen from the following table:

TABLE XIII

Article	Yield of the Excise Taxes (000 zl.)				Seven Months
	1922	1923	1924	1925	1926
Spirits	62,456	42,556	132,626	—	—
Wine	529	569	1,580	3,461	1,735
Beer	1,632	2,291	6,764	6,767	4,628
Sugar	27,242	15,534	54,094	60,229	47,833
Yeast	110	625	3,745	7,080	4,455
Coal	1,534	9,830	8,331	—	—
Oil	5,034	2,746	10,744	17,593	12,957
Matches	1,169	2,011	4,025	5,331	—
Lighters	—	—	—	37	21
Vinegar Acid	—	197	307	309	196
Salt in former German provinces	—	256	1,399	—	—
Excise licenses . . .	357	1,638	7,048	9,329	3,280
Totals (o)	100,159	78,058	230,667	110,138	75,105 (i)

(o) Excluding fines, arrears and interest thereon.

(i) The budget estimate for seven months was 67,519,000.

The extension of the field of monopolistic enterprise has been chiefly responsible for the changes which have occured in the yield of these excise taxes. Since the introduction of the spirit monopoly, the most important commodities, from the standpoint of the yield, have been sugar, oil, beer and yeast. The tax on coal was reasonably productive, although the tax rate in force to 1924, which was 20% of the sale price, was unreasonably high even under the conditions of inflation existing at that time.

Schedule of Proposed Rates in Comparison with the Existing Rates

Your Commission recommend that certain increases of rates be made in the existing schedule of excise taxes. The amount of increase suggested can best be shown by tabulating in parallel columns the present rates and the proposed rates. This tabulation follows:

Commodity	Present Rates of Excise Taxes	Proposed Rates of Excise Taxes
1. Wine	*Zlotys per liter*	*Zlotys per liter*
a) Grape wine, to 16% alcohol .	1.00	1.25
b) „ „ above 16% „ .	2.00	2.50
c) Fruit wine and mead	0.20	0.30
d) Raisin wine	0.40	0.60
e) Fruit must	0.50	0.70
f) Beverages akin to wine . . .	0.80	1.00
g) Champagne of grapes . . .	4.50	5.00
h) „ „ fruits	2.00	2.25
2. Beer	*Zlotys per Hl.*	*Zlotys per Hl.*
a) Full beer, containing up to 13% sugar		
I) First 2.000 Hl.	6.00	flat rate of 8 zl. per Hl.
II) Next 8.000 „	6.30	
III) Excess over 10.000 Hl. . .	6.30	
b) Double beer, containing 13-20% sugar		
I)	9.00	flat rate o 10 zl. per Hl.
II)	9.15	
III)	9.30	

Commodity	Present Rates of Excise Taxes	Proposed Rates of Excise taxes
	Zlotys per liter	*Zlotys per liter*
c) Strong beer, containing over 20% sugar		
I)	12.00	flat rate of 13 zl. per Hl.
II)	12.00	
III)	13.20	
	Zlotys per quintal	*Zlotys per quintal*
3. Sugar		
a) Contingent for domestic use .	35.00	44.00
b) On amount sold within the country above contingent . .	75.00	72.00
4. Yeast	*Zl. 1.00 per Kg.*	*Zl. 1.20 per Kg.*
5. Artificial Lighters	*Zlotys per unit*	
a) Pocket size	1.60	no change
b) Wall type	5.00	
6. Vinegar acid	*Zl. 0.40 per Kg. of 100% acid*	*Zl. 0.50 per Kg. of 100% acid*
	Zlotys per quintal	
7. Mineral Oil		
a) Under 750°	15.80	general increase of 10% in rates
b) 760° to 865°	10.50	
c) 865° to 885°	1.80	
d) 885°	7.00	
8. Parafine	10.50	
9. Asphalt, coke	1.80	
10. Coal	exempt	Zl. 1.00 per metric ton

It will be noted that the increases proposed are moderate. One of the strongest reasons for advancing the present rates of excise taxation is to effect a valorization of the tax to correspond to the price advances incident to the new lower gold value of the zloty. Your Commission have not attempted, in the increases here suggested, to anticipate the full effects of these changes, and as they develop, still further upward adjustments of rates may prove necessary, especially in view of the fact that all of these rates are at present levied on a specific rather than on an ad valorem basis.

Comments on the Changes Proposed

The following comments are offered on the changes that heve been recommended.

1, Wines. The statistics of wine production show that the great bulk of the output of wine in Poland consists of poor quality and low price. Since they constitute the bulk of the production, however, an increase of the tax on these classes will be most productive of revenue, and will at the same time effect the widest distribution of the tax. It is proposed to increase the tax on fruit wine and mead from 0.20 to 0.30 zl. per liter, and the tax on raisin wine from 0.40 to 0.60 zl. In order te preserve somewhat the same balance as before among the different grades of product, the other taxes have been advanced, but in lesser degree.

2. Beer. The statistics of beer production indicate that the great bulk of the output is of the grade designated as "full beer", containing relatively low alcohol content. As suggested in the case of wines, an increase of the tax on this grade of largest production and consumption will be most productive of revenue, and the greatest relative increase is recommended for the most popular grade. The recommendation is really two-fold. The first part of it is that the present graduation of the tax according to quantity be eliminated, and that the only graduation of the tax be that based on the alcoholic content.

The object of graduating the tax according to the output of the induvidual brewery is to favour the small, neighbourhood concerns, of which there seems to be a great number. In 1925 there was 270 breweries in Poland, of which 50 were inoperative. The total output of the 220 that were active was 1,650,922 hectoliters, an average of 7,500 hectoliters per brewery.

Two questions arise here. One is the question of the wisdom of attempting further to perpetuate the smallest and weakest concerns by a tax discrimination in an industry which is so evidently over-developed as the brewing industry is at the present time. Your Commission take the position that the continuance of this favouritism is unwise, since, in so far as it is effective, it tends to perpetuate an overcrowded condition of the industry. Any tax discrimination

which has for its object the perpetuation of inefficient methods of production is unsound, economically since it tends to keep in the field those concerns which are of least industrial value. It would be better fiscal policy to give up the attempt to protect the small concerns and to tax all alike, leaving question of survival to the natural course of events.

The second question whether, after all, the discrimination is necessary in order to equalize competitive conditions. In view of the general distribution of the breweries and of the small output of the greater number of them, the available market open to each is chiefly the local one. There is probably little effective competition between the breweries of different districts, and little movement of beer from one district to another. The price in each district is a matter of local supply and demand, and it will tend in each part of the country to be estabilished at a level which will cover the costs of the less efficient producers in that section. Taxes are included in these costs, and if they are collected at a uniform rate regardless of quantity produced, the selling price would still be high enough to cover them, as long as the concern was able to continue in the business at all.

The second part of the recommendation is that the rates be advanced somewhat, as shown in the foregoing schedule. The experience with similar taxes in the United States, as well as that of other countries, has shown that within reasonable limits their yield is capable of fairly consistent increase as the rate of tax is advanced. During the Spanish-American War, for example, the tax on beer was doubled in the United States and the revenue therefrom was likewise doubled. There is naturally a limit beyond which such results would not be obtained, but it is the opinion of your Commission that the proposed increase would not cause a diminution of consumption nor of tax yield.

3. Sugar. The situation of the sugar industry is rather peculiar. The country has a producing capacity larger than the normal domestic requirements, or larger at any rate than the present consuming capacity of the domestic market at the prices that now prevail. For the production year 1926/27 a total production of 5,308,730 quintals is expected from the

72 refineries which are to be in operation (Law of August 6, 1926. Official Journal No. 82, Law No. 453, August 13, 1926). Of the total amount expected to be produced, a quarter or contingent as it is called, of 2, 587,280 quintals, or 48,7% is allotted to the home market, and the remainder, it is expected, will be exported. The present excise tax on the domestic contingent is 35 zlotys per quintal. If any producer sells in the home market in excess of his quota, the excise tax on this surplus is 75 zlotys per quintal. The object of this discriminatory rate is to force exportation of the product in excess of the domestic contingent.

Your Commission has not had the time nor the opportunity to go fully into all of the details of the condition of the sugar industry and do not presume to pass judgment on the broader aspects of the Governments present policy concerning the industry. The special aspect of the situation which is of chief importance in the present connection is the amount of excise tax to be imposed on sugar.

The fact that the present rates of this tax are devised with a view to encouraging the export of sugar, or at least to penalizing those producers who insist on selling more than their quota in the domestic market, raises once more the question of the wisdom of stimulating foreign trade. On this subject reference is again made to the separate memorandum submitted by your Commission on Poland's foreign trade policy. Without entering here into a lengthy argument on the subject, it is sufficient to state that this Commission considers the present policy of industrial regulation through tax favouritism unwise and unsound, since it tends to hinder introduction of improved methods of production and to prevent the expansion of the country's industries in the direction in which they have the greatest natural advantages.

The important matter, from the standpoint of a balanced revenue system, is to secure a somewhat greater revenue from the excise tax on sugar. Since the quantity that can be sold in the home market is limited, there should be little difficulty in making the price adjustments that, for refiners, are involved in this increase of the tax. The rate proposed is 44 zlotys per quintal, which figures out to about 20 groszys per kilogram. This is a smaller proportion of the retail price

of sugar than is the tax ordinarily imposed on imported sugar in the United States. In the latter case the tax, which is levied on imported sugar, but which causes, incidentally, an equivalent rise in the price of all sugar including the domestic production, has varied from one-fourth to nearly one-third of the retail price. Your Commission disapprove of the practice of limiting the portion of the output of any commodity that may be freely sold in the domestic market, for the reasons already set forth in the discussion of Poland's foreign trade policy, and also for the reason that this policy unduly favours the inefficient corncerns. It is realized, however, that a complete change in an established policy of this sort at one stroke would be inadvisable under existing conditions. Nevertheless, the Government should look forward to the abandonment of such practices, and should immediately take the first step in this direction by reducing somewhat the tax discrimination now in effect in the case of sugar. The reduction of three zlotys per quintal in the tax on the sugar sold in the domestic maket in excess of the allotted quota, here recommended for the current year, should be repeated year by year to the end that the whole discrimination shall be done away with in ten years, or in less time if further increases are made in the tax on sugar sold in Poland.

4. Yeast. The production of yeast has expanded in recent years, except for a slight set-back in 1924, as the following figures show:

Year	*Amount of yeast produced (kilograms)*
1922	3,826,534
1923	5,774,011
1924	5,416,690
1925	7,280,522

The tax rate on yeast was 3 groszys per kilogram from January 1, to October 4, 1924, and thereafter to the end of the year 50 groszys. In 1925 the rate was increased to one zloty per kilogram. This increase did not check the production, for the tax is still but a small proportion of the market price. It is recommended that a further advance of the rate be made to 1.20 zl. per kilogram, effective on the promulgation of the appropriate law.

5. Artificial Lighters. No change is proposed in the tax on artificial lighters. This tax is obviously designed as an effect or counterpart of the match monopoly, and the present rates appear to be accomplishing the desired purpose, as shown by the receipts from the tax.

6. Vinegar acid. It is proposed to raise the tax on vinegar acid. This tax produces but a small revenue, and the slight advance is recommended in order to preserve something of the former balance of the excise system.

7. Mineral oil and oil products. These products are classified according to the specific gravity, and the limits indicated in the scale of tax rates above correspond to the lines of demarcation between the principal components of the crude oil, as these are separated in the refining processes. The taxes now imposed on this group represent a much higher proporation of the market price than do the other excise taxes, and for this reason it is suggested that there be an increase of only 10% in the rates now in force.

8. Coal. As stated above, there was in effect in 1924 an excessive excise duty of 20% ad valorem on coal. This tax, instead of being reduced to a reasonable amount was removed entirely. Your Commission suggests that this exemption was unwise, and recommends that an excise tax of one zloty per metric ton of coal produced be imposed. The revenue to be obtained from such a tax would, at the present rate of production, amount to nearly 30,000,000 zl. annually. The actual output in 1925 was 29,081,000 tons, and for the first seven months of 1926 it was 17,445,000 metric tons, which is at the rate of 29,804,000 metric tons for the current year.

CHAPTER IX:

Equalization of the Budget.

A final fiscal problem to be considered is that of maintaining a balanced budget. In one sense this is the most important problem of all, since the ultimate success of all other financial reforms depends on the country's ability to live within its income and thus to avoid a repetition of the financial errors which in the past have been so disastrous. The series of reforms recommended by your Commission should greatly facilitate the balancing of the budget, by promoting a more economical administration of the Government, by increasing revenues and by creating other conditions favourable to the country's advance to a more normal economic life.

Certain encouraging steps have already been taken in the direction of better budgetary procedure. The separation of the railway budget from the general budget puts that important public entreprise on its own basis, and assures a more correct statement of the relation of railway finances to those of the general government. The introduction of the monthly budget plan is helpful also in giving immediate indication of the lack of balance between revenues and expeditures although, of course, it is necessary to keep in view the situation over a longer period than one month, since receipts and disbursements may be well coordinated for long periods although not balanced for short periods. Other important changes in budgetary law and procedure are elsewhere recommended by your Commission.

It hardly needs to be pointed out, that the establishment and maintenance of a balanced budget will promote that

general financial and economic stability which in tnrn will both improve the country's credit and make it possible to bear heavier taxes in the future if this should prove necessary. Under the existing conditions, on the other hand, the uncertainty and instability which are the natural fruit of budgetary difficulties produce an unfavourable impression on prospective foreign investors, and at the same time check economic activity and so tend to dry up the sources from which the revenues are drawn. It is necessary to break into the vicious circle, and by securing budgetary stability, to set in motion the forces and influences which will react favourably on the public credit and the national economic life.

There are two time aspects of Poland's problem of balancing its budget. One is the immediate, temporary situation which requires prompt and definite action. The other is the long-run stabilization of the budget through a reorganization of the country's finances and the inauguration of such policies concerning revenue and expenditures as will assure a permanent equilibrum.

The immediate Problem

While it is difficult, due to deficiencies in accounting procedure, to ascertain the precise condition of the Treasury at the present moment, it appears that an emergency condition has developed, which though not unduly serious, constitutes a problem that must be dealt with promptly before it assumes unmanageable proportions. The available figures indicate that the total of the current floating obligations is somewhat in excess of 200,000,000 zl., in addition to the paper currency outstanding. During the fiscal year 1925 the current deficit was covered by the emission of paper currency at an average monthly rate of 16,100,000 zl., or a total of 193,000,000 zl. for the year. This brougt the total of Treasury paper money outstanding to 282,000,000 zl. on January 1, 1926. During the first four months of 1926 no substantial quantities of Government Treasury notes were issued, but the Treasury cash balance was drawn upon, and eventually overdrawn to cover the current monthly deficit. From May 1 to August 1 paper currency emissions were made at the rate of about 9.000.000 zl. monthly.

The Treasury statement of August 1, 1926, showed a deficit of 85.000.000 in the Government's cash account. It is reputed that among others, the following items of early maturing obligations are now outstanding:

			Zlotys:
Fund collected for the localities			115.000.000
Three months Treasury notes deposits . . .			24.000.000
Various stabilization loans:			
$	600.000	5.400.000 zl.	
Fr.	7.913.715	21.400.000 „	
£	168.264.18.6	7.350.000 „	
$	491.426	4.400.000 „	38.155.000
		Total	177.155.000

The funds of the localities represent collected taxes and other funds belonging to the cities and to the other local units. They are, therefore, an obligation of the Central Government. The deficit in the Treasury's cash account makes it apparent that the Government has used a large part of the cash collected for or deposited by these localities. On the assumption that the Treasury needs a working cash balance of upwards of 100.000.000 zl. which is the amount that was approximated in the cash account during the year 1925, it appears that something like 250.000.000 zl. would be needed to clean up the deficit and the current debt obligations and provide the needed working cash balance.

Devices for Effecting Temporary Budget Equalization

With regard to the immediate situation, which has been indicated in outline above, it is apparent, in the first place, that there should be an end, once for all, of further issues of uncovered paper currency. The case against this practice has been set forth in your Commissions's Report on Currency Stabilization. Poland appears to be on the threshold of an era of economic and financial recovery, and should not jeopardize her chances of entering upon a long period of prosperity by further use of this most dangerous of all financial expedients. There are various alternative possibilities which should be exploited to the full before any consideration is given to a device which would surely have the effect of seriously dam-

aging the country's foreign credit standing, as well as of rendering extremely uncertain the prospects of maintaining a stable currency.

One of these alternatives is the more vigourous collection of delinquent taxes. On July 1, 1926, the total of tax arrears, including the fines and penalties for deliquency was 155,000,000 zl. Almost one-third of this amount had been authorized by the Government under various tax laws, and some part of the remainder was undoubtedly delinquent because of the Government's well-known leniency toward tax delinquents. The nature of the present crisis justifies strenuous efforts to collect these unpaid taxes, in order not only to afford relief to the Treasury in its present emergency but also to prevent further accumulation of such delinquent obligations.

The payment of these taxes should be comparatively easy at this time of the year, for the harvest period has just ended, and in the case of commerce and industry the autumnal activity is just getting under way. As a means of accommodating tax payers, however, it is possible to make use of a device which was introduced in the United States in 1917 and which has been in regular use there since that time. This is the tax anticipation treasury certificate, which is a treasury certificate having a maturity of from six weeks to three or six months, bearing a rate of interest which is dependent on market conditions. These certificates are made receivable by the Treasury for the payment of certain taxes. Those persons or concerns which will have large amounts of tax to pay in the near future may find it convenient to purchase these certificates as their funds accumulate, and thus provide a means of keeping their tax reserves invested in a liquid and profitable form. The purchase of tax certificates from time to time equalizes the strain otherwise involved in making large tax payments in cash on a stated date. If it were desired to restrict the use of the certificates for the anticipation of delinquent taxes, this could be done by making them receivable only in settlement of tax obligations which were due and payable on or before a fixed date, say September 1. As a means of inducing delinquent taxpayers to acquire tax anticipation certificates, the Government should issue a full explanation of the situation and of the measures

it is taking, and at the same time should announce the inauguration of a more vigourous policy of collecting overdue taxes.

Tax anticipation certificates should be issued in regular denominations, the smallest of which should be 1,000 zl. Needless to say they would not be expected to enter into circulation, and it would probably be better policy to offer a rate of interest on them which would insure their being taken substantially at par, rather than to undertake flotation at a discount, on account of the unfavourable influence they otherwise might have on the country's general credit standing, and the demoralizing effect on those taxpayers who had paid their taxes in full under previous assessments.

A second possibility is the negotiation of a foreign loan, some part of the proceeds of which might be used for the purpose of immediate budget equalization. If the Government should be successful in obtaining such a loan it would mean borrowing for deficit purposes, but it would be clear that the loan was being used for the funding of accumulated deficit rather than simply to meet a current shortage. The possibility of securing foreign assistance under these conditions would depend on the prospects that were held out that the country had the will and the ability thereafter to keep its house in order. In other words, an essential condition for such a loan, as for a loan for any other purpose, would be the prospects that could be offered that the Government would be willing and able to cope satisfactorily with the long-run problem of budgetary stabilization.

The Problem of Long-run Equalization

It is difficult for foreigners to give helpful advice on the problem of Poland's permanent budget policy, except as relates to the technical side of the form in which estimates are to be prepared and expenditures are to be controlled. Without presuming to understand fully all of the intricacies of national policy and national psychology that are involved, your Commission offer herewith, à propos of the question of the budget, certain comments and suggestions which naturally arise out of the other financial reforms that have been recommended,

or which might occur to anyone who had made a survey of the general situation and of the budget proposals of revenue and expenditure.

Controlling Influence of Expenditures

In the case of any governmental unit, the task of making ends meet is ordinarily one of finding sufficient revenue to cover the expenditures proposed. While it is true that in a certain broad and fundamental sense, a nation's expeditures are determined by its income, that is, by the proportion of the social income that can be taken in taxes without causing a revolution or dangerously undermining the fabric of economic life; yet, in a more immediate sense, the volume of expenditure proposed in the budget determines the volume of revenue that must be provided. The pace is set by the spending agencies of government, acting under the guidance and the instructions of the policy-formulating agencies, and the tax-collecting agencies must follow along as best they can. This relation of expenditures and revenues is not peculiar to any country. It is a generally accepted maxim of public finance that in the short-run as distinguished from the long-run the public expenditures determine the volume of public revenues that must be provided, and no one finance minister has a monopoly of sleepless nights, as a result of the strain involded.

The long-run budget problem should be approached, in Poland as in any other country, first of all from the standpoint of the expenditures. It is in this more important aspect of the problem, unfortunately, that the alien adviser can be of least aid. Numerous suggestions relative to the reduction of Government costs are contained in the sections of your Commission's reports which deal with accounting and budget control, customs and tax administration, and the monopolies. The savings to be realized from the execution of the suggestions should not be dissipated by ill-considered expenditures in other directions, but should be definitely utilized for a permanent reduction of governmental costs.

With regard to reducing or controlling the major form of expenditure now found in the Polish budget, there is little

that the alien adviser can profitably suggest. A general counsel of economy and retrenchment is of little value to the minister who must construct the details of a budget. It is rather cold comfort, on the other hand, to intimate, as is done earlier in this report, that Poland's expenditures will probably increase rather than decrease in the future. Salaries in the public service are lamentably low, although the necessary increase here may be to some extent offset by reduction in the personnel as improved methods and better pay bring greater efficiency. Other administrative expenses will be increased ultimately, also, if the price level in Poland rises in the immediate future as may reasonably be expected. While the latter changes should be compensated for, wholly or in part, by correspondingly higher yields of some taxes, for example the turnover tax, the fact that the total expenditures are rising in response to the advance of the general price level requires that the Government take steps to assure as close an adjustment as possible as these changes develop.

In the budget for 1926, which called for an original total of 1,887,945,000 zl., there were five items of expenditures which amounted to more than 100,000,000 zl. each.

These were the following:

Category	*Amount*	*% of total expenditures*
Army	698,000,000 zl.	36,5%
Education	315,500,000 „	16,7%
Interior	190,222,000 „	10,0%
Pensions	145,221,000 „	7,7%
Treasury		
Administration	103,757,000 „	5,5%
Totals	1,443,700,000 „	76,4%

The mere tabulation of these items, which together amount to more than three-fourths of the estimated expenditures in the budget of 1926, indicates how futile would be the attempt to effect material reductions in the estimated expenditures by economies in other branches of the budget. If substantial relief is to come through reductions of expenditures, it must be looked for primarily by retrenchment in one or more of these major items. As long as Poland's international problems remain as they are a strong army must, of course, be maintained though it is to be hoped that the expenditures for this purpose will

be kept within the bounds of the soberest necessity. The expenditures for education are not an unduly large proportion of the budget, and should no doubt eventually be larger, both relatively and absolutely. It is possible, however, that the new state has set out here, as in some other lines, on a more ambitious program that can for the present wisely be sustained. It is possible, too, that a greater proportion of the expenditures for education can be shifted to the localities. While this transfer of educational responsibilities will not in itself diminish the total educational expenditures, it will have the effect of affording relief to the central treasury. The principal items in the budget of the Department of the Interior are the state police (104,006,000 zl.) the administration of provinces and starosties, (31,854,863) and the corps of frontier guards (55,641,000 zl.). It is impossible to ascertain the extent to which economies could be realized here. Pensions for military service are one of the unfurtunate heritages of war, and if the experience of the United States after the Civil War is worth anything as a guide, the expenditures for this purpose will increase rather than diminish as these dependents become more infirm and politically more unified. The figures for the administration of theTreasury Department include the entire cost of operating the tax administrative system. Some suggestions looking to greater economy of fiscal administration have been offered in another section of your Commission's Reports.

Minor Economies Suggested

Some minor economies may be suggested. One of these is a more restricted use of passes on the state railways. It is better public policy to refund the traveling expense of public employees for traveling done on official business than to issue passes of indefinite duration and universal validity within the state, regardless of the purpose of the travel. Another possible minor economy is the alienation of public property that is yielding little or no net revenue to the state. The state is really paying a heavy interest charge for the provilege of retaining out of use any property for which a market exists, unless strong considerations of public policy demand its retention. Another possible economy is the reorganization of administrative

methods, along the lines suggested at different points in your Commissions's Reports, with a view to securing greater efficiency, which means, ultimately, lower costs. The distribution of working hours in public offices impresses the foreign observer rather unfavourably, although a change in this respect would probably encounter some opposition on account of local customs and habit. The employees in the public service ought not to give to their work less than eight hours per day, and, with an upward adjustment of salaries, an eight-hour day and a forty-four hour week should he inaugurated. The best distribution of this time is from the hours of eight to twelve in the morning and from one to five in the after-noons. An hour's rest period at noon is sufficient for lunch, and the break results in much higher efficiency in the afternoon shift than is secured by a continuous period of seven hours without intermission. The studies in the relation to fatigue and efficiency that have been made in the United States, indicate conclusively that the worker's efficiency is lowered as the period of uninterrupted labour is prolonged. There is undoubtedly a lower efficiency attained in a single working period of seven hours than in a work-day of similar length, which is broken by a lunch and rest period. There is no reason moreover, why public employees should enjoy the privilege of a seven hour day when their work is no more taxing to mind or body than that of private employment where the usual period is 8 hours or more.

Finally, the budget of extraordinary expenditures should in the future be scrutinized carefully for unnecessary or improper items which might be eliminated without seriously impairing the services in question. In the 1926 budget the extraordinary expenditures totalled 276.683,000 zl. One of the vicious temptations in budget-making is to treat as extraordinary expense items which are either a part of the normal outlay and should be shown as such, or which are of questionable importance, but which are tolerated on the ground that they are extraordinary and hence not likely to happen again.

Taxation to provide Major Portion of Revenues

As one considers the principal facts of the present expenditure situation, it is clear, as has been said before, that this

country must plan eventually for a larger rather than smaller total of expenditures. The resources for meeting this increase must come, in the main, from the tax system rather than from the monopolies and public enterprises. The net income of the public enterprises other than monopolies which in any case is small, is subject to the ordinary hazards and vicissitudes of business conditions, from which the Government as manager is not immune and is subject to the further handicap of public management. The monopolies are also subject to this handicap. Moreover, monopoly revenues are relatively inelastic, once the prices of their products have been set at the point of maximum returns. It does not appear to your Commission to be the part of wisdom to count heavily on the monopolies for further indefinitely large contributions to the general revenues, although some increases from this source may be realized. "A new broom sweeps clean". The administration of the Polish monopolies is still sufficiently new and therefore sufficiently clear of the bureaucratic routine and administrative deadwood to show fair returns. Every effort should be made to keep the organization and administration of these enterprises vigourous and flexible in order to deal with changing conditions as they may arise.

In the domain of taxes, it has already been suggested that steps should be taken to valorize taxes as the recent depreciation in the gold value of the zloty works out its natural changes in prices and administrative costs. It has also been recommended that a new and more equitable basis for the assessment of the taxes on lands and buildings be introduced without delay. Until this is done any attempt to secure increased revenues from these sources will result in serious inequalities of tax distribution. A more vigourous assessment of other taxes, notably the income and the business tax, should produce better results by reducing the amounts of taxes now being lost through evasion and improper assessment. Attention is called also to the Commission's recommendation relative to a more systematic collection of taxes.

The tax system should not be so severe on any group of taxpayers as to be unbearable. Once the inequalities are smoothed out and the proper spirit of fairness and goodwill is established between the Government and the taxpayers, the

collection of taxes should proceed without an extraordinary volume of delinquencies due to remissions, special facilities and other concessions.

Some new taxes have also been suggested by your Commission, from which, when properly administered substantial amounts of revenue should be secured. It is also recommended that the present preferential railway rates in favour of shipments destined for export be discontinued at an early date. If the railways are compelled to carry these goods at a loss, the advantage to the country of an export trade is by so much diminished and the Treasury becomes one of the principal losers thereby. If the Government were willing to abandon the policy of granting special tax exemptions in favour of the export trade, and were willing further, to relax somewhat the present restrictions on the importation of foreign merchandise, especially those of a non-luxury character, substantial increases in the public revenues would follow.

REPORT

ON THE JOINT STOCK BANK SITUATION

AND

RECOMMENDATIONS AS TO GOVERNMENT BANKS

The Joint Stock Bank Situation in Poland

One of the most important problems in Poland today is the re-establishment of confidence in the Polish Joint Stock Banks. During the past three years the shocks to confidence have been numerous and in many cases have resulted in heavy losses to the Polish depositors and foreign creditors. The losses sustained by the creditors of institutions which failed created a feeling of uncertainty toward other institutions and caused heavy withdrawals of deposits from them. All banks suffered and 20 failed or for other reasons went into liquidation. The action of the Government last fall in extending substantial credits to banks considered worthy of assistance did much to quiet the excitement.

Prior to the war there were six strictly Polish joint stock banks in the territory now included in the Republic of Poland. These institutions in the main were strong financially and well managed; they commanded the respect of the Polish people, and served in a measure to cement and strengthen the Polish national spirit. They had to compete with branches of large Austrian, German and Russian banks in their respective territories, but despite this strong competition they prospered.

With the rebirth of the Polish state a broader field was opened to banking. The business of some of the Polish branches of the large Austrian banks was taken over by new banks organized under the Polish law, with the Austrian banks retaining some stockholding interest. The Russian banks disappeared, but some of the German banks still have branches in Katowice and Posen. Within a few years after the war and largely as the result of inflation, hundreds of new banks were started and branches and agencies were opened

without restriction. The greater part of these new banks had inexperienced officials and an untrained personnel.

For the losses sustained during the inflation period, the bankers blame the Government. Except within narrow limits, banks were not permitted by the authorities to purchase foreign money or assets, and so, to protect their interests, substantial investments were made in city and rural lands, buildings and shares in industrial companies. The end of the inflation period found the banks with most of their capital invested in immovables. The situation is now such with many banks that it is doubtful whether under present economic conditions in Poland they could realize sufficient funds in case of liquidation to pay creditors in full, even should fair prices be realized for real estate and shares. These banks are hoping, however, that economic conditions in Poland will so improve in the near future as to greatly increase the values ot these assets.

There are in Poland today 86 joint stock banks, with 221 branches and a large number of agencies. There are also 6 branches of foreign joint stock banks. With the exception of a number of the banks in which foreign capital is interested and of a few strictly Polish banks, the joint stock banks generally are now in a non-liquid condition. The investment in real estate and shares of private corporations is heavy; the collateral loans are largely secured by shares, debentures, and mortgages which are not at present saleable except at prices involving heavy sacrifices; the loans advances and discounts are mainly of a type which will have to be carried until the borrowers are in a position to refinance through the sale of stocks or mortgage debentures. In such cases, the banks though nominally only creditors, are actually for all practical purposes partners in the business enterprises in which they hold securities as investments or as collateral for loans. Much of the time of the bank officials is taken up in managing the properties of the bank and those pledged as collateral to loans. The situation of the banks is still further aggravated by the fact that they are burdened by carrying charges on their real estate. The banks have very few of their own funds available for financing the current business needs of their customers, and the loans and discounts they can make are generally lim-

ited to the amount they can obtain by rediscounts at the Bank of Poland. Extremely high interest rates prevail on the few loans that are made, ranging from 16% upward.

Under the present circumstances, it will be seen that many of the banks are doing little more than marking time. A sudden withdrawal of deposits would place some of them in a serious position. Their cash resources are low and the class of paper available for rediscount is limited and usually already used up to the limit. An attempt at this time to sell the real estate or the securities pledged as collateral to loans would in many cases result in substantial loss. The prospect, moreover, that many of these banks could obtain directly from foreign banks substantial new loans under present conditions is very small.

It is true that there are a number of strong well managed banks that have kept their business in good condition, but the picture as a whole is not a pleasant one and the situation is one which demands immediate attention. The public is entitled to have strong, well managed banks and it looks to the Government to create conditions that will make such institutions possible and will assure their permanency.

Recommendations

In the opinion of your Commission, a thorough reorganization of the joint stock bank system is necessary. There must be: 1) gradual elimination of weak banks through consolidation with stronger institutions or liquidation, 2) larger and better managed banks in Poland if the growing credit needs of commerce, trade and agriculture are to receive adequate attention and 3) an efficient system of bank supervision.

1) The Gradual Elimination of Weak Banks through Consolidation with Stronger Institutions or Liquidation.

It is thought by many bankers that a number of the smaller banks will not be in a position at the end of this year to meet the capital requirements imposed by Paragraph 101 of the Banking Law of December 27, 1924., and will therefore have to be liquidated. They are in a non-liquid condition and are performing no useful economic function that could not be better performed by branches of larger institutions. The

average bank depositor is not in a position to know whether a bank is in a good condition or not. The fact that it is open and doing business is usually a sufficient assurance to him that it is safe. He believes that the bank must be all right or the Government which authorized it to do business and is supposed to examine its affairs, would insist upon its liquidation. Weak banks are a menace not only to other banks but to the Country's entire economic life. They should be promptly eliminated. If the Government insists, as it should, that the provisions of the law be carried out, many of these banks will go out of business, either through liquidation or consolidation with some of the stronger banks.

This, however, will by no means purge the banking situation, and many weak and poorly managed banks will still be left in operation.

There are a number of institutions which, although at present having book capital equal or in excess of the amount required by law, are in such an immobilized and non-liquid position, that their operations are carried on with great difficulty. Substantial demands on them for deposited funds at times, are met with part payments. In some cases, the checks on these banks are not taken freely by other banks.

Insistence by the Government on the strict observance of the provisions of the general banking law, will gradually force the liquidation or consolidation with stronger banks of these weak banks which are unable to meet new capital requirements. The adoption as recommended by the Commission of a minimum reserve requirement against deposits should also tend to eliminate the weak banks.

Not all of the banks which are at present in a bad condition are "inflation banks" which have sprung up since the war. A number of institutions which in the past enjoyed the confidence of the public are now, in fact, due in part to the unsatisfactory economic conditions of the country and in part due to mistakes of banking policy and credit judgement, in a highly immobilized condition. A liquidation of their real estate holdings at this time, or the sale of their share investments or a forced liquidation of loans involving the sale of pledged collateral might bring such heavy losses as to endanger their solvency. These banks would require a consider-

able time again to be restored to normal working conditions. To enable such banks to take any important part in financing current trade large amounts of new capital will be needed. The condition cannot be satisfactorily corrected by new deposits. In many cases these banks will be able to render much better service to the economic life of Poland if they consolidate with other banks. Voluntary consolidation should be encouraged by the Government and reasonable financial support extended in individual cases where the public interest clearly demands such support and where it can be given on a basis which reasonably insures repayment.

During the past year the Government made through the National Economic Bank large advances to banks against collateral, under circumstances which appeared necessary to protect the public interest. While in principle, the Commission do not favour an extention of the Government's interests in banks or private business enterpises, they do believe that further similar assistance may be desirable to enable worthy banks to tide over the present emergency by carrying their high grade immovables and shares until conditions permit of orderly liquidation at fair prices. Such assistance should be given by the Government through the National Economic Bank and the necessary funds might be raised through the issue and sale in Poland or abroad of debenture bonds of the National Economic Bank guaranteed by the Government and further secured by the collateral pledged by the banks assisted.

2) Larger and Better Managed Banks Needed in Poland to Take Care of the Growing Needs of Commerce, Industry and Agriculture.

In all countries of Europe, the principal credit needs are supplied by a few large, well managed joint stock institutions, which, through well organized branch systems, serve the different sections of their respective countries. These banks finance industry, commerce and agriculture. They take care of the small tradesmen as well as of the large concerns.

In Poland, there are three fair-sized joint stock banks but there are no large ones. The financing of current transactions of the large business enterprises and of agricultural

concerns is done principally by the Bank of Poland, which, due to the unsettled economic conditions in the country and to the smallness of the capital of the joint stock banks and their impaired condition, is forced to deal on a large scale directly with business concerns. A larger part of this paper, under normal conditions should come to the Bank of Poland only through and with the endorsement of the joint stock banks.

Banks of large capital and resources are necessary in Poland, i.e., institutions having capital of at least thirty to fifty million zlotys, with branches in all the principal cities of the country. They should have good management, efficient personnel and be sound and progressive in their credit policies. Such banks would be able to take care of the large business units in every section of the country; to finance inland commerce and the export trade; to attract large deposits; to finance the current requirements of cooperative societies, and last but not least, they would be able gradually to take over all the short time financing now handled by the government banks.

At least two or three institutions of this type should be organized. Consolidations of some of the present joint stock banks might well be used as the "nuclei" for such new institutions but it is essential that further capital be subscribed for each bank and that men of the right type be appointed managers. The Commission believe that there will be available in the country capital for investment in sound banks and enterprises, as soon as the public at home and abroad have confidence in Poland's political and financial stability. The success of a banking enterprise depends primarily upon its management and credit policy; and Poland offers a very profitable field for the right type of banking institution.

3) The Establishment of an Efficient System of Bank Supervision and Inspection is necessary to Protect the Public Interest and to Ensure a Safer Basis for Bank Operations in the Future.

Banks obtain from the Government their legal right to do business. They derive their funds in part from their stockholders who contribute the capital and in part from the public in the form of deposits. They are quasi public institutions,

namely, institutions affected with a great public interest for the safety and good management of which the Government has a large responsibility to the public. Up to the present time the Government has not met this reponsibility.

In the present banking law provision is made for examination of credit institutions by banking inspectors appointed by the Minister of Finance and for this purpose a Section of Banks now exists in the Ministry of Finance. The law authorizes the formation by the Bankers Association of a Revision Society which, when established, would take over the inspection of banks from the Ministry. No such revision society has up to the present time been formed nor has the bank inspection section of the Finance Ministry operated effectively. Few, if any, thorough examinations of large banking institutions have ever been made. The force of inspectors is small and their time has been taken up chiefly with detailed office work, checking reports, investigating violations of exchange regulations, inspecting a few out of town institutions and acting as commissioners in institutions which are suspected of violating the law or regulations, or which were receiving Government assistance. The force of inspectors is too small to do effective work and too poorly paid to enable the service to attract and hold well qualified men.

Purpose and Necessity of Inspection of Banks

The primary purpose of periodical inspection of banks by governmental or other independent authorities may be briefly stated as follows:

To ascertain:

1. The solvency of an institution; the character, liquidity and value of its assets; the extent of its actual and contingent liabilities; whether the proper provision has been made for bad and doubtful items and whether the condition of the institution is correctly shown by its books and published reports.
2. Whether the business is conducted in accordance with the bank's statutes and governmental laws and regulations.
3. The character and competency of the management and also whether tendencies and policies in its loan and other operations are safe and sound.

An inspection of a bank should be not simply a checking and reconcilement of book accounts but should include an independent appraisal of all loans, advances, investments and other assets; a determination of liabilities, both actual and contingent, and a thorough investigation of the affairs of the bank so that its actual position may be determined.

The idea that a bank should not be inspected, unless there is reason to believe that it is not in good condition, is unsound. A proper system of inspection, will provide for periodical inspection which should reveal defects in time to permit of correction before serious weaknesses develop.

The unsatisfactory experiences of the Polish public and of many foreign creditors, with a number of Polish banks during the past two years, is one of the principal reasons why confidence has been shaken in the Polish banking situation. Unfortunately the better managed institutions have had to suffer for the faults of the weaker ones. Probably it is true, as has been frequently asserted, that the lack of a proper conception of banking and of credit principles, poor judgement, unethical practices and gross mismanagement in some of the banks that have closed or suspended payment, have been due in large measure to ignorance and inexperience. But the creditors have had to pay for these mistakes and if the banks had been properly inspected these conditions on any considerable scale could not have developed.

Some bankers in Poland strongly object to banking inspection by government inspectors as an infringement on their rights, and as a handicap to their initiative. They claim that it is a system peculiar to America and is contrary to European practice. As a matter of fact although it has had a larger development in the United States than in other countries it is by no means limited to the United States.

In many European countries the development of business has encouraged and made necessary institutions of large capital and resource in order to take care of credit needs. It may be said that a very large proportion of the commercial banking business in most European countries is handled by a few banks in each country. Such institutions have grown gradually over a period of many years through consolidations with other banks and through a policy of frequently increas-

ing their capital to meet the growing credit requirements of the country. These institutions, as a general rule, have had a long history and have built up over many years conservative banking traditions and policies. They have substantial resources and experienced management and personnel, the majority of whom have had many years of loyal service in the same institution. If similar conditions existed in Poland there would be more force in the argument against governmental inspection.

Conditions here, however, are decidedly different as pointed out previously in this Report. Poland is a politically new country which is building up a new banking and credit structure. It has comparatively few well managed banks and the liquid resources of these banks are small. It has many weak banks with small capitals. The officers of the latter have still to acquire the experience and judgement necessary for good management.

Strong, well managed banks have nothing to fear from thorough bank inspection, but should welcome it. It protects them by requiring that competing banks shall conform to the same high standards of banking practice that they do. By reducing the losses that the public suffer from bank failures much of the popular criticism of the banking system, which hurts the well managed as well as the poorly managed banks, will be eliminated. It will help to establish higher standards in banking practice and a safer basis for bank operations in the future.

Responsibility for Bank Inspections

The law of December 27, 1924, contemplated that the bank inspections should be conducted by a revision society formed by the Association of Banks. The purpose of this provision is not clear, unless it was intended to give greater freedom of action in choosing inspectors and in fixing their salaries. In the opinion of the Commission such a plan is wrong in principle, as it is the duty of the Government, which alone represents the broad public interest, to supervise bank operations and conduct bank inspections through properly authorized public officials.

The Ministry of Finance has under consideration a plan contemplating the establishment of a "Banking Fund" which would be a juridical person with two principal functions, namely: extending financial assistance to banking institutions and providing for a system of bank inspection. The Commission have submitted to the Minister of Finance a separate Report relative to this proposal. In the plan proposed the Manager of the Fund and the bank inspectors would be employees of the National Economic Bank and the Commission expressed the opinion in the above mentioned Report that as this Bank is an active competitor of the joint stock banks in several fields, it would be neither fair nor proper to permit the inspection of banks to be under its direct or indirect control.

Your Commission believe that a thorough bank inspection system must be established by the Government and conducted under the supervision of a properly qualified official appointed by the Government. It would be unwise to place this responsibility with any outside agency. Banks are a type of institution that are affected with a great public interest. Bank failures or suspensions not only result in losses to the banks' creditors but destroy confidence in the country both at home and abroad, and weaken its entire economic and political structure. The Government represents the public as a whole and is the only organization in position to protect broad public interests.

Bank Commissioner

Your Commission recommend that there be created in the Ministry of Finance a Bank Inspection Section charged with the execution of all the laws relating to banking enterprises operating in Poland. This Section should be in charge of a Bank Commissioner appointed by the Minister of Finance with the approval of the Council of Ministers for a fixed term, say five years.

The Commissioner should be an experienced banker or professional man with a thorough knowledge of banking and commercial practices and laws. He should be a man of unquestionable integrity, of courage and tact and should be paid a salary adequately high to attract first class men from private life, and hold them in public service. He should give

his undivided attention to the supervision and inspection of banks and should have no other work or duties. He should have an adequate staff of qualified deputies and inspectors, and their appointment, retention and dismissal should be subject to his control.

The Bank Commissioner, during his term of office, should not be allowed to be an officer, director or stockholder, or in any way participate, either directly or indirectly, in the ownership or management of any concern coming under his supervision. It would also be advisable, in order to prevent any abuses, to provide that the Bank Commissioner should not be permitted to obtain a loan from any concern coming under his supervision, without first securing the written permission of the Minister of Finance, and that the other officials and employees of the Bank Inspection Section should not be permitted to obtain such loans without first securing the written permission of the Bank Commissioner and that neither the Commissioner nor any other official or employee of the Bank Inspection Section should be permitted to receive any gift in the form of money, credit or otherwise, from any concerns coming under the supervision of the Section.

The Commissioner should have supervision of all banking institutions organized under the Bank Law, and should have the right to make inspections from time to time, along the lines described earlier in this Report. In case of cooperative credit organizations and municipal and communal savings banks it could be provided that, subject to certain restrictions, the inspections made by the revision societies and the government officials, respectively, should exempt them from further inspection by the Banking Commissioner. This right of supervision should include, except in the case of credit cooperatives and the municipal and communal savings banks the right to approve or disapprove the statutes of new banks.

The Bank Commissioner should also be authorized to inspect the Bank of Poland, the National Economic Bank, the State Agrarian Bank and the Central Cash Office of the Agrarian Cooperative Societies. It is just as important, if not more important that a bank which is owned by the Government or closely allied to the Government should be periodically inspected as it is that private institu-

tions be inspected. If the experience of other countries is any guide the fact that a bank is connected with the Government is no assurance that mismanagement or corruption will not creep in. Mismanagement or corruption in case of a Government bank is likely to be followed by more serious consequences to the economic life of the country than in the case of even a large private bank. To provide for inspection of such banks is no reflection on the competency or honesty of the management; it is merely an expression of sound government policy for the protection of vital public interests.

The expenses of the Banking Inspection Section should be borne by the institutions subject to inspection and the funds should be raised by semi-annual assessments levied on the banks by the Banking Commissioner, subject to the approval of the Minister of Finance, on the basis of bank assets. If the supervision is efficient the banks will be benefited by such an independent audit of their business and they will receive a full return in service for the assessment made upon them. The effectiveness of the bank inspection system will depend chiefly upon the man chosen as Bank Commissioner. No reasonable expense should be spared to get the right man. The position of Bank Commissioner should be one of the most important in public service, as it presents one of the greatest opportunities for useful constructive work that exists in Poland today.

The creation of the Section of Banking Inspection will involve certain amendments in the present banking law, and the taking over by the Section of the functions now performed by the Banking Department of the Ministry of Finance. The Commission are not sufficiently versed in Polish law to feel competent to make recommendations as to the exact form which the amendments should take.

Amendments to the Banking Law

Your Commission have given consideration to the needs of the revision of the banking law at the present time and they make the following recommendation:

The bank law be amended by adding the following provisions concerning reserves against deposits to be effective on and after April 1st, 1927.

"Every commercial banking corporation shall maintain a legal reserve against its deposits in the form of cash, and/or of a demand deposit in the Bank of Poland, equal to:

1. At least fifteen (15) per cent against demand deposits and five per cent against time deposits, for banks with headquarters or branches in the city of Warsaw or Krakow, Lwów, Poznań, Katowice and Łódź; and
2. At least ten (10) per cent against demand deposits and three (3) per cent against time deposits for all others.

"Provided, that from April 1st to October 1st 1927 only two-thirds of the above mentioned legal reserves need be maintained.

"The method of calculating the above mentioned reserve percentages shall be determined by general regulation of the Minister of Finance. The term demand deposits for the purposes of this article means deposits or bank credits of any nature, including unused current accounts not revocable by the bank on demand, the payment of which can legally be required in less than thirty days.

"The term time deposits for the purpose of this article means all deposits or bank credits of any nature, including unused current accounts not revocable by the bank on demand, the payment of which cannot legally be required in less than thirty days.

"If any banking concern to which this law is applicable shall fail to maintain the minimum legal reserves required by the previous article, the Bank Commissioner shall impose a fine of two (2) per cent of the average deficiency for the first two weeks during which such deficiency shall last, and of four (4) per cent of the average deficiency for each succeeding period of two weeks during which the deficiency shall continue".

Every banker knows that it is necessary for him to carry cash in his vaults and other assets in liquid form if he is to meet promptly the current demands of depositors. The failure to keep adequate reserves has caused much trouble in Poland. Many banks have figured too closely and have

not been able to pay checks promptly when presented. This situation is one that cannot continue if the banks are to command public confidence.

The amendment proposed by your Commission does not try to tell the banks what reserve they shall keep. What it does is to fix a figure, below which the reserves shall not fall, in order that the interests of the public be maintained and depositors protected. Many banks will undoubtedly find it desirable to carry reserves considerably above the minimum. This has been the experience in other countries which have had minimum reserve requirements.

If sudden demands of depositors should threaten any bank with a reduction of its reserves below the legal minimum, it should be able to rediscount its high grade commercial papers at the Bank of Poland and thus obtain the funds for meeting the emergency demands. The reserve requirement is not made iron clad, and if the reserve of a bank falls below the minimum, the bank, as long as it meets its obligations is not closed, but is required to pay a tax which increases as the deficiency increases, and also doubles after the deficiency has continued beyond two weeks. The reasons for making the reserve deficiency elastic are essentially the same as the reasons for making the reserve requirement of the Bank of Poland elastic. A full discussion on this point is given in the Commission's "Report on Revision of Articles of Association of the Bank of Poland".

Recommendations Concerning Bank Gospodarstwa Krajowego — National Economic Bank

Except in the cases of the Postal Savings Bank and various municipal and communal savings banks, your Commission, in principle, believe that the participation of the Government in the banking business as a permanent policy is unwise. The national Economic Bank, however, under present emergency conditions, fills an important place in the economic life of Poland and for some years will be a desirable instrument of the Government. It should become primarily an institution for financing national, state and municipal enterprises, the central agency for the control and administration of all long-time

government funds used in business and should be eventually the only state bank empowered to issue long-term mortgage bonds.

Your Commission believe that as soon as the joint stock banks, reorganized along the lines recommended, are adequately strengthened and again function normally, the Bank Gospodarstwa Krajowego should withdraw from its deposit and loan activities with the general public, leaving that field to the joint stock banks and confining its business within the limits previously outlined. It is only in this way that private banks can be given a fair and open field in which to develop, and without such a field an adequate amount of capital, both domestic and foreign, is not likely to flow into the banking business. Government banks enjoying government guarantees on their debentures and having tax exemption privileges are not fair competitors to private institutions.

Recommendations Concerning Państwowy Bank Rolny — State Agrarian Bank

With respect to the activities of the Bank Rolny for the immediate future your Commission recommend as follows:

1. That the Bank discontinue the receiving of deposits and the loaning of funds to the general public and that it confine its activities to:

a) Acting as agent for the Government in administering government funds loaned or otherwise used for agricultural purposes.

b) Financing the carrying out of the agrarian reform and land parcellation program, including the making of advances and loans to small farmers for purchasing the parcellated land and for working capital.

c) Issuance of long-term mortgage bonds, in connection with agrarian reforms and parcellation program. Such bonds should be sold through the Bank Gospodarstwa Krajowego.

2. At least three members of the Board of Directors should be men who are not directly connected with the Ministries of the Government. It is desirable to have appointed from private life, outstanding citizens, who are thoroughly familiar with agricultural conditions and developments and

whose experience and judgement would be valuable in solving the Bank's problems.

Your Commission believe that ultimately the Bank Rolny should be consolidated with Bank Gospodarstwa Krajowego and its fuctions should be performed by a special department created in the latter bank. This would bring many economies and result in more efficient administration. It would mean a consolidation and control of all Government funds used in outside activities, and a centralization of bonds issued by Government controlled institutions, also of the supervision and control exercised by the Government in connection with loans bearing the Government's guarantee. In the opinion of your Commission, however, the present is not an opportune time to effect such a consolidation.

Recommendations Concerning The Postal Savings Bank

Your Commission believe that this bank should develop along the lines of a savings and check transfer institution. It should limit its investments to government and municipal securities and bonds issued by governmental banks and/or land mortgage associations. Loans and advances to governmental banks and enterprises and cooperative societies should be made only through their respective central organizations. The Bank should always maintain an adequate reserve, a substantial part of which should be kept on deposit at the Bank of Poland.

Direct loans to private concerns and individuals require a special type of organization to pass upon credit risks and that class of business should be left to the joint stock banks.

In its Report on Accounting and Fiscal Control your Commission refer to the mingling of the funds of the post office and Postal Savings Bank and your attention is called to the recommendations contained therein.

Recommendations Concerning Centralna Kasa Spółek Rolniczych Central Cash Office of the Agrarian Cooperative Societies

Your Commission recommend that as soon as the accumulation of deposits and the capital contribution of the cooperative banks which this Bank is now assisting shall be sufficient

to enable them to get along without further Government aid, the Government's capital interest in this bank shall be withdrawn and likewise its active participation in management. Cooperative credit societies the world over function best when they provide their own funds and are given full power and responsibility, under general law, for their administration. This is the true meaning of the term "cooperative" and in the judgement of your Commission is the type of cooperation that the cooperative concerns most desire.

REPORT
ON THE PROPOSED BANKING FUND

BANKING FUND

The Commission have been asked for an expression of opinion regarding a plan outlined in a proposed Decree authorizing the establishment of a "Banking Fund" and explained verbally by Mr. Joseph Dangel, Vice-Minister of Finance.

Purpose of New Company

The "Banking Fund" will be a juridical person created 1) "to make certain the liquidity of deposits made in credit institutions" and 2) for the purpose of promoting the development of these institutions. "Its tasks will be fulfilled by inspecting for the Minister of Finance credit institutions and banking enterprises as well as by granting them financial assistance".

The "Banking Fund" will be created through the deposit, by the Treasury, of sixty-five million zlotys, either in cash or in obligations owed to the Treasury from institutions which receive governmental credit on the basis of Article 6 of the Law of November 28, 1925. This will be the original capital. It will be augmented by interest received on obligations and by other revenues of the Fund, after deduction of all expenses and losses.

It is provided further in the proposed Decree, that all institutions which shall be entitled to receive financial assistance from the "Fund" — i. e. all institutions doing a commercial banking business, shall be required to pay monthly fees to the capital of the Fund, based upon their resources according to a detailed schedule contained in the decree.

The Fund will give financial assistance by means of 1) endorsements to creditors against guaranty of the Treasury

(and this, first of all, to creditors abroad), up to a total not to exceed fifteen million zlotys in gold; 2) loans for payment of urgent engagements, such as saving deposits; 3) taking over immovables and other assets as its own property; 4) financing of new issues of shares of the institutions assisted, by way of granting for such issues, time advance payments with terms up to three years.

Assistance is only to be granted to solvent institutions. The granting of loans to banks and other credit institutions depends upon the decision of the Minister of Finance, who also fixes the detailed conditions for all financial assistance given by the Fund.

The Maganement is composed of six members including 1) the Manager of the Fund who is appointed by the Minister of Finance on motion of the Managing Committee made in understanding with the President of the Bank Gospodarstwa Krajowego; 2) two delegates from the Ministry of Finance; and 3) a representative from each of the following: Bank Gospodarstwa Krajowego, Bank Polski and the Association of Polish Banks.

Bank Inspection

The Decree provides for periodical and special inspection of all credit institution except the following: State Credit Institutions, Institutions of Long-term Credit, Savings Banks, and Cooperative Credit Associations in case their capital is not as high as 100.000 zlotys, or in case their operations are limited.

Banking Inspectors will be appointed by the Minister of Finance upon motion of the Managing Committee. They will be subject to the direction of the Manager of the Fund. The Manager and the Inspectors are to be employees of the Bank Gospodarstwa Krajowego. The Manager is to be paid a salary equal to the amount received by the members of the Managing Board of the Bank Gospodarstwa Krajowego, but the Minister of Finance may allot to the Manager of the Fund an additional remuneration. The Banking Inspectors are to receive salaries equal to those paid to the Inspectors of the Bank Gospodarstwa Krajowego.

All Banking Institutions, subject to supervision, must pay monthly fees up to a total sum which will cover all administration expenses, including the cost of inspection.

Comments Regarding Plan

In this memorandum comment will be limited mainly to the two principal functions of the proposed "Banking Fund", namely, its use to assist banking institutions and its bank inspection function.

The Compulsory Participation of all Banking Institutions in Relief Credits is Unsound

The plan contemplates the payment by banking institutions, of monthly fees to the capital fund. It is true that such fees are not large, nevertheless they will be an additional burden. They will be, in effect, contributions by the solvent and better banks, to pay for the mistakes and mismanagement of weaker institutions. In a measure the fund is an insurance fund of a doubtful character. It is unsound in principle and not workable in practice. It encourages unsound banking practices and weakens the public's feeling of responsibility in selecting banks with which to do business. The public is likely to reason that "one bank is as safe as another if all are protected by the guarantee of a Banking Fund, therefore it is good policy to give your business to the bank that gives the easiest terms of credit, the highest interest rates on deposit, and is slackest in its collections". This attitude favours the poorer banks at the expense of the better ones and tends to cause a general leveling down of banking standards and practices.

In other countries, strong solvent institutions have on many occasions, freely advanced funds to other institutions in order to tide over difficult situations and to prevent the spread of a panic. But in such instances, the financial assistance has come from banks with large capital and resources, in a sufficiently liquid position to lend both cash and credit, and in all such cases the strong banks have been in a position to discriminate in favour of the more worthy institu-

tions calling for help, and to demand adequate collateral. In Poland all banks are now comperatively small and are not in a position to be required to spare any of their resources for such a purpose.

The Plan Suggested would not Accomplish the Object Desired

It is not clear just what funds would be at the disposal of the Fund if it were established. Apparently it is intended to have the Bank Gospodarstwa Krajowego turn over to the Fund, as its first capital, obligations of the banks to which assistance has been given, at the same time transferring the offsetting Treasury deposits. This would appear to give the Fund but little new money, and until the present advances are repaid the working capital would be very small. The contributions by the banking institutions are to be made in small monthly payments, and it would require many years before an amount sufficient to be of much use would be obtained from this source.

Of course, assistance may be rendered in the form of guarantees backed by the guarantee of the Government. If so this is unwise, as it is highly desirable to centralize the handling of all Governmental guarantees in one agency, so that the proper control may be exercised.

Although it is not so stated in the proposed decree, it may be contemplated that the Banking Fund shall issue debentures based upon the collateral pledged by the assisted banks, and to use as working capital, the funds realized from the sale of such debentures. If this be the intention, then the Banking Fund would be the third Government institution issuing bonds. This would complicate the situation even more than at present. Your commission agree with the widespread criticism that there are already too many Government banks in Poland, and believe that the Government should withdraw from the banking business except from the Postal Savings Bank as soon as conditions will permit. They view with great concern the proposal at this time to create, what amounts to another Government bank.

For some time to come it is likely that relief credits must come largely from the Government or from funds raised under

the Government's guarantee, but it does not appear necessary to create a new agency for the handling of such credits or for issuing bonds since these functions can be handled by the Bank Gospodarstwa Krajowego.

Combination of Loaning Operations and Supervision of Credits Undesirable

The loaning operations and supervision of the relief credits granted, or to be granted by the Government, should be separate and distinct from the regular banking inspection of institutions subject to the Banking Law. The combining of these two functions in one agency is not a desirable step. Relief credits are intended to provide cash funds to institutions believed to be solvent, to enable such institutions to meet withdrawal of deposits and to make immediate payment of other demand obligations. Such credits are seldom granted until a bank has met its obligations practically to the full extent of its cash and readily realizable resources and unless a bank has remaining assets considered good but not salable at a fair price in case of forced liquidation.

The granting of such credits calls for, (1) an independent judgement of the position and the value of the assets of the institution applying for assistance, and (2) the determination of public policy in connection with the probable effect on other banking institutions of a suspension of payments or failure of a bank applying for assistance.

Under the present plan, in addition to the above class of credits, the Fund would take over immovables and other assets, and finance new issues of stock of insitutions assisted. In the management of this type of business, the Manager of the Fund would have many and varied interests requiring first attention and would have little time to give to the equally important function of the thorough inspection of all institutions subject to the Banking Law.

The Commission consider that the supervision and inspection of banks should have the undivided attention of a Bank Commissioner, to be appointed in a manner and vested with the responsibilities indicated later in this Memorandum.

The Immediate Adoption of a Thorough System of Banking Inspection is Essential

The plan provides for periodical and special inspection of banking institutions. The Commission are in full accord with the principle of effective bank inspection but are not in accord with the method of supervision outlined in the proposed Decree. This subject will be treated by the Commission in another report to be submitted presently.

In the present law provision is made for examination of credit institutions by banking inspectors appointed by the Minister of Finance, and the law authorizes the creation by the Bankers Association of a Revision Society which, if and when established would take over the inspection of banks from the Ministry of Finance. No Revision Society has been formed by the banks nor has the Bank Inspection Division of the Ministry of Finance operated effectively.

Few, if any, thorough examinations of large institutions have ever been made. The time of the limited number of Inspectors has been taken up with detailed office work, checking report, investigating violations of exchange regulations, inspecting a few out of town institutions and acting as commissioners in institutions which were suspected of violating the law or regulations or were receiving Government assistance. The force of inspectors is too small to do effective work and too poorly paid to attract the right type of experienced bank men.

The protection of the public requires a thorough periodical inspection of all institutions receiving deposits. The inspection should not be simply checking of book accounts but should include an independent appraisal of the assets and a determination of the liabilities.

Bank Inspection by Governmental Authorities

The primary purpose of inspection and examination by Governmental or other independent authorities may be briefly stated as follows:

1) The solvency of an institution, its liquidity, the character and value of its assets; the extent of its actual contingent liabilities; whether proper provision has been made for

bad and doubtful items; whether capital is unimpaired; and whether the condition of the institution is properly shown by the books and published reports.

2) Whether the business is conducted in accordance with the bank's statutes and governmental laws and regulations.

3) The character and competency of the management and also whether tendencies and policies in its loan and other operations are safe and sound.

Objections to Banking Inspections

Many bankers here object strongly to banking inspection by Government inspectors as an infringement of their rights and as a handicap to their initiative and operations and claim that it is a system peculiar to America and contrary to European practice.

In many European countries the development of business has encouraged and made necessary institutions of large capital and resources in order to take care of needs of credit. Such institutions have grown gradually over a period of many years through consolidations with other banks and through a policy of materially increasing capital to meet the growing credit requirements of agriculture, industry and commerce. It may be said that a very large proportion of the commercial banking business in most of the European countries is handled by a few banks in each country. These institutions, as a general rule, have had a long history, have built up over many years conservative banking traditions and policies, have substantial resources and an experienced management and personnel, the majority of whom have had many years of loyal service in the same institution. If silimar conditions existed in Poland there might be some force in the argument against governmental inspection.

The unsatisfactory experiences of the public and of foreign creditors with many of the Polish banks during the past two years is one of the principal reasons why confidence has been shaken in the Polish banking situation. Unfortunately the strong well managed institutions have had to suffer for the faults and practices of the weaker ones. There can be no question that if a good system of inspection is established

and maitained, it will go along way in bringing back public confidence in Polish banks. Strong well managed banks have nothing to fear from thorough bank inspection. On the other hand they have much to gain because it compels the weaker banks to compete with them on a more equal basis. It establishes fair rules for the game and compels all players to live up to the rules.

In the proposed Decree the Manager of the Fund and the Banking Inspectors are employees of the Bank Gospodarstwa Krajowego. It is reasonable therefore to expect that the reports on the banks inspected would be available to the management of the Bank Gospodarstwa Krajowego. This Bank is an active competitor of the joint-stock banks in several fields and it would be neither fair nor proper to permit the inspection of banks to be under its direct or indirect control. Should the Bank Gospodarstwa Krajowego continue to administer the Government's Relief Fund, it would be entitled to full information regarding institutions receiving or applying for assistance, but it would be unwise to place with its officers and employees the duty of inspecting and investigating all banking institutions subject to the Banking Law regardless of whether they should be obtaining aid from the Relief Fund or not.

Bank Commissioner

The Bank Law should provide for the appointment of a Bank Commissioner by the Minister of Finance with the approval of the Council of Ministers, for a fixed term of five years. The Commissioner should be an experienced banker or professional man with a thorough knowledge of banking and commercial practices and laws. He should be a man of unquestionable integrity, of courage and tact and should be paid a high salary, one adequate to attract first class men from private life and to hold them in public service. He should appoint an adequate staff of qualified men as deputies and inspectors who would be responsible directly to him and whose appointment, retention and dismissal he could control. He should have large responsibilities and powers commensurate with these responsibilities.

The Commissioner should have full supervision over all banking institutions and other firms and societies organized under the Banking Law and should have the power to approve and disapprove the bank statutes.

In the opinion of your Commission the Bank Commissioner should be also authorized to inspect the Bank Polski, Bank Gospodarstwa Krajowego, Państwowy Bank Rolny and Centralna Kasa Spółek Rolniczych at least once in each year and oftener if conditions seem to so require, but in his discretion such inspections might be made in cooperation with the Auditing Committees appointed as provided in the statutes of the respective banks.

All expenses of administration and inspection should be borne by the institution subject to the examination under the Banking Law.

REPORT

ON ACCOUNTING AND FISCAL CONTROL IN THE MINISTRY OF FINANCE

CHAPTER I

ORGANIZATION AND ACCOUNTING

I. Powers and Duties of Ministry of Finance

The Ministry of Finance is created by statute — the statute, however, does not express or define the general power of that ministry. Specific powers and duties of the departments and sections of the Ministry of Finance, are, however, contained in the statute referred to above. From these specific powers and duties of the several organizations of the Ministry of Finance it is clear that the accounting and fiscal control for the Government of Poland is centralized in that Ministry. Fiscal Control in the Ministry of Finance is further emphasized in the annual budget act whereby the Minister of Finance has the exclusive power to administer and regulate the appropriation credits granted therein for all Ministries.

Article 9 of the Constitution provides that the Supreme Board of Control "shall be called upon to control all financial activities of the State, to examine its accounts, and to submit annually a motion requesting the Diet to grant or else to refuse the vote of approval to the Government". Also the Statute of organization of the Supreme Board of Control, provides, in its various articles, for a control of state finances. The word „Control" referred to in the constitution and statute with reference to the Supreme Board of Control, manifestly does not signify financial control in the same sense that the word may be applied in financial matters in the Ministry of Finance. The Supreme Board of Control is primarily an auditing

body, which, under its present organization, exercises its primary functions after the government transactions have been closed and the funds collected and disbursed. This kind of "control", however, is important, and reference will be made to it again in the part of this report relating to auditing control.

While it has been impossible, in the short time available to your Commission, to study in detail the organization and procedure of the accounting and fiscal control functions of the Ministry of Finance, sufficient data have been obtained to form the basis for the following comments and recommendations.

2. Provincial Treasury Offices

The existing scheme of organization of the treasury department (Department of Cash), in its main features, such as the separation of groups of organization units into first, second and third instances, for purposes of administration and control, is a scheme which has its advantages and disadvantages.— Poland is a comparatively large State (388.328 square km.), with a population of approximately 30.000.000 fairly evenly scattered over the Republic. — The people of Poland transact most of their business in currency, the use of bank checks in the settlement of debts being very limited. Thus there may be a necessity for a larger number of branch treasury offices (Cash Offices) in the various cities and towns of Poland than would otherwise be the case if bank checks were in common use. The large number of branch treasury offices, called the "first instance" group in the scheme of organization of the Treasury Department, has no doubt necessitated the creation of the Section of Cash of provincial treasury offices (12 exclusive of Silesia), of "second instance" group, as intermediary, in the matter of administration and control, between the branch treasury offices and the head offices of the Treasury Department in Warsaw, kown as the "third instance".

This scheme of organization of the Treasury Department is common to other departments of the Ministry of Finance and is the basis, generally, for all Ministries which have their

organization units scattered about the Country. — It is in line, also, with the policy of decentralization of administration as expressed in the Constitution of Poland (Art. 66). — Provincial treasury offices have the administration and control also, of tax and excise offices in their provinces as well as of branch treasury offices. They also assess certain taxes and decide certain classes of appeals from taxes.

For purposes of administration, a provincial treasury office is divided into five sections, as follows:

Seation I. General,
Section II. Direct Taxes,
Section III. Accounting and Cash,
Section IV. Excise and Monopolies,
Section V. Stamp Taxes.

In four of the provincial treasury offices there is another section which handles all questions of pensions and allowances granted by the State.

Due to the geographical position of provincial treasury offices, they are said to be enabled to exercise a closer supervision and control over the organization units (cash, tax and excise offices) included in their respective provinces than might be possible if they were eliminated from the existing scheme of organization.

On the other hand, the provincial treasury offices, by virtue of their intermediary position in the scheme of organization, occasion a certain amount of duplication of effort with a resultant extra cost of administration. With respect to Department of the Cash matters, in order to exercise their control over the operations of the branch treasury offices included within their respective provinces, the provincial treasury offices have to record the details of all budget credits granted to the various authorities of the second instance in their jurisdictions, and each branch treasury office thereof does the same insofar as each may be required to disburse in accordance with those credits. Similarly all collections and expenditures made by the branch treasury offices are recorded in the provincial treasury office to which they report their transactions. — Further all warrants drawn on branch treasury offices, outside of those drawn on the State General Cash Office in Warsaw, either originate in the provincial treasury

offices or are forwarded by them to the branch treasury offices.In short, each provincial treasury office, with respect to the Department of the Cash transactions within its provincial territory, is an entity in itself. It reports monthly to the Department of the Cash in Warsaw the results of the collection and disbursement of revenues within its territory, as if it were the only Department of the Cash representative therein. The branch treasury offices report their transactions to their provincial treasury offices only. Similarly the Treasury Department transacts its business, with respect to branch treasury office matters, with provincial treasury offices only.

As previously stated a provincial treasury office is the administrative unit for the taxes and excise offices of the Department of Taxes and Fees and the Department of Excise and Monopolies located within its territorial jurisdiction, as well as for branch treasury offices. This arrangement results in a division of responsibility between the head of the provincial treasury office and the directors of the two departments mentioned, as regards the activities of the personnel engaged in tax and excise matters within that provincial territory. Neither the Department of Taxes and Fees, the Department of Excise and Monopolies nor the Department of the Cash, has complete jurisdiction over the employees engaged in the work of those departments. Within certain categories the directors of each department named have a voice in the appointment of employees. Outside of those categories, the head of the provincial treasury offices has power to make the appointments of personnel under its administrative control.

While reference is made in this Report to the Department ox Taxes and Fees and the Department of Excise and Monopolies in connection with provincial treasury offices, it should be stated here that this Report does not cover the organization and functions of those departments. That subject is treated in a separate Report of the Commission dealing with taxation. Those departments are referred to here only to show that the provincial treasury offices have other functions besides those of the administration and control of branch treasury offices.

While there is a certain duplication of work under the present organization and activities of the provincial treasury offices, it should be understood that those offices perform other bookkeeping work which otherwise would have to be performed in the central accounting section of the Department of the Cash in Warsaw if the provincial treasury offices did not exist, such for example, as the recording of the details of collections of revenues and of expenditures reported monthly by each branch treasury office.

The advantages obtained from the existence of the Section of Cash of the provincial treasury offices might be retained and the disadvantages reduced if there were a revision of the number of provincial treasury offices and of the branch treasury offices under their respective jurisdictions. The reduction in the number of provincial treasury offices, that is, the section of Cash of provincial treasury offices, would not affect the sections thereof which administer and control local tax and excise offices. The latter are not organization units of the Department of the Cash and this Report is not particularly concerned with those offices from an organization standpoint. The centralization of the Section of Cash of the provincial treasury offices in, say, six parts of the State, would be similar, in effect, to the recent centralization in four provincial treasury offices of the section of pensions and allowances which was formerly a part of each of the existing provincial treasury offices. The administration and control of branch treasury offices (Cash offices) does not, in your Commission's opinion, require that the agency of control be located in each of the provincial treasury offices required for the administration and control of local taxes and excise. The work of the latter is largely technical, and a closer local supervision and control of such work is demanded, than would be required in the case of branch treasury offices. The latter are established largely as a convenience to the public in paying taxes and other moneys due to the State. There is nothing technical about the collecting and disbursing of funds by cash offices.

The number of employees and the salaries, allowances and other expenses of the Department of the Cash and its organization units for the year 1926 are shown in the following table:

	Expenses					Total
	Personnel	Salaries	Remuneration & allowances	Travel expenses	Rental & other expenses	
C. State C. O. . .	39	164,516	4,787	—	13,080	182,383
Sec. of Cash of P.T. Offices	470	1,375,000	28,000	55,000	309,000	1,767,000
Cash Offices . . .	2,661	7,027,000	105,000	5,000	877,000	8,014,000
Dept. of Cash & Bureau of Revenue Stamps & Documents . . .	73	325,458	22,287	6,190	25,760	379,695
Total . .	3,243	8,891,974	160,074	66,190	1,224 840	10,343,078

The preceding table indicates that the local cost of administration and control of cash offices by the Section of Cash of provincial treasury offices is 22% of the total cost of operating Cash offices. This is a high administration cost.

The high total cost of administration and control of cash offices is due in part to the fact that treasury offices carry, in more or less detail bookkeeping records similar to those carried in the individual cash offices. Provincial treasury offices have a personnel, also, whose principal duties are the examination of the monthly accounts rendered by cash offices. This is an auditing activity which is not strictly a part of the work of provincial treasury offices. It belongs to the Supreme Board of Control.

The cost of the section of cash of each provincial treasury office, as shown in the following table indicates that the administration and control cost varies considerably for the individual sections, even between two sections which have fairly comparable conditions. Take for example the cost of the section of cash of Kielce. It is greater than the cost of the section of cash of Grudziądz although each has an equal number of cash offices to administer (18), and, further, the total cost of the 18 cash offices of Kielce is over 50 per cent greater than the total cost of the 18 cash offices of Grudziądz. The discrepancy in cost is not ex-

plained by the volume of collections[1]) in the offices, inasmuch as the cash offices of the Kielce territory collected in 1925 only about 12,000,000 zlotys more than the cash offices of Grudziądz. These figures alone would confirm a general impression of the possibility for savings in cost, if the sections of cash of provincial treasury offices were consolidated as herein proposed.

	Percent of cost of Section of Cash to cost of cash offices	Cost of Cash Sections	Cost of Cash Offices
Białystok	28	123,080	446,350
Brześć	30	139,420	463,820
Grudziądz	27	107,480	402,700
Kielce	22	130,860	605,640
Kraków	16	146,150	920,070
Lwów	18	261,620	1,432,700
Lublin	21	129,620	603,050
Łódź	22	124,160	568,000
Łuck	29	99,100	344,560
Poznań	24	204,840	854,800
Warszawa	21	209,530	1,018,400
Wilno	26	91,140	353,910
Total		1,767,000	8,014,000

The accompanying map shows the location of the existing provincial treasury offices and the branch treasury offices (cash offices) under their respective control. Your Commission make no recommendation with regard to the particular provincial treasury offices which should have their section of cash consolidated with the section of cash of other provincial treasury offices. A logical selection, however, in the opinion of your Commission from a geographical standpoint and taking

[1]) *The word "collections" signifies total entries in the Cash journal and not the amount of revenues collected. Transfers of funds, withdrawal of funds from banks, and other cash transactions are entered in the cash journal as well as taxes and other revenues received, so that the total of the latter as distinguished from the former was not available at the time this Report was written.*

into consideration the number of cash offices reporting to each of the existing provincial treasury offices, would appear to be as follows:

Białystok	with	13	Cash	Offices		
Brześć	„	17	„	„	Wilno	37
Wilno	„	7	„	„		
Poznań	„	35	„	„	Poznań	53
Grudziądz	„	18	„	„		
Warsaw	„	24	„	„	Warsaw	38
Łódź	„	14	„	„		
Kielce	„	18	„	„	Kraków	44
Kraków	„	26	„	„		
Lwów	„	63	„	„	Lwów	63
Lublin	„	19	„	„	Lublin	29
Łuck	„	10	„	„		

This consolidation of the section of cash of provincial treasury offices would give to each such office a more equal distribution of cash offices than now exists. On the basis of this consolidation, and taking the cost of the section of cash of the provincial treasury office of Kraków as a basis, there should be a saving of approximately 28 percent or 495.000 zlotys in the present cost of such sections.

3. Branch Treasury Offices (Cash Offices)

With respect to the number of cash offices, and considering them for the moment in the light of the activities they perform under existing conditions and regulations, it would appear that some of these offices could be consolidated with others with a saving in total cost of operation. In the city of Warsaw, for example, there is only one reporting cash office but it has 10 branches in different parts of the city. These branches are collecting offices only, but each has at least one accountant and a cashier. The necessity of this number of branches is not apparent, inasmuch as their activities are said to be confined to the collection of taxes only. In two other reporting cash offices visited, located in towns outside of Warsaw, each of which had a treasurer, an accountant, a cashier, and other clerks, the average number of daily entries in the journal of

cash collections was only from 30 to 35 entries. Kraków has three reporting cash offices, the combined collections [1]) of two of which (28.338.605 zlotys) in the year 1925 were only slightly over 12 percent of the collections of the third (231.857.733 zlotys).

The provincial treasury office of Lwów has 63 cash offices under its jurisdiction. A number of these cash offices are only from ten to twenty kilometres apart. In the provincial treasury district of Grudziądz there are two cash offices within about five kilometres of each other.

Your Commission believe that a considerable number of cash offices could be eliminated. With respect to the collection of taxes of all kinds, arrangements should be made whereby the public could remit with their tax bills to certain central cash offices, Bank of Poland checks or Postal Savings Bank checks payable to the Government in settlement of such bills, instead of coming in person to cash offices to pay their taxes in currency. The public should be encouraged to make such payments by check.

The use of the postal savings bank facilities is now in somewhat general practice in Poland in the collection of taxes. Similar arrangements, with respect to expenditures, could be made with banks in the payment of government checks for government expenditures in all parts of the country. The sale of revenue stamps and stamped documents, could be made, under proper accounting control, by post offices as well as by cash offices. With the stabilization of the currecy, and with other financial reforms and the more extended use of the banking facilities of the country, it is likely that the number of branch treasury offices could be reduced in the near future to about the same number as the number of provincial treasury offices now existing.

The Government could begin this movement by a more general use of checks drawn on its bank accounts in the payment of its salaries and other expeditures. Cash offices are now doing a considerable part of the work usually done by banks in other countries. For example, warrants are drawn by government authorities in all parts of the country. These

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[1]) *See foot note (1) p. 291.*

warrants are being cashed largely by cash offices. This means that the cash offices must have accountants and cashiers and other clerks available to cash and record the warrants. The data entered by the accountants and clerks in their treasury records and books are nothing but a repetition in most cases of the information which the Ministerial offices issuing the warrants must keep to know currently the state of their respective budget accounts and credits. The same is true with respect to the millions of zlotys disbursed by dis bursing officers, under lump-sum credit advances, on their official checks. These checks, instead of being deposited in or cashed by banks, are paid in cash by the branch treasury offices (cash offices). The disbursing officers keep their own records of expenditures but the treasury offices (cash offices) by virtue of having to pay all such checks, have to keep more or less similar records of such expenditures. The provincial treasury offices, which control the operations of branch treasury offices, have to keep records which are again a repetition in general of the records of the branch treasury offices. The section of bookkeeping of the Ministry of Finance which controls the operations of provincial treasury offices, likewise keeps records similar to those kept by provincial treasury offices. Thus is completed the cycle of bookkeeping to record the expenditure of government funds.

The responsibility for this system is due in part, your Commission believe, to a misconception of the proper relations of the Ministry of Finance to other Ministries with respect to the accounting control of their financial operations, and in part to an excessive use of treasury offices as a means to the payment of government expenditures. Under the existing system, the Ministry of Finance, as represented by the Department of the Cash in the disbursement of government funds, exercises no control whatever over the funds disbursed, beyond seeing that they are not in excess of budget credits previously granted by the Ministry of Finance. The auditing control of disbursements, that is, the examination of the contracts, purchase vouchers and invoices which originate expenditures and which are retained in the offices of the Ministries which occasion the disbursement, is done by the Supreme Board of Control only. Thus under the present system of fiscal control

as exercised by the Ministry of Finance, if warrants and checks were drawn by government authorities against the bank accounts of the government and made payable by the banks in which such accounts were held, it would be possible to dispense with the services of the branch treasury offices in the payment of expenditures. This could be made possible merely by requiring the accounting officers of all ministries to submit to the Ministry of Finance monthly reports of their financial transactions. The Department of Cash prevents the overdrawing of budget credits but it is paying, in salaries and office expenses of provincial and branch treasury offices, a heavy price to guard against a type of abuse, which is not very common and which could be equally well controlled by arrangements with the banks and by means of the said monthly reports from the accounting officers of each ministry.

It will be apparent, therefore, that a reduction of the Sections of Cash of provincial treasury offices and a reduction of branch treasury offices, with a saving of several million zlotys a year in the cost of such offices is a practical possibility with the initiation of a program for a greater use of the banking facilities of the country in the collection of taxes and in the payment of government warrants and checks. This program would, of course, necessitate, a change in existing accounting regulations to require all government accounting officers to render to the Section of Bookkeeping of the Department of Cash monthly and other periodic reports of their financial transactions during such periods.

4. Head Office of the Department of Cash

With respect to the organization of the head office of the Department of Cash in Warsaw your Commission recommend further that there should be a consolidation of the several sections thereof, so as to establish one accounting section which shall be the central accounting section of the Government and which shall have the exclusive jurisdiction in the Ministry of Finance in all matters pertaining to accounting regulations and procedure for all ministries and for other independent organization units of the government.

This and following recommendations concerning accounting records and procedure are made in this part of the Report

with the object to improve conditions as they are found at present in the Ministry of Finance, in case the government should not accept the plan proposed in chapter II of this Report, that the central accounting activities of the Ministry of Finance be transferred to the Supreme Board of Control. If the central accounting activities, should, however, be taken over by the Supreme Board of Control, the criticism of existing defects in accounting procedure and the recommendations thereon would, in that case, be a matter for the consideration of the Supreme Board of Control.

The Treasury Department in Warsaw is at present composed of four sections as follows:

Section of Administration and Cash,
Section of Central Bookkeeping,
Section of Instruction and Investigation,
Section of Accounts.

Each of these sections has something to do with the accounting function performed by the Ministry of Finance and each is more or less independent of the others, while all are of course under the immediate control of the Director of the Department. The section of Administration and Cash, for example, has among its other duties, the duty of preparing and issuing regulations concerning accounting procedure in branch treasury offices and cooperates with other departments and authorities in issuing accounting regulations to be observed by all offices where cash is received and disbursed or accounted for. This section keeps accounts, also, of coins and small currency issued by the Ministry of Finance and of bank notes issued by the Bank of Poland.

The section of Central Bookkeeping is concerned with the keeping of the general accounts of the government. It exercises a close supervision over the transactions of the State Central Cash Office of Warsaw, and prepares the monthly and annual statements and reports of the Government's financial transactions and other periodic statements and reports concerning the Condition of the cash in the treasury.

The section of Instruction and Investigation is primarily engaged in inspecting branch treasury offices and the

sections of Accounting and Cash (Section III) of provincial treasury offices.

The section of Accounts performs for the Ministry of Finance the bookkeeping function which a similar section in each Ministry performs for its particular ministry in the matter of recording the financial transactions pertaining thereto, as distinguished from the financial transactions of the whole State.

The work now performed by the section of Administration and Cash which relates to accounting records and procedure, should be transferred to the section of Bookkeeping. Similarly, the work of the section of Accounts should be taken over by the section of Bookkeeping.

The Section of Instruction and Investigation may be continued as a separate section as at present, but its sphere of activity should be limited strictly to the inspection of the work of branch treasury offices and of such other offices as may be assigned to it for inspection by the Director of the Department. The duties now performed by this section relating to personnel of the Department and of branch treasury offices, should be taken over by the revised section of administration and Cash.

Under the plan proposed above, the Section of Administration and Cash would be an administrative section only, concerned with general matters of the Department, which are not specifically intrusted to the Central Bookkeeping Section.

5. Accounting Records and Procedure

The accounting records and procedure in use in the various cash and accounting offices of the Department of Cash indicate that there is a proper appreciation of the importance of good records and of the necessity of Control over collecting and disbursing offices. Accounting rules and forms and regulations for the guidance of all accounting offices have been compiled and appear to be adequate and in general use by the persons for whom they were designed. Statements of collections of revenues are received promptly in the Department of Cash three times a month from provincial treasury offices. Reports of collections and disburse-

ments are also received from the same offices at the close of each month.

There are, however, in your Commission's opinion serious defects in the present system of accounts, especially in the section of Bookkeeping of the Department of Cash.

The accounting system in use in the Central Bookkeeping Section of the Ministry of Finance is not a double-entry system of accounts, as the term is used in commercial business and in the accounting profession. It is a single-entry system. The single-entry system of accounts has its advantages, but it is inadequate to reflect completety all the facts of business, whether private or governmental, and to produce, from the accounts, those periodic statements and reports which are usually readily obtained from a double-entry system of accounts and which are usually deemed essential to a proper understanding of the operations of a business undertaking.

The principle of the double-entry system of accounts expressed in simple terms is, that there shall be two entries for each financial transaction recorded in the accounts in the general ledger, one entry on the debit side of an account and a corresponding entry for an equal amount on the credit side of another account. The sum of the total debit entries should exactly agree with the sum of the total credit entries at a given moment of time.

The change from the single-entry to the double-entry system of accounts would not be difficult and its maintenance would not require much, if any, extra labour. With such a system in use it would be possible to prepare monthly and annual balance sheets showing all the assets and liabilities of the State as at the close of such periods. So-called balance sheets have been published by the Ministry of Finance in its annual and monthly reports, but they are not true balance sheets of assets and liabilities.

The coordination of financial transactions in different accounts in a general ledger is the uniform practice in the preparation of balance sheets and statements of income and expenditures. Under the existing system, there is no coordination of accounts in the Central Bookkeeping Section of the Ministry of Finance. The primary object of the existing

system is to keep a record of receipts and disbursements in accordance with budget classifications. With a double-entry system of accounts and with the accounts coordinated in a general ledger, there would be shown therein accounts which are not now kept in any books, such as taxes and other revenues receivable, advances of lump sums to disbursing officers, advances of salaries and real and other property of the government. Such information, if now available is kept merely as collateral information disassociated from any general scheme of accounts which would show the interrelationship of each account to other accounts and of the whole as a general picture of the State finances. This interrelationship of accounts would be reflected in a general balance sheet.

A balance sheet, therefore, in proper detail, with titles of accounts which represent clearly the nature af the accounts, is of fundamental importance in showing the condition of the Government's finances at a given moment of time. The fact that the Government as a whole is not in business for profit, in the commercial sense, is no reason for the absence of a balance sheet showing exactly the financial condition of the State at the close of the fiscal year or other accounting period. Taxes receivable, for example, are just as important an item to be currently recorded and known as the cash actually received from taxes. Advances of lump sums to disbursing officers are really cash of the Government until they are actually expended. Similarly advances to employees on account or salaries, said to total some 30.000.000 zlotys at the present time, are an asset of the Government and are being repaid to the Government through deductions from monthly salaries.

Aside from the question of double-entry bookkeeping and balance sheets, the method of carrying certain accounts under the existing system is incorrect and is misleading when those accounts are published in monthly or annual reports. For example, if surplus of cash is transferred from a cash office to the head office of the Ministry of Finance in Warsaw, it is entered as a disbursement in the central bookkeeping section, under the heading of "Transitory Sums", but if the cash has not actually been received by the Head

Office before the close of the month in which the transaction was initiated, it will not appear in the cash balance for that month and hence the cash balance at the close of the month is understated by that amount in accounts and published statements. If cash office "A", for example, collects taxes for cash office "B", it will be reported in the month in which collected as a collection by "A" and will appear in the same month, in the central bookkeeping section of the Ministry of Finance, as a collection item in suspense. It will thus get into the cash account but will not appear in the revenues collected until cash office "B" reports in its monthly accounts that it has taken up the item as if it had actually collected the money. If the latter office does not report such fact unti the month following the actual collection, the exact amount of revenues collected in the preceding month is thus understated by the amount in suspense. The same thing may occur when postal savings branches collect taxes for account of the government, which frequently happens.

Similarly, if the Ministry of Finance forwards or transfers funds from Warsaw to a cash office, the amount transferred figures as a disbursement in the "Transitory Items" group, and will not appear again in the receipt side of the Cash account until it is reported as received by the cash office to which it was transferred. That means that the amount transferred will not figure as part of the cash balance at the close of month in which it was transferred if it should not be reported as received in that month by the cash office concerned.

While it may be argued, in extenuation of the bookkeeping practices referred to above, that in the long run the "transitory items" on both sides of the cash statement will adjust themselves, it must be admitted that it is not correct bookkeeping and that the cash statement or the statement of the amount of revenue collected for a given month or year is not a true reflection in the form in which it is prepared of the actual condition of affairs. The assertion that a cash balance at the close of a month or year is 100.000.000 zlotys when it is actually a great deal larger if cash in transit at the close of that month or year were added to it, or to say that 200.000.000 zlotys of revenue were collected in a month

when actually a greater amount was collected if transitory items were properly included, is a misrepresentation of the facts.

These bookkeeping practices are the more inexcusable because they would be unnecessary if proper bookkeeping methods were employed. The fact of a transfer of funds between offices or the fact of a collection of revenue is known as soon as the transferring office or the collecting office reports the transaction. With that information avaible there is no need of waiting for some other office to report the receipt of the cash transferred or the collection of the revenue, before considering the cash as being on hand or the revenue as actually collected. In the first case, it is not a disbursement at all but merely a transfer of funds, in the second case, it is not an item in suspense but revenue collected. The inter-relationship between the section of bookkeeping and the different cash offices for cash transactions can be shown separately and controlled without misstating the general accounts of cash and revenues.

There are many of these kinds of so-called transitory items appearing in the monthly accounts of the section of bookkeeping. For example, in the published monthly report of the Ministry of Finance for the month of September, 1925, the total of such transitory items was 421.012.695 zlotys under the general head of receipts and 361,190,292 zlotys under the general head of disbursements the bulk of which receipts and disbursements were cash transfers between different cach offices and taxes or other revenue collected by different cash offices for the account of other cash offices. In the published report for the month of August, 1925, the total of transitory receipts was less than the total of transitory disbursements, being 409,611,160 zlotys and 424,635,498 zlotys respectively.

In addition to the foregoing, there are other bookkeeping practices in cash offices and in the section of bookkeeping which could be simplified or changed to advantage if the system of accounts in the section of bookkeeping were changed to the double-entry system, as herein proposed. For example, lump sum advances of funds to disbursing officers should not bee entered as budget expenditures until the funds have actually been expended. If the funds have actually been turned over to a dis-

bursing officer, his account should be charged with the amount turned over to him and the cash account credited with a similar amount. If the funds, however, are merely placed to the credit of the disbursing officer in some branch treasury office located in his district as is the usual practice in Poland to be drawn upon by him as needed, there is no good reason why the matter should be treated at all as a disbursement of cash, to show the transfer, and as a receipt of cash to show that the cash has not left the branch treasury office but is available for the disbursing officer. To open the credit, in the latter case, similar to any other budget credit for the disbursing officer, should be sufficient, and no other bookkeeping entries would be required until the credit was used by the disbursing officer. When this occured the entry would appear in the cash book the same as any other expenditure, except that the disbursing officer, if desirable, might continue to use his own official checks, as at present, to draw, upon his credit, instead of warrants.

If the funds are, however, actually turned over to the disbursing officer, his account would be charged with the cash given to him and the general cash account would be credited, as stated above. Thereafter he should be required to render a monthly report to the Provincial treasury office concerned, covering the funds advanced to him and the expenditures made therefrom, as the basis for crediting his account for the amount expended and for changing the proper expense or capital outlay accounts affected by the expenditure.

The amount of these lump-sum advances, which may be expended by various disbursing officers on their own official checks, is considerable. For the month of August, 1925, the amount was 101,440,403 zlotys and for September 93,423,616 zlotys. The disbursing officers have official checks and there appears to be adequate control in branch treasury offices by means of signature and advices to see that the proper payees receive the money disbursed, but disbursing officers are not under any surety bonds and they are not required to render any monthly or other reports of their transactions to the provincial treasury offices or to the head office of the Ministry of Finance. They are responsible only to the Ministry

which creates them, and their accounts and expenditure documents are examined only by the representative of the Supreme Board of Control when that body checks the accounts. The question of the audit of government accounts will be discussed in a separate section of this Report, but it should be stated here, that from the standpoint of fiscal control, which in your Commission's judgement is a primary function and obligation of the Ministry of Finance, as at present organized, the control now exercised by that Ministry over the transactions of disbursing officers is inadequate.

Copies of tax rolls of real and personal property taxes and statements of other taxes or excise, as calculated and prepared by tax and excise departments at different periods of the year, should be turned over to the Department of Cash as receiver of taxes for the Government. This would establish the responsibility of the Department of Cash for the amount of such items to be collected in the various parts of the country. It would be the basis also for setting up in the general ledger in the central bookkeeping section of the Ministry of Finance the total of taxes and excise receivable. In subsidiary ledgers would be contained the accounts with the cash offices which would be responsible for the collection of such amounts within their respective districts.

The Dapartment of Cash does not, under the present system, get the tax rolls and statements referred to above. They are retained in local tax offices. This involves unnecessary clerical work in cash offices and tax offices and compels the taxpayers to go to both offices for the settlement of their taxes.

Taxpayers, also, should not be required to make out "declarations" in cash offices when paying their taxes. If tax bills are required to be presented with checks or currency in settlement thereof, no further declarations of what they are paying should be required from them. The making of declarations causes delay to the taxpayer and congestion in cash offices.

Similarly taxpayers and others making payments to a cash office, should not be required to wait until the internal bookkeeping has been done, before they may be permitted to make their payments. Under the present system, they must present themselves to an accountant who examines the tax

bill or other statement presented for payment, makes out a receipt for the money, enters the transaction in the cash journal, and then informs the taxpayer or person concerned that he may proceed to the cashier and make his payment. The receipt in the meantime has been passed by the accountant to the cashier. When the receipt has been prepared it should be passed at once to the cashier. To maintain the control exercised over the cashier the receipt should be issued in duplicate, by carbon process, which could be entered in the cash journal at any time during the day and the total cash collected by the cashier would have to agree with the cash journal for that day.

6. Post and Telegraph Service

The official relationship of the Post and Telegraph Service of the Government to the Ministry of Finance, from an accounting and fiscal Control standpoint, is a subject which requires consideration at this time.

Prior to the present year the Post and Telegraph Service was treated in the annual budget as an organization unit of the government, that is, its total revenues and expenditures were classified in the budget and reported as a part of the general administration group of the government, although its cash balances at the close of a year did not figure as part of the cash balances in the monthly and annual published reports of the Ministry of Finance on the erroneous theory, that such balances were not a part of the general balances of the Government.

Beginning with the year 1926, this service is treated in the budget as an autonomous enterprise in the same manner as state railways are treated. The only financial interest of the government now, it is stated, is in the net revenue of that service.

Regardless, however, of how the Post and Telegraph Service has been or is treated, from a revenue producing standpoint, it appears that the section of Central Bookkeeping of the Ministry of Finance has never kept any accounts with that service other than accounts for the amount of revenue paid in to the treasury and the expenditures disbursed. Every body

knows how money can be transferred from one section of the Country to another section thereof, or from one country to another country by means of postal money orders. France, the United States and Canada have relations with Poland in the remittance and payment of postal money orders issued in any one of those countries or issued by Poland for payment by those countries. The settlement of postal accounts between Poland and the three countries named, for postal money order transactions, is a necessary part of the postal accounting procedure. There must always be a balance in favour of or against Poland in such matters. The section of Central Bookkeeping of the Ministry of Finance keeps no records pertaining to such affairs, although it is the central accounting office of the government. It may be alleged that the Ministry of Finance in Poland has nothing to do with postal matters. This may be correct with respect to the administration of that service, but it has a right, in the opinion of your Commission, by virtue of its position as fiscal representative and the chief accounting office of the Government, to know and control the financial operations of any and all branches of the public service, including those public monopolies which are governmental institutions.

The credit and good name of the Republic of Poland are inseparably connected with any public service or governmental institution, especially those services or institutions which have financial relations with the people or governments of other Countries. It would not be, in the opinion of your Commission, any usurpation of authority, for the Ministry of Finance to require from the Post and Telegraph Service monthly reports of its financial operations and to include in the general accounts of the government, for purpose of fiscal Control and for general balance sheet purposes, the results of such operations in their relation to the public and to the government as a whole, including cash balances.

7. Postal Savings Bank

The same may be said with respect to the operations of the Postal Savings Bank. The latter is a governmental institution and is so closely connected with the postal service

that the two have almost an interchangeability of funds. That is to say, the operations of the Postal Savings Bank are all conducted in the post-offices of the country. The post-office collections of all kinds, including postal savings deposits are deposited in branches of the Bank of Poland to the credit of the Postal Savings Bank. The practice originated, it is said, during the period of inflation when postal revenues were less than its expenditures and the post-offices were therefore required to use temporarily the funds of the Postal Savings Bank to meet their expenses. This situation has been remedied now but the funds of the two services (Postal and Postal Savings) are still deposited, as stated above, in one general account. There is a friendly agreement, it is said, between the postal service and the postal savings banks, whereby the latter keeps a reserve in the post-offices for meeting the latter's daily needs and the post-office deposits all its collections to the credit of the postal savings bank.

Althoung the accounts of the postal service and the postal savings banks are kept separately from each other and their financial relalionship to each other is shown in their respective accounts, the cash operations of the two should be entirely independent from each other and the postal service should be required to keep its own reserve of cash in post offices, as needed.

The Postal Savings Bank has nothing logically to do with the postal service except that, as a facility to the public, it has been installed in all post-offices of the country. The responsibility of the Postal Savings Bank to the public for funds deposited therein is the same as the responsibility of a private bank and should be surrounded with the same safeguards. Except as the law which established the Postal Savings Bank may provide in connection with the regulations for the investment of postal savings funds, the use of these funds for governmental purposes should be stopped. The Post and Telegraph Service has paid in no revenue to the government so far this year, it is reported, owing to the fact that the Service has been settling its old accounts with the Postal Savings Bank for overdrafts.

The Postal Savings Bank published a balance sheet at the close of each year. This statement shows the amount due

depositors at the date of the balance sheet. The deposits of the Government in this bank are not shown separately from other deposits therein. The Ministy of Finance receives, however, periodic statements from the bank showing the balance of its deposit account with the bank but the records of the Section of Central Bookkeeping of the Ministry of Finance are not adequate to prove and reconcile promptly the bank statements of government balances in that institution.

The Postal Savings Bank should publish separately in its balance sheets the deposits of the Government therein just as it publishes in a separate item the amount due from the Post and Telegraph Service, and the Government should be able to prove from its own records the balances due to or from the Postal Savings Bank. This would probably require more frequent reports from the bank and its branches than now are received, but such reports would be an indispensable condition to efficient accounting control.

8. Pensions and Other Allowances

Prior to January 1926, each provincial treasury office had a section in charge of the work concerning pensions and allowances, and the method of payment was either by means of individual booklets which each pensioner presented, on due dates, to the nearest branch treasury office, where he received the money due him as indicated in the said booklet, or by means of checks payable through postal savings bank offices.

Beginning with the present calendar year the pensions service of the Government was centralized in four of the twelve provincial treasury offices (exclusive of Silesia) and the system of payment by check through postal savings bank offices was made uniform for the whole Republic. This system is not as yet in complete operation, due, it is said by the treasury authorities, to lack of time to put the change into effect. The provincial treasury office of Warsaw is the only office where the new system has not yet been completely installed. Four of the seven provincial treasury offices, whose section of pensions are to be consolidated in the Warsaw pension section, continue to perform pension work on the old booklet system.

The centralization of the pension service in four provincial treasury offices appears to have been a wise movement from the standpoint of economy and efficiency.

The extent of the economy achieved in cost of operation could not be determined exactly as no data were available on this question. It is stated that some employees previously engaged in the sections of pensions consolidated were released from the government service and others were transferred to work in other sections of provincial treasury offices. The question may be raised, however, as to why the pension activity was not centralized in one office instead of four. Your Commission are informed that the persons entitled to or claiming pensions and allowances are not inconvenienced in any way by the centralization of the activity in four offices of the government. The documents which support claims for pensions and allowances originate in the local offices or districts where the claimants live or work and are forwarded to one of the four central pension sections for examination and decision on the merits of the respective claims. The claimants are not called upon to appear at these pension sections. When the claim has been passed upon and allowed, the claimants are informed of the fact and are included in the lists and records of the pension sections in accordance with which payment of pensions and allowance is made. The claimant then is paid at his own door by a letter carrier who brings him the amount stated in his pension or allowance check. Under these circumstances it would appear that the pension service of the Government could conveniently be centralized in one office in Warsaw. The centralization of the activity in one office would assure a uniform system of examination of pension claims and allowances and would enable the Government to effect substantial economies in cost of operating the service.

Broadly speaking, there are two sub-sections of a pension section or office. One of these sub-sections is primarily engaged in the examinations of pension and allowance claims called „Assessment work", and the other is engaged in the preparatory work of paying the claims, called "Liquidation work".

The following table shows the number of office managers, the number of personnel in each sub-section, the annual salary cost of each, and the number of checks issued monthly by each section of pensions in the provincial treasury offices named:

	Number of employees' Salaries per year							Number of checks monthly	No of checks per month per pers.	Cost of Liq. Sec. per check
	Managers	Section of Assessment	Liquidation	Total	Assessments Section	Liquidation Section	Total Salaries			
Warsaw . .	4	36	34	74	160.000	71.000	231.000	17.000	500	.35
Poznań . .	4	29	91	124	97.500	204.300	301.800	56.410	620	.30
Kraków . .	3	40	51	94	85.400	113.200	198.600	47.380	929	.20
Lwów . . .	3	22	38	63	74.500	117.300	191.800	29.500	776	.33
Total . .	14	127	214	355	417.400	505.800	923.200	150.290	702	

These figures indicate that there is a considerable difference in the number of checks per month per person issued by each liquidation section and in the salary cost (liquidation section alone) per check [1]).

The Warsaw office has the highest cost per check and it issues the smallest number of checks per man. Kraków is the lowest in cost and the highest in the number of checks issued per man, but this may be due to the fact that that office does not handle all kinds of pensions and allowances. If Lwów is taken as a basis for comparison, without knowing whether that office is doing the work as efficiently as it might, we find that if one man in the liquidation section thereof can turn out 776 checks per month, it would take 194 such men to turn out 150,290 checks per month, or a saving in the salaries of 20 men now engaged in the work (approximately 10%). If we eliminate Kraków from the calculation and take only the other three offices as doing comparable pension activities, the saving in salaries of 30 men would be the result (approximately 18%). Comparing the number of men engaged in the assessment sections, these appears to be a similar disproportion of personnel. This may be due to a greater number of

[1]) *The salaries being on the yearly basis, the number of checks per month is multiplied by 12 to get the average salary cost per check as issued by the liquidation action.*

new claims received monthly in Warsaw, for example, than is received in Poznań, or received in both of these offices than is received in Lwów, which has the lowest in number of personnel.

While a detailed examination of the work of each pension office would be necessary to determine accurately the efficiency of the work performed and the number of personnel required, the data supplied in the above table are adequate, in the Commission's opinion, to support the recommendation that the pension work be consolidated in one central office to take advantage of the reduced number of managers and other personnel that would result from such a consolidation, as well as the advantage of the standardization of the work performed and the more efficient utilization of the mechanical equipment employed.

Aside from the question of centralization of the pension activity in one office, there are other factors involved in this activity, the elimination or modification of which would, in the Commission's opinion, effect other savings in the cost of operation of this service. One of these factors is the checks which are issued in payment of pensions and allowances. The number of checks issued monthly, as stated in the preceding table is 150.290. The one and only real purpose served by these checks is to obtain thereon the receipt of the payee for the money paid to him by the postal savings bank offices. The payee never receives the check but only the amount of cash stated thereon. He does receive a detachable part of the check for his information, but such information is not an absolute requisite in a pension system.

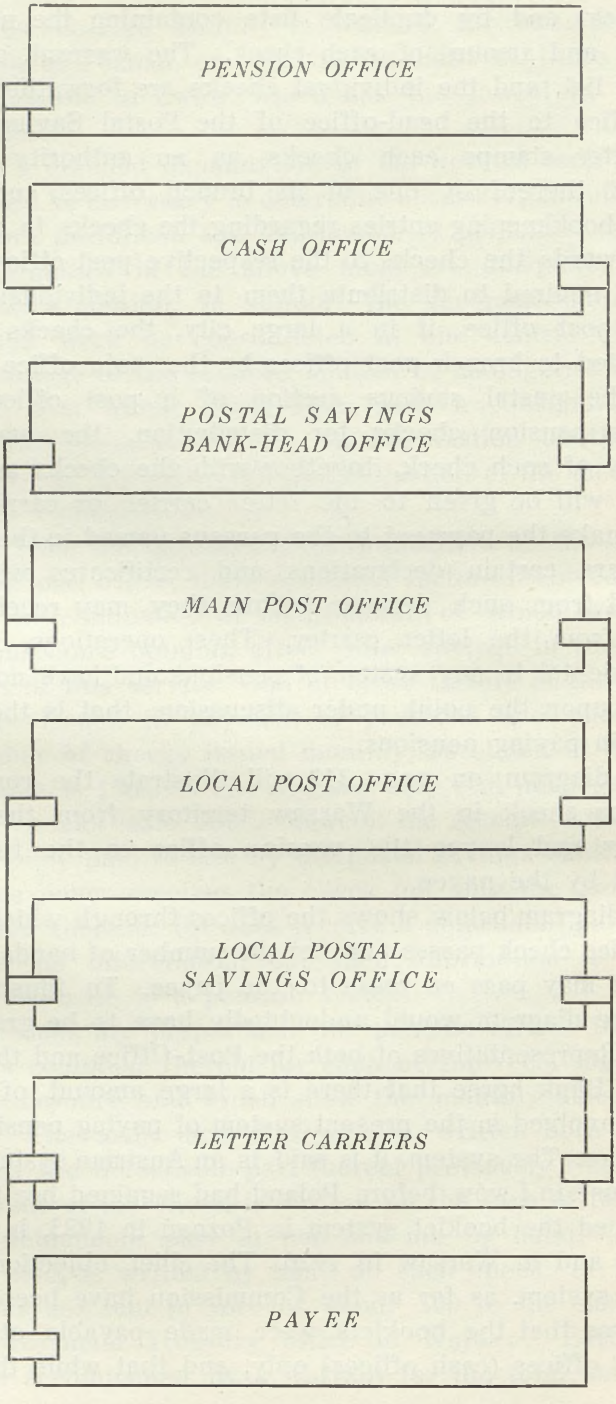
The checks are prepared in the pension offices from record cards compiled therein for each person receiving a pension or allowance and which show the monthly amount due to each. The name and address are written both on the check and the detachable part thereof previously referred to. The amount of the check is written on the face of the check and the detachable part in pen and ink by hand. A serial number, also, is written by hand on each check. In Warsaw the checks are sent in lots of about 500 to the cash office of the provincial Treasury office in Warsaw. Each lot of checks is accompanied by a warrant for the total amount of

the checks and by duplicate lists containing the name and address and amount of each check. The warrant, one copy of each list, and the individual checks are forwarded by the cash office to the head-office of the Postal Savings Bank. The latter stamps each checks as an authority for the payment thereof by one of its branch offices, and makes certain bookkeeping entries regarding the checks in question, and forwards the checks to the respective post offices which will be required to distribute them to the individual payees. In the post office, if in a large city, the checks will be distributed to branch post offices by the main office therein.

In the postal savings section of a post office which receives pension checks for distribution, the amount in currency of each check, together with the checks and a list thereof, will be given to the letter carrier or carriers who are to make the payment to the persons named in the checks. There are certain declarations and certificates which are required from such persons before they may receive their money from the letter carrier. These operations, however, are incidental to any system of pensions and have no special bearing upon the point under discussion, that is the use of checks in paying pensions.

The diagram on page 312 will illustrate the routing of a pension check in the Warsaw territory from the time it is ready and leaves the pension office to the time it is received by the payee.

The diagram below shows the offices through which a pension office check passes and not the number of hands through which it may pass en route to the payee. To illustrate the latter the diagram would undoubtedly have to be greatly enlarged. Representatives of both the Post-Office and the Postal Savings Bank agree that there is a large amount of clerical labour involved in the present system of paying pensions and allowances. The system, it is said, is an Austrian system which was in use in Lwów before Poland had regained her freedom. It replaced the booklet system in Poznań in 1923, in Cracow in 1924, and in Warsaw in 1926. The chief objection to the booklet system, as far as the Commission have been able to learn, was that the booklets were made payable at branch treasury offices (cash offices) only, and that while there are


PENSION OFFICE
CASH OFFICE
POSTAL SAVINGS
BANK-HEAD OFFICE
MAIN POST OFFICE
LOCAL POST OFFICE
LOCAL POSTAL
SAVINGS OFFICE
LETTER CARRIERS
PAYEE

a great number of such offices they still are not as numerous as post offices, and hence there was a burden upon some of the pensioners, especially invalids, to travel to cash-offices and await the payment of their pensions or allowances.

Aside from the merits of the two systems, there is, apparently a great convenience to the persons receiving pensions or allowances to receive them by mail, although, it is reported that 25 or 30% of such persons still have to call at the post-office to receive their money owing to the fact that they were not at home when the letter carriers arrived with the checks and money, or that they live in country districts where delivery of mail is not made directly to homes as in more closely settled communities.

The use of checks, however, under the present system, is, in the Commission's opinion, not a necessary feature of that system. In the procedure as described above, it serves principally as an individual receipt of the person who receives the payment. If the check were eliminated and only the lists which accompany the checks and which contain all the necessary information contained in the checks, were forwarded to post-offices for payment, there would be a material saving in the cost of clerical help in the pension offices in addition to the saving of the blank checks used.

The Postal Savings Bank is the only institution which obtains an advantage from the use of individual checks. This advantage arises, it is stated, by representatives of that bank, from the fact that as payments are made by post-offices, the receipted checks are returned daily to the head offices of the Postal Savings Bank which enables the accounting department thereof to make the necessary debits and credits in its accounts with such offices. It is stated, also, that if, in case of fraud or other action which might bring a case into the law-courts, only the individual check involved would have to be presented to the courts.

While the Postal Savings Bank continues to assist the Government in the payment of pensions and allowances it should receive every facility required for its accounting control, but it would appear that, if the checks were eliminated, as herein suggested, it could receive daily, from post-offices, as evidence of payment of pensions and allowances, copies of the

lists which are now made out in such offices for the use of letter carriers in making the payements direct to the pensioners. These lists could be made up in a standard form, similar to a pay roll, with space for the signature of the persons who receive the payment. Similar lists could be used if the payment were made by the postal savings section direct instead of by a letter carrier when the person is not a home at the time of the letter carrier's visit. The comparison or checking of these receipted lists with the main lists prepared by the pension office at the time the checks are forwarded to the Postal Savings Bank, would establish the unpaid pensions or allowances at a given moment of time. The certificates which certain groups of persons who receive pensions or allowances are now required to sign when receiving their money could be printed on the lists mentioned above. The use of the list would not cause any change in the collateral documents which such persons are required to produce from church or political authorities evidencing the absence of change in their health or social position.

Representatives of the Head office of the Postal Savings Bank and of the main post office in Warsaw, and of the Department of the Cash agree that the booklet system was much simpler in operation and more economical than the present system and that if it were reintroduced with the modification that payments thereon be made through postal savings bank offices instead of cash-offices, at different due dates as a convenience to the post office and the public, the chief objections to that system would be removed. If it should prove inexpedient to discontinue the use of checks in the payment of pensions and allowances, as herein suggested the Commission believe that the Government should carefully consider the reintroduction of the booklet system of paying pensions through postal savings bank offices, at different due dates.

CHAPTER II

AUDITING CONTROL

I. Supreme Board of Control

As stated in chapter I of this Report, the Supreme Board of Control is established by the Constitution of Poland (Art. 9.) to "Control all financial activities of the State, to examine its accounts and to submit annually a motion requesting the Diet to grant or else to refuse the vote of approval to the Government". The details of the organization of the Supreme Board of Control and the sphere of its jurisdiction are fixed in the law of 1921.

In accordance with article I of this law, the Board is "independent of the Government and subject directly to the President of the Polish Republic". The Board has practically unlimited authority in questions of fact concerning government business. The control of financial transactions is exercised, however, as provided in article 7 of the Statute, "after the expenditures have been made or the taxes paid".

Your Commission believe that it would have been wiser to have established the Supreme Board of Control as a coordinate unit in an independent department of Accounting and Auditing Control, responsible only to the President of the Republic and to the Diet. The Supreme Board of Control should have had the duty of auditing, wherever possible, all expenditures prior to the payment of the funds and of keeping all of the general accounts of the Government. The present control "after the expenditures have been made or the taxes paid" is not adequate. If the payment is for an illegal purpose for too great an amount, if the specifications of the contract for goods or services have not been carried out,

or if there is any other irregularity in connection with the payment, that fact is known only after the money has passed out of the hands of the Government.

Fundamentally, there are two kinds of control of expenditures. First, there ist the control which is exercised before the money has been paid out of the treasury, i. e., the verification of the legality of the expenditure, the right to incur it, the correctness of the accounts to be charged therewith, the correctness of contracts and other documents supporting the expenditure and the production of certificates of responsible persons acknowledging the receipt of the goods or of the services rendered. In other words, there is a rigid examination of every request upon the treasury for funds, before the money is permitted to leave the treasury. Second, there is the other control where all these facts are verified weeks or months, and frequently years, after the cash has been paid out of the treasury.

In Poland, the second kind of control is in operation with respect to government expenditures. From what has been said in the part of this Report dealing with accounting, it should be evident that the Ministry of Finance does not exercise the first kind of control. The law, moreover, specifically states that the Supreme Board of Control shall exercise its control in the second way only. As previously stated in this Report, the Control of Government expenditures by the Ministry of Finance is a Control over the granting by it of budget credits rather than a control over the expenditures made from those credits. Once a credit has been received by a Ministry that Ministry distributes the credit among its organization units. The money is later drawn out of the treasury merely upon the presentation of warrants or checks chargeable against the credit. In other words, the control is one of custodianship rather than of responsibility for the proper disposition of funds. Strictly speaking, the custodianship control is the only control which a treasury department should be required to exercise. The other control is properly exercised by an authority which does not have the custodianship of the cash. Funds should be released by a treasury department only upon the written request or demand of a centralized auditing authority. Under the existing system in Poland, the funds in the

Treasury Department, as soon as the credits have been opened, are released upon the written request of the head of any department or office authorized to make such request.

It would be inexpedient, in the opinion of your Commission to create in the Ministry of Finance an auditing authority such as is referred to in the foregoing paragraph. This would be an expensive duplication of the organization of the Supreme Board of Control. The latter, by the terms of the Constitution is apparently intended to be an independent body, the head of which has the rank of Minister without, however, forming part of the Cabinet.

Your Commission, therefore, recommend that a law be enacted conferring upon the Supreme Board of Control the right of prior audit of expenditures and the duty of maintaining the general accounting system of the Government.

The proposed law would amend the law creating the Supreme Board of Control only in respect to empowering it to perform the general accounting function now incompletely perfomed by that Ministry of Finance. It would not affect any auditing control in the Ministry of Finance, inasmuch as the latter does not now exercise that kind of control.

The assumption of the general accounting activity by the Supreme Board of Control as suggested above, would be a fitting corollary to the Board's auditing activity. It would also, make that Board supreme in all matters of accounting forms and procedure in all government offices, whereas, at present, the responsibility for such matters is divided between the Supreme Board of Control and the Ministry of Finance.

Under the plan suggested, the Ministry of Finance would continue to exercise all the jurisdiction over government finances, which it now exercises, it would continue to allocate credits of government funds to ministries, it would continue to collect, take care of and disburse government funds, but the disbursement of such funds to meet government expenses would be, under the plan suggested, upon the written approval of the proposed accounting and auditing body.

The establishment of a system of prior audit of expenditures would not be an innovation in Poland. In 1919, 1920 and the early part of 1921, before the existing organic law of the Supreme Board of Control became effective, a decree was in

force, which gave to that Board certain control over expenditures before they were made. With the passage of the Statute of 1921, referred to above, the power of prior audit of expenditures was abolished. Your Commission believe that a return to the system of prior audit should be made.

Italy and Belgium have a system of prior audit of expenditures and the system is very general in the states and cities of the United States. Your Commission are informed that the Supreme Board of Control itself has recognized its limitations under the present statute and has proposed to the Government an amendment to enable it to audit expenditures before they are made. The Statute, if amended, should, however, be amended so as to include the central accounting function now a part of the Treasury Department of the Ministry of Finance.

The existing statute of the Supreme Board of Control provides for too formal an organization and too complicated a procedure to permit the Board to function with a maximum of efficiency. There is too much red tape. The requirement that a number of actions only may be taken with the combined approval of all of the department chiefs is unnecessarily burdensome and prevents the Board from acting promptly.

The primary function of the Supreme Board of Control is to audit the financial affairs of the Government. Each section of such an organization should have its powers and duties delegated to it by the head of the organization and be responsible only to that head for results achieved. In matters under dispute between any section and any ministry, the decision of the head of the organization should be final, if within the statutory limitations of the powers and duties of his office.

The present powers of the Supreme Board ef Control, as contained in the organic law of 1921, appear to be adequate and comprehensive, with respect to its auditing and control functions.

If the Supreme Board of Control had the power of prior audit of the expenditures and maintained the central accounting system of the Government, it would be unnecessary to wait for the close of a year or rather many months thereafter, to revise the consolidated accounts of all ministries, as at present. This work would all be done currently each

day of the year. The 1923, 1924 and 1925 accounts of ministries have not yet been completely examined under the present system and hence the Supreme Board of Control has not been able to comply with the constitutional provision which requires it to present a motion to the Diet for a vote of approval or disapproval of the Government's financial transactions for those years.

The establishment of an accounting and auditing organization such as that proposed herein, would not necessarily require that all documents of expenditures, before they were made, would have to be sent to Warsaw for approval. Such of the existing district organizations of the Supreme Board of Control, as might be necessary, could be utilized to perform the auditing of expenditures before payment, as they now audit expenditures after payment. The central accounting department would, however, have to be located in Warsaw. The State railways and similar autonomous bodies, would continue, as at present, to have their accounts and transaction examined at periodic times of the year.

With respect to the exercise by the Board of its function of control of the financial activities of the Government, it appears to your Commission, that the Board is entering into too many details in the examination of the affairs of each ministry or other office of the Government.

It is reported that there are over 70 officials and other employees in the departments and sections of the Board, who examine and investigate the activities of the State railways alone. After interviews with high officials of the Board, in which the nature of the work performed by this staff of men was discussed, your Commission are of the opinion that the Board is attempting to investigate and control currently too many different activities of the railways. The railway management has its own engineers, accountants, purchasing officers, inspectors and administrators, yet a staff of more than 70 representatives of the Supreme Board of Control is constantly engaged in checking the work of the officials and employees of the railways. The importance of a control over governmental activities is fully appreciated by your Commission. It appreciates also, the results and economies achieved by the Supreme Board of Control. There is an effective way of exercising

this control, however, without duplicating the work of the employees engaged in a particular activity. In the case of railways, for example, an effective control could be established by means of the accounts and statistical data compiled therefrom without employing a very large staff for the purpose.

It is a recognized fact in railway operation that the statistical data compiled in the accounting and operating sections are a competent guide to the efficiency of the management. The unit cost per train mile of coal, oil, waste, etc., used by passenger and freight engines, the unit cost per passenger per train mile, the unit cost per mile for switching engines, the unit cost per ton of freight per train mile, the revenue per ton of freight per mile, the cost of maintenance of way, the average life of ties and rails, the cost of repairs of freight, passenger and switching engines, these and many other statistical data will, by comparison of one month or year with another, and by comparison with the statistics of other railways operating under similar conditions, disclose the efficiency of operation and management and reveal the necessity from time to time for making special inquiries into certain activities of the railway management. If the coal or oil used by railway engines, for example, is of poor quality, it will infallibly be reflected in the statistics of operation. If the price paid for such coal or oil is a price which was based upon a contract for a good quality of coal or oil, then a special inquiry may be made of the facts surrounding the acceptance of such coal or oil and the responsibility may be determined. Only where there is a positive reason, based upon facts, for the inspection of detailed operations, should the representatives of the Supreme Board of Control attempt to control the management of the railways in regard to such operations.

Concerning the examination of the financial accounts of the state railways, your Commission believe that an audit by a competent staff of five or six men at the close of every six months, would be adequate and would be ample to comply with the legal obligations of the Supreme Board of Control.

What has been said in the foregoing with respect to railways, may be said with equal force concerning other public works and activities, in the examination and verification of which, the representatives of the Supreme Board of Control are now actively engaged. The Board should not attempt to do more than to inspect from time to time, such important projects as may particularly require such inspection, such as, for example, the quantity and quality of material purchased and the number of men reported on pay rolls as working on particular projects.

The examination of expenditures would be done currently by the Board if the law should be amended as herein proposed to include the prior audit of expenditures. In this connection it should be stated that the prior audit of expendintures is an activity which may be performed without requiring the auditing staff to go outside of its own office, assuming that the regulations of the auditing office are complete as to the procedure to be followed by all spending offices, before they may draw any funds from the treasury. The investigation of the results achieved by the spending offices, the desirability of making certain expenditures, or the investigation as to whether full value has been received for a given expenditure of government funds, are important questions but they are not essential to the question of the prior audit of expenditures.

While the Constitution provides that the Supreme Board of Control shall be called upon to control all financial activities of the State, this should not, in the Commission's opinion, be interpreted by the Board as obligating it to examine and verify every activity and operation of the Government. The bulk of government business is of a routine character. In most of the business of the Government, the regularly appointed officials and employees can usually be depended upon to carry on that business within reasonable standards of efficiency. The remainder can be subjected to such supervision and control as the special circumstanstances may require. What has been said above relates to the supervisory control over all ministerial actions and not to the audit of expenditures before they are made.

If the organic law of the Supreme Board of Control should be amended as herein proposed, to take over the general

accounting activity of the Government and to make a prior audit of expenditures, the present staff of the Board (594 officials and other employees), would be ample in size for the purpose, assuming that red-tape and other unnecessary formality in procedure in the Board should be eliminated and that the Board's activities should be confined within the limitations suggested by your Commission.

2. Department of the Budget in the Ministry of Finance

The Department of the Budget in the Ministry of Finance, also is exercising a form of control over the activities of the several ministries of the Government. This control appears to relate more to the granting of credits to ministries than to the control of the expenditures made from such credits. There is, however, a close system of cooperation between the Department of the Budget and all the ministries respecting possible economies in government expenditures, and especially, with respect to the preparation of the annual budget bill.

To prepare the budget intelligently and to be able to defend it before the Diet, the Department obviously must be in close contact with the organization and activities of each ministry. The preparation of the budget is the chief responsibility of this Department. It now has a staff of approximately 59 officials and other employees engaged in budget preparation and in other activities closely concerned with the budget.

Your Commission is informed that there is under consideration a plan to enlarge the activities of the Department of the Budget to the extent of having its representatives assigned to each ministry and large State enterprises as delegates in the execution of the annual budget law.

The Commission believe that it would be unwise to adopt this plan. The Supreme Board of Control is now performing the service which the proposed plan contemplates. Further, the Board has a legal right of supervision of the financial activities of all Ministries and State enterprises. There should not be two different authorities exercising this same function.

The Department of the Budget, however, should have the power and the obligation of making organization and other studies in each Ministry and State enterprise in order to be able to include in the annual budget such economies in the administration and operation of governmental offices and services as the results of such studies should show to be possible. To avoid the duplication of this activity by the Supreme Board of Control, the latter should refrain from making similar studies.

If the recommendations as herein proposed by your Commission should be adopted there would be no occasion for the duplication of functional activities in the Supreme Board of Control or in the Department of the Budget.

3. Surety Bonds

There is another question which should receive the attention of the Government. That is the question of personal or surety bonds of government officials and other employees who are responsible for or who have the custody, care or control of government funds or other property. The Commission are informed that the requirement of a bond for the faithful performance of work and as a guarantee to the Government in the case of financial loss, is not in force in Poland in the Government service. Your Commission believe that provision should be made promptly for such bonds. This is not intended as a reflection upon the honesty and faithfulness of officials and other employees of the Government. It is merely a recommendation to adopt in Poland a practice which is sound in principle and of almost universal observance in other Countries.

4. Preparation of Annual Balance Sheets

There appears to be some uncertainty in Government circles as to whether the Minister of Finance or the Supreme Board of Control should submit to the Diet the statement of the annual accounts of the Government. There is no doubt in the minds of your Commission on this subject. Under existing law, as it has been translated for your

Commission, the central accounting office of the Government is in the Ministry of Finance. Futher, article 7 of the Constitution provides that "the Government shall submit annually the Balance Sheets of State Finance for Parliamentary approval". The word "Government" obviously must mean that authority of the Government which has the duty and obligation of keeping the accounts which would be represented in balance sheets.

Article 9 of the Constitution provides for the creation of the Supreme Board of Control, but the only document mentioned therein which is required to be submitted annually to the Diet, is a motion to grant or else to refuse the vote of approval to the Government. Neither does the organic law of the Supreme Board of Control refer to any obligation of that Board to submit to the Diet annual balance sheets.

Your Commission believe, therefore, that it is the exclusive right and the obligation of the Minister of Finance to submit to the Diet the annual balance sheets of the Government.

If the recommendations of your Commission herein made, with respect to the consolidation of the accounting and auditing functions be adopted, the duty of preparing the annual balance sheets would, in that case, devolve upon the Supreme Board of Control instead of upon the Ministry of Finance. The balance sheets, however, in either case, would be forwarded to the Diet with the annual budget bill, as provided in the proposed Organic Budget law recommended in a separate Report by your Commission.

5. A Project of Law for Reorganization of Government Accounting and Auditing Appended.

A project of law concerning the reorganization of the Government accounting and auditing which creates the office of accounting and fiscal control, is appended to this report. The provisions of the proposed law are intended to supply the defects in existing organization and accounting and auditing methods and procedure referred to in this report and to retain those features of the existing law which are essential to the proposed law.

SUMMARY OF RECOMMENDATIONS

CHAPTER I

Organization and Accounting

1. The number of provincial treasury offices should be reduced.
2. The number of branch treasury offices (cash offices) should be reduced.
3. The public should be encouraged to make payments of taxes by checks drawn on the Bank of Poland or the Postal Savings Bank.
4. The Government should issue checks in settlement of all government expenditures and make them payable at certain banks instead of at branch treasury offices.
5. The sale of revenue and excise stamps and of stamped documents should be taken over by post-offices if the recommendation summarized in No. 3 and No. 4 above should be adopted.
6. The consolidation in one section of the Ministry of Finance of the accounting activities of the Section of Administration and Cash, the Section of Central Bookkeeping, and the Section of Accounts.
7. The adoption of the double-entry system of bookkeeping in the Central Accounting Office of the Government.
8. The preparation of balance sheets which shall show the financial condition of the Government at the close of the fiscal years or other periods to which they relate.

9. The inclusion in a general ledger, of all accounts for taxes receivable, sums advanced to disbursing officers, and any and all other assets of the Government and of all liabilities of the Government to others.
10. The elimination of the practice of treating temporarily as items of disbursement transfers of cash between branch treasury offices.
11. That all revenue collected should appear in the revenue accounts in the month in which it was reported as collected, regardless of the office or institution which may have made the collection. Further, that advances of lump sums to disbursing officers should not be entered in the accounts as budget expenditures until the funds have been reported as having been actually expended.
12. Tax rolls of real and personal property and statements of other taxes or excise, as reported by the assessing authorities, should be turned over to the Department of the Cash as the receiver of taxes for the Government and for which it would be responsible and accountable.
13. The blank form of "declaration" now made out by taxpayers when paying their taxes should be eliminated and the tax bill accepted as sufficient evidence of the amount of tax due. Also the bookkeeping work of recording the collection of taxes should be done by the accountants in collecting offices after the taxpayer has been permitted to pay his taxes to the cashiers in such offices.
14. The accounts of the Post and Telegraph Service should be reflected in the general books of the central accounting office of the Government.
15. The funds of the Post and Telegraph Service should be kept separate from the fund of the Postal Savings Bank.
16. The pension service of the Government should be established in one central section of the provincial treasury office in Warsaw. Further, that the use of checks in the payment of pensions and other allowances by the pension service should be eliminated if the present system of paying pensions and other allowances through the Postal Savings Bank is continued, and that the Government should make a thorough study of the practicability of readopting the suspended booklet system of paying pensions.

CHAPTER II

Auditing Control

1. An amendment of the statute of organization of the Supreme Board of Control to provide for the following:
   a) The centralizing in that Board of the general accounting function of the Government now exercised by the Ministry of Finance.
   b) The audit of expenditures by the Board in advance of their payment by the Department of the Cash.
   c) The simplification of the organization and mode of procedure of the Board.
   d) The limitation of the activities of the personnel of the Board so as to allow administrative officers and authorities reasonable liberty of action in the performance of their duties.
   e) Organization and other studies instituted and designed to effect economies in Government expenditure as reflected in the annual budget, should be confined to the Department of the Budget of the Ministry of Finance.
2. All Government officials and other employees who have the custody, care, or control of Government funds and other property should be required to give a bond or other surety, of an amount commensurate with their respective responsibilities, for the faithful performance of their duties.

APPENDIX

TO

REPORT ON ACCOUNTING AND FISCAL CONTROL

PROPOSED LAW

Concerning the Reorganization of the Government Accounting and Auditing and the Creation of the Office of Accounting and Fiscal Control

CHAPTER I

Organization of the Office of Accounting and Fiscal Control

Article 1. There is hereby created an office of Accounting and Fiscal Control, which shall be known as the Supreme Board of Control. This office shall be an administrative office and independent of administrative departments and ministries of the National Government.

Article 2. The Supreme Board of Control shall be in charge of an official who shall be known as the President of the Supreme Board of Control, who shall be appointed by the President of the Republic, and who shall be directly responsible to the President. The decision of the President of the Supreme Board of Control, arrived at after consultation with the First and Second Vice-Presidents, in all matters of accounting and auditing as provided in this law, shall be final.

The President of the Supreme Board of Control shall have the rank of Minister without, however, forming part of the Cabinet. He shall be responsible to the Diet for his own actions as well as for those of his subordinates.

Article 3. The President of the Supreme Board of Control shall have, as assistants in the discharge of his duties, a First Vice-President and a Second Vice-President, who shall be named by him with the approval of the President of the Republic. In rank they shall be equal to an undersecretary of State.

Article 4. The First Vice-President shall be in direct charge of the accounting and shall discharge such other duties as may be assigned to him by the President of the Board. He shall serve in place of the latter in the event of disability due to sickness or other temporary cause, or, in the event of resignation or removal, until the vacancy shall have been filled.

Article 5. The Second Vice-President shall be in direct charge of the function of examinig and auditing all accounts and claims and shall perform such other duties as may be assigned to him by the President of the Board. He shall serve in place of the First Vice-President in the event of the temporary or permanent disability of the latter, and, if the disability be permanent, until the successor of the First Vice-President shall have been appointed. He shall serve temporarily, also, in place of the President of the Board in the event that both the latter and the First Vice-President are unable to perform their respective duties.

Article 6. The Supreme Board of Control shall have, in addition to those officials provided for in Article 3, a chief accountant, a chief examiner, and such other officials and employees as may be required in the performance of its functions and duties. Such officials and employees shall be appointed by the President of the Board and may be removed by him for cause.

Article 7. No official or other employee of the Supreme Board of Control shall be related, within the fourth degree of consanguinity, or by marriage within the second degree, to any official or employee of the said Board.

CHAPTER II

Functions and Powers of the Supreme Board of Control

Article 8. The Supreme Board of Control shall be the Central accounting and auditing office of the National Government.

It shall:

1. Prescribe the system of accounts and accounting forms, documents and reports required or used by all departments and offices or services of the Government.

2. Establish and maintain effective control over all cash, stamped paper, postage and other stamps, and other property, movable or immovable, belonging to or intrusted to, the National Government and in the care, custody or control of officials, employees or agents of the Government.
3. Maintain accounts with all persons who receive, disburse or have the custody of funds or property of the Government or for which the Government is responsible.
4. Establish regulations for the information and guidance of all persons who receive and disburse funds or who have the care, custody or control of funds or property of any kind belonging to the Government or for which the Government is in any way responsible.
5. Have exclusive jurisdiction in the examination and audit of all debts and claims in favour of or against the Government, and in the examination and audit of accounts of agents, officials and employees who receive, disburse, or who have the custody of funds and other property of the Government or for which the Government is in any way responsible.
6. Prescribe the time and form in which all accounts shall be rendered to the Supreme Board of Control for audit and settlement.
7. Take the necessary measures to enforce the payment of all debts and obligations due to the Government.
8. Examine and verify, by personal inspection and otherwise, the cash, postage and other stamps, stamped paper, materials and supplies, equipment, and other property of the Government wherever located, and in the custody, care or control of officials, employees or agents of the Government, also the books, records, accounts and methods employed in connection therewith.
9. Advise in writing the heads of departments or ministries of the expenditure or proposed expenditure of public funds or the proposed or actual use of public property which, in its judgement is unnecessary or superfluous.
10. Examine the books, records, accounts and documents of municipalities and other autonomous bodies, also of institutions, establishments, foundations, associations and

partnership firms which may receive any financial support from the Government.

11. Formulate the records necessary to establish the control over all revenues that accrue to the Government annually.
12. Promulgate from time to time upon its own initiative or upon request, decisions, which, within the limits of statutory law, shall have the force of law, regarding the object or purpose of appropriations, special funds or reserves, the legality of an expense, the disposition of public property, the rules and regulations which shall govern in connection with official travelling expenses incurred by government officials and employees, and, in general, regarding the receipt, disbursement and legal disposition of funds and property of the National Government.
13. Make investigations of the administrative organization, methods and procedure of any ministry or other independent department of the Government upon the request of the President of the Republic or of Parliament.

Article 9. The payment in Poland of bonds and interest coupons representing the public debt shall be made through the intervention of the Bank of Poland, as the fiscal representative in Poland of the National Government. After payment by the Bank of Poland, all cancelled bonds and coupons, together with an account of such payment, shall be forwarded to the Supreme Board of Control. Cancelled bonds and coupons which are paid abroad shall be forwarded after payment to the Supreme Board of Control, together with the accounts of the person or institution which made the payment.

The Supreme Board of Control shall audit all such payments and shall make a record thereof in books kept for the purpose, after which the cancelled bonds and coupons shall be filed for five years, when they shall be destroyed in accordance with law or regulation.

Article 10. The President of the Supreme Board of Control, or an official or employee designated by him for the purpose, shall be present and take part in the destruction of stamped paper and other similar material in the government printing office, or elsewhere and belonging to the Government, which have been ordered to be destroyed.

Article 11. The appointment of all officials, employees and agents of the National Government shall be registered in the Supreme Board of Control. For this purpose the original or certified copy of the decree or other document which appoints to the national service any person shall be transmitted to the Supreme Board of Control by the head of the Ministry or other independent department or office who has the power to make such appointments. The Supreme Board of Control shall not approve the payment of any salary or other remuneration by way of salary to any person whose appointment has not previously been filed and registered therein, or it shall disallow any such payment in the accounts rendered to the Supreme Board of Control for examination and audit.

CHAPTER III

Zone Auditors

Article 12. The President of the Supreme Board of Control shall establish and organize such zone auditing staffs as the public service may require and which may be authorized in the annual budget law or by other law. The said auditing staffs shall be under the immediate charge of a zone auditor who, together with his staff assistants, shall be appointed by the President of the Supreme Board of Control and may be removed by him. They shall perform such duties as he may designate in accordance with laws and regulations.

Article 13. The function of zone auditing staffs, within the geographical limits of their respective zones, shall be as follows:

1. To examine and verify the accounts of all persons who receive and disburse funds of the National Government or who have the care or custody of such funds, and of persons who have the care, custody or control of other public property of the Government;
2. To examine and verify all disbursement vouchers and documents and claims against the National Government and certify as to their legality and correctness in all respects before they may be paid by the local Treasury or disbursing officer;

3. Transmit to all persons concerned the orders and regulations of the Supreme Board of Control;
4. To instruct government officials and employees who have the care, custody or control of funds and other property of the government in the proper performance of their duties.

CHAPTER IV

Receiving and Disbursing Officers

Article 14. All officials, employees and agents of the National Government who receive and disburse, or who have the care, custody or control of public funds, shall render to the Supreme Board of Control, or to the respective Zone auditor, during the first five days of each month, the accounts of the month preceding relating to such funds.

Article 15. All persons who have the care, custody and control of funds of the National Government, shall be accountable for such funds in accordance with this law, and shall be responsible for all losses which may arise due to the negligent care or illegal use of such funds.

Article 16. All persons who are accountable for property of the National Government shall be responsible for the money value of such property in case of loss or serious damage due to negligence or to its improper or illegal use whether or not the said property was in the personal custody of the accountable person at the time the loss or damage occurred.

Article 17. No official, employee or agent of the National Government shall be relieved of responsibility by alleging compliance with an order of a superior authority relating to a payment or to the disposition of funds or property for which he is responsible; but the superior who ordered such payment or disposition of funds or property, shall be responsible in the first instance for the loss which the National Government may have suffered by his order.

Article 18. No official, employee or agent of the Government shall be relieved of responsibility for the funds or property in his care, custody or control, except by the written certificate of the President of the Supreme Board of Control or of such person as he may designate for the purpose.

Article 19. Every official, employee or agent of the Government, who collects or receives funds or revenues belonging to the Government or for which the Government is in any way responsible to others, shall issue a receipt therefor containing the details required by official forms which shall be approved by the Supreme Board of Control. No such receipt shall be required in the sale of postage stamps, stamped paper, and similar property or documents, the value of which is charged to the issuing office in the accounts of the Supreme Board of Control.

CHAPTER V

Ditbursements of Funds

Article 20. All disbursements made in the city of Warsaw from funds of the National Government, or from funds under its control, shall be made on the authority of an order or warrant drawn on the Director of the Treasury to the order of the creditor, or to the order of an official paymaster, as the case may be. The order or warrant drawn in favour of an official paymaster shall bear on its face, in printed letters, the inscription "Advance for Official Purpose".

Article 21. No order or warrant shall be valid for payment in the city of Warsaw by the Director of the Treasury which has not been approved in writing by the President of the Supreme Board of Control or by an official of the Board designated for the purpose, after examination and audit.

Article 22. All pay rolls, purchase vouchers and other claims payable in the city of Warsaw by the National Government shall be forwarded to the Supreme Board of Control by the Ministry or other independent department in which the claims originate. The manner and form in which such claims shall be forwarded to the Supreme Board of Control and the signature and certificates that shall be required on such documents shall be as prescribed by the President of the Board.

Article 23. All disbursements of public funds which are made by branches of the National Treasury located outside of the city of Warsaw, shall be made only after the pay rolls, accounts or other claims against the Government have been

examined and audited and certified as legal and correct by a zone auditor or by another local representative of the Supreme Board of Control and in accordance with regulations issued by the Board.

Article 24. State Monopolies, state enterprises which are autonomous bodies, and the institutions, establishments, associations and partnership firms mentioned in paragraph 10 of Article 8 shall be excepted from the provisions of Articles 20, 21, 22 and 23 of this law.

Article 25. Advances to official paymasters, and others, the examination and audit of accounts, and other matters affecting the collecting and disbursing organizations of the National Government shall be covered in regulations issued by the Supreme Board of Control.

CHAPTER VI

Restrictions Governing Appropriations

Article 26. No contract may be entered into nor may any obligation be incurred which requires an expenditure of Government funds unless there exists an item in the national budget or unless provision of revenues therefor have been made by a special law enacted subsequently to the enactment of the budget law against which the contract or obligation is properly chargeable and the balance of which item is available, free from other commitments, to pay in full the proposed contract or obligation, or, if payable from a special fund, unless there shall be a sufficient balance therein, unencumbered by other commitments or obligations with which to pay the proposed contract or obligation. Provided, that a contract for public works or for other similar project the carrying out of which shall extend over more than one fiscal year may be entered into if the current year's budget contains an appropriation, the unencumbered balance of which is available to meet the cost of that part of the contract which may be performed in the current year. Contract of this nature shall require appropriations in each year's budget to cover the cost of the work to be completed in each fiscal year.

Article 27. All contracts and other obligations, with exception of personal services of officials and employees of the Government, shall be entered in the respective appropriation or special fund account from which they are to be paid, at the time the contract or obligation is approved or authorized by the head of the ministry or independent department in which it originates. For this purpose each ministry or independent department shall mantain, with such other accounting records as may be prescribed by the Supreme Board of Control, an appropriation ledger, and a special fund ledger if it has the use of special funds, specially designed to show all commitments against appropriations or special funds. Contracts for supplies and services, and similar contracts, which obligate the Government to pay only as such articles may be ordered or received, are excepted from the foregoing requirement that they shall be entered in the respective appropriaton or fund account at the time they are authorized. In such cases, the amount of the order issued in conformity with such contract shall be the amount entered as the commitment against the appropriation or fund account effected.

Article 28. Any contract or other obligation authorized by a Ministry or other independent department for which no appropriation or special fund exists, or the amount of which is in excess of the free and unencumbered balance in the appropriation or special fund from which it was to be paid, except as is provided for in Article 26 of this law, shall be null and void. The official or other employee who authorized such contract or obligation shall be responsible to the Government, or to the other party to the contract or obligation, in the same manner as if the transaction had been effected between private persons.

Article 29. Each Ministry or other independent office shall issue a written order for all material, supplies and equipment purchased, or for repair work or service ordered from private business establishments. The form and procedure relating to such orders shall be as prescribed by the President of the Supreme Board of Control. Copies of such orders and of all contracts shall be transmitted as soon as authorized to the Supreme Board of Control or to the respective zone auditing office.

CHAPTER VII

Surety Bonds

Article 30. Every official, employee and agent of the National Government and every person, firm or corporation who by reason of existing or future laws is required to execute a bond to the National Government for any purpose whatsoever, and every official, employee and agent of the National Government whose duties require him to receive, disburse or handle public funds, or who has the custody, care or control of public funds or other property of the Government, shall execute such bond for the sum and in the manner set forth in the following articles and in accordance with regulations prescribed by the Supreme Board of Control.

Article 31. The form and the amount of the bond required by the preceding article shall be determined by the President of the Supreme Board of Control unless otherwise specifically provided by law. Until the bond has been approved as to form, legality and amount, and has been accepted by the President of the Board as fully protecting the interests of the National Government, the person from whom such bond is required if an official, employee or agent of the National Government, shall not be permitted to assume the office or to exercise the duties to which the bond refers, and, if the bond be required from a person not an official, employee or agent of the National Government, or a firm or corporation, such person, firm or corporation, shall not be permitted to enter into the engagement or render the services for which the bond is required.

Article 32. When they have been accepted, the bonds referred to in the preceding article shall be registered and filed in the Supreme Board of Control.

Article 33. No person may serve as guarantor on a bond who is, at the time the bond is signed, an official or employee of the National Government or who is a member of the Parliament.

Article 34. In the text of the bonds of officials, employees or agents of the National Government, reference shall be made to the responsibility or liability of the guarantor for the acts

of the public official, employee or agent, not only in the discharge of the specific duties of his office or employment, but also in the discharge of such other duties or commissions as may be confided to him by virtue of his office.

CHAPTER VIII

Penalties

Article 35. Failure to render his accounts in the time specified in Article 14 of this law shall be sufficient cause for the President of the Supreme Board of Control to order at once the application of a fine of 100 zlotys which shall be deducted from the next monthly salary earned by the person so delinquent. This fine may be suspended by the President of the Board, if upon investigation, it should be proved to his satisfaction that the delay in remitting the accounts was justified by the circumstances of the case. Repeated delays in remitting accounts or repeated discrepancies and errors in accounts remitted shall be sufficient cause for the President of the Board to request the removal of the person responsible for the delay or for the discrepancies and errors, and this request shall be observed by the Minister or other official whose function it is to name his successor.

Article 36. Failure to submit accounts for two months after the close of the period to which the accounts refer shall be penalized by a fine of 1.000 zlotys and immediate removal from the public service of the person whose duty it was to render the accounts. The President of the Board shall request the removal of the delinquent person and the Minister or superior authority who has the appointing power shall comply with this request . If the delinquent person be not at the time in the Government service due to resignation or other cause, the fine shall be deducted from any salary or moneys due him by the Government. Neither the application of the fine nor the removal from the public service shall operate to prevent the action required by the provisions of the Penal Code if, in the examination of the office and accounts of the said delinquent employee, it shall be found that there has been fraud committed, illegal use of public funds, or other unlawful act.

Article 37. Any official, employee or agent of the National Government who fails to furnish the bond required by Article 30 of this law or who has illegally used the public funds or property in his care, custody or control, or who has permitted others to do so, whether through his own carelessness or otherwise, shall be subject to immediate dismissal from the Goverment service and, in addition, to such penalties as the Penal Code may provide for the above offences.

Article 38. The officials and other employees of the Supreme Board of Control shall be equally responsible with the officials or other employees of the treasury or with other officials and employees who receive, disburse or have the control of public funds or property, for the failure of the latter to collect all moneys which should have been collected or for illegal disbursements or for other illegal acts, which upon examining the accounts or offices, the reprensetatives of the Supreme Board of Control have failed to disclose or concerning which they have failed to advise the President of the Board.

Article 39. If any person makes a false declaration to the President of the Board or to any official of the Supreme Board of Control who may be authorized to take declarations, such fact shall be communicated to the proper legal authority for the application of the proper provision of the Penal Code; the same action shall be taken in the case of bribery or other similar offence committed by any person in any investigation conducted by the Supreme Board of Control.

CHAPTER IX

Monthly Reports to be Rendered by the Supreme Board of Control

Article 40. The President of the Supreme Board of Control shall, as soon as may be possible after the close of each month, submit to the President of the Republic a report relative to the operations of the Government for the preceding month. A copy of this report shall be sent to the Minister of Finance. The report shall contain the following information:

a) A balance sheet of assets and liabilities of the National Government;

b) A statement of operations;
c) A statement of revenues;
d) A statement of expenditure;
e) A statement of the cash account;
f) A summary statement of the budget;
g) A statement of Special Funds.

Article 41. The balance sheet shall include the assets, liabilities and reserves as of the close of the month for which it has been prepared.

Article 42. The Statement of Operations shall include the following details:

1. The amount of revenue, classified according to the budget;
2. The amount of expenses, classified according to the main branches or services of the Government;
3. The excess of revenues over expenses or the excess of expenses over the revenues;
4. The amount paid as interest on the public debt;
5. The amount paid as amortization of the public debt classified according to the several issues of bonds or to the nature of the debt amortized;
6. The amount expended for the permanent property, classified according to the main branches of services of the Government;
7. The deficit or surplus, or the difference between the total of revenue and the total expenditures.

Article 43. The Statement of Revenues shall contain the amount of revenues classified in accordance with the budget.

Article 44. The Statement of Expenditure shall contain the amounts expended in each branch or service of the Government, subclassified in accordance with the budget, and the total must agree with the total expenditures shown in the Statement of Operations.

Article 45. The Statement of the Cash Account shall state the balance on hand and in banks at the close of the last day of the previous month, the amounts received during the month, the amounts disbursed during the month, and the balance on hand and in banks at the close of the last day of the month.

Article 46. The Summary Statement of the Budget shall contain the following information:

1. The amount of estimated receipts for the fiscal year as shown in the budget, not collected to the close of the month;
2. The available balance of cash on hand;
3. The balance of appropriations for the fiscal year not expended;
4. The surplus or deficit as at the close of the month.

Article 47. The Statement of Special Funds will contain the following information for each special fund:

1. Amount in the fund at the close of the last day of the preceding month;
2. Additions to the fund during the month;
3. Expenditures from the fund during the month;
4. Balance in the fund at the close of the month.

CHAPTER X

Annual Report of the President of the Supreme Board of Control

Article 48. The President of the Supreme Board of Control shall submit to the President of the Republic and to the Parliament by August first each year an annual report relating to the financial operations of the preceding fiscal period. The report shall contain, among other data, the following:

a) The comments and recommendations which the President of the Supreme Board of Control may consider desirable to make respecting the public finances and the results of the year's operations and such amendments to the laws as he may deem necessary;
b) A statement of assets and liabilities as of the close of the fiscal year;
c) A resumé of the financial operations of the budget for the fiscal year as follows:
   1) Total revenue collected in the fiscal year;
   2) Total revenues collected in the supplemental period;
   3) Total amount to be collected;
   4) Total product for the fiscal year and supplemental period combined;
   5) Total expenditure for the fiscal year;
   6) Total expenditures in the supplemental period;

7) Total of expenditures for the fiscal year and the supplemental period combined;
8) Surplus or deficit for the fiscal year.

d) Comparative statement in detail of the revenues, as calculated in the budget and as actually received in the fiscal year and in the supplemental period showing the result of the comparative figures;
e) Resumé by main classes, of the details referred to in d) above;
f) Statement of actual expenditures by ministries or other independent organizations compared with the total amounts appropriated in the budget, showing the difference between the two for the fiscal year and supplemental period combined;
g) Statement of the Cash account of the National Government for the fiscal year showing balance of cash at beginning of the fiscal year, the receipts and disbursements during the fiscal year and supplemental period, and the balance of cash on hand at the close of the fiscal year and supplemental period.
h) Schedule showing the fiscal offices and the banks among which is distributed the cash balance at the close of the fiscal year and supplemental period;
i) Statement showing the operations effected by each branch treasury office for the fiscal year and supplemental period;
j) Statement showing the operations of the Administration of Post and Telegraph service for the fiscal year and supplemental period combined;
k) Statements showing the operations of the Customs service by Customs houses for the fiscal year and supplemental period combined;
l) Statement in detail of the accounts or debts due to the Government and uncollected at the close of the supplemental period;
m) Statement in detail showing the condition of the public debt and the transactions affecting the several classes of the debt, such as internal, external and guaranty, as of the close of the fiscal year;
n) Statement in comparative form showing the totals of the several classes of the public debt as of the close of the fiscal year compared with the totals as of the close of the preceding fiscal year;

o) Detailed statement of each item of the budget showing:
   1) The amount expended in the fiscal year;
   2) The amount expended in the supplemental period;
   3) The total expended for the fiscal year and supplemental period combined;
   4) The amount voted in the budget;
   5) The difference between the total expended and the total voted.

Following the last item in each Ministry there shall be shown in a separate schedule in the same manner as described in 1), 2), 3), 4) and 5) of this heading, the transfers and the additional credits, if any, affecting the items of the budget;

p) Statements showing the operations for the fiscal year of publlic enterprises and monopolies which are operated and maintained by the National Government;

q) Statements showing the condition and the operations affecting each special fund during the fiscal year;

r) Statement showing the condition and the operations of the State Railroads for the fiscal year.

CHAPTER XI

Report to be Rendered Monthly to the Supreme Board of Control

Article 49. The Central accounting office of each Ministry or other independent office of the Government shall submit a report to the Supreme Board of Control within five days following the close of the preceding month relating to the condition of their respective appropriation accounts. This report shall contain such information as may be prescribed by the President of the Supreme Board of Control.

CHAPTER XII

General Provisions

Article 50. The President of the Supreme Board of Control and any other official or employee of the Board duly authorized for such purpose by the President thereof shall have the authority to cite witnesses, take oaths and receive declarations in any investigation which is within the function, powers and

duties of the President of the Supreme Board of Control, or which he may be called upon to make by the President of the Republic or by Parliament.

Article 51. The section of bookkeeping of the Department of Cash of the Ministry of Finance is hereby discontinued. The personnel, books, records and accounts, files, furniture, and other property in the use of that section shall be transferred to the Supreme Board of Control.

Article 52. The President of the Supreme Board of Control and his assistants, the First Vice-President and the Second Vice-President shall not be removed from their offices except by a decision of the Diet.

Article 53. All laws, decrees, regulations and circulars relating to the accounts and accounting procedure of the Government, or to the examination and audit of accounts shall continue in force and shall apply to the Supreme Board of Control insofar as they do not conflict with this law.

Article 54. No official or other employee of the Supreme Board of Control shall be a member of the Diet or of the Senate, nor shall he occupy any other position in Government service or in business which shall be incompatible with his duties and responsibilities as an official or other employee of the Supreme Board of Control.

Article 55. The provisions of the Civil Service law shall apply to the officials and other employees of the Supreme Board of Control insofar as such provisions are not in conflict with this law.

Article 56. The President of the Supreme Board of Control shall promulgate the regulations necessary for the organization of the Supreme Board of Control, and for the examination and closing of all accounts which are required to be submitted to the Supreme Board of Control or which may be pending examination and closing at the time this law goes into effect. He shall likewise have power to issue new regulations at any time concerning the organization and duties of the Supreme Board of Control.

Article 57. All laws and parts of laws inconsistent with this law are hereby repealed.

Article 58. This law shall go into effect from the day of its promulgation in accordance with law.

REPORT

IN SUPPORT OF AN ORGANIC BUDGET LAW TOGETHER WITH AN APPENDIX CONTAINING A PROJECT OF SUCH A LAW

REPORT

In Support of an Organic Budget Law

Poland has no organic Budget Law. An attempt was made to supply the deficiency by means of the annual Treasury Law, which was voted each year with the annual budget, and by means of the circulars of the Ministry of Finance.

The absence of such a law is not necessarily a serious defect in the machinery of Government provided there is in operation something which takes its place, such as precedents of many years which have all the force of law, or comprehensive rules and regulations governing budget questions promulgated by a responsible authority. Poland's years as an independent Republic are, however, not numerous enough to have resulted in the establishment of an adequate established body of precedents with the force of law in administrative and legislation procedure, nor are the annual Treasury Laws and Circulars of the Ministry of Finance adequate substitutes for an organic budget law.

It has been said in favour of the annual Treasury Law that it permits of modification from year to year, according to changed conditions. This, however, may be said of any statutory law. Many provisions, however, of an organic budget law are considered as fundamental in correct budgetary procedure and hence would not require change from year to year. Certain details concerning the collection of revenues and the expenditure of funds, which may require change from year to year and which may apply only to the current budget are provided for in articles 10 and 15 of the proposed organic budget law. Similarly article 23 provides for the form in which estimates of expenditures shall be submitted

to the Ministry of Finance, leaving it to that Ministry to decide, by regulation, what the form shall be each year. Such details which are subject to frequent changes to meet changing conditions, may better be provided for in this way than by incorporating them in the organic budget law.

The proposed organic budget law accompanying this report has been formulated on the basic principle of localization of responsibility for a balanced budget. To the Minister of Finance are entrusted or delegated by law all questions affecting finances and fiscal policy, and the formulation of the annual budget bill.

The annual budget law of a country, is the nation's financial program for the year and, more than any other legislative measure, it is the embodiment of the existing Government's public policies. The national welfare demands that it shall be carefully prepared and efficiently administered.

As a concrete expression of the fiscal program of the Government, the budget should be prepared in accordance with the following principles:

1. Revenues shall be conservatively estimated upon the basis of revenues actually received during previous years, thus eliminating, as far as possible, unduly optimistic or fictitious calculations, the inclusion of which in the estimated revenues is likely to result in unwarranted appropriations and annual deficits.

2. Estimates of expenditures shall provide adequately for all essential services, eliminating non-essentials or limiting them to the available resources of the Government after provision has been made for all essential services.

3. All public revenues shall constitute a general fund with which to meet the general expenditures of the Government.

4. Funds shall not be withdrawn from the treasury in excess of the amount authorized by law, and no obligations involving government expenditure shall be incurred for which there is no appropriation or credit, in the case of the annual budget law, or, in the case of a special law, for which there are no funds available.

5. Provision for reasonable elasticity in the operation of the annual budget law. Additional credits and transfers of cred-

its should be allowed within certain definite limits, — limits which shall not be exceeded except in cases of public calamity or other extraordinary emergency.

6. The establishment of a modern system of accounting and fiscal control. Without an adequate accounting system, which shall record promptly and correctly the facts of the Government's business and which shall establish adequate control over the receipts and expenditures of all funds, it is difficult to formulate a fiscal program with any high degree of exactness or to introduce economies where they are most needed.

The foregoing is an expression of the more important principles which should govern the preparation of the annual budget bill. There are also equally important principles which should govern the enactment of the budget bill by the Parliament, if the principle of definite responsibility for the fiscal program is to be observed. Examples of such principles are the right of the Parliament to increase items in the budget bill, or to insert new items therein or to grant supplemantal credits without the approval of the Government. With the exception of the establishment of a modern system of accounts, these principles have been incorporated in the proposed organic budget law and will be referred to again in more detail later in this report. The provisions contained in a number of sections of the proposed law are similar to those already found in the Constitution, the annual Treasury Law, or in regulations of the Ministry of Finance, and hence do not require explanation here.

Article 6 establishes in law the date of the fiscal year. Neither the Constitution nor any statutory law establishes the fiscal year. The date proposed merely follows the existing practice of the Government. That date, however, may be changed, if deemed necessary, without affecting the other provisions of the proposed law, except in those sections, such as sections 7, 8, 22 and 25, in which the dates mentioned would necessarily require alteration to meet any change in the date of the fiscal year.

Articles 7 and 8 provide for a period of three months following the close of the fiscal year, in which to liquidate the accounts of revenues and expenditure which are pending at the close of the fiscal year and in which to close the

accounts for that year. The present practice is to allow one month after the close of the fiscal year in which credits granted in the budget may be used, under conditions fixed by the Minister of Finance. Your Commission believe, that a period of three months would be more desirable for permitting the liquidation of all pending accounts. It would also allow the central accounting department of the Government sufficient time in which to close all accounts and to prepare the general balance sheet and other financial statements, which will be forwarded later to the Diet with the budget bill for the next fiscal year.

In other words, the appropriations of a fiscal year under the plan proposed would remain open until the 31st of March of the following year and revenues will continue to be collected and applied to meet the pending liabilities of the fiscal year. By this plan, the results of each fiscal year's operations will be more clearly demonstrated. and the liabilities incurred and properly chargeable to the appriopriations of a fiscal year will be paid from the revenues pertaining to that year.

Articles 10 provides for including to the budget law such annual general provisions governing the collection of revenues as the Government or the Parliament may deem advisable to incorporate therein. As stated in the text of this article, such provisions cannot create new taxes nor modify or suppress existing taxes. A similar provision respecting expenditures is contained in art. 15.

Article 11 provides for new arrangement of the form in which the estimated receipts are shown in the budget bill. Under the present practice, the budget for each Ministry or other independent office of the Government, contains the estimated receipts of that ministry or office. The emphasis is on the office in which the receipts originate rather than on the source or nature of the receipts. The classification proposed will provide a more orderly arrangement of the estimate of receipts and will facilitate greatly a study of the estimate.

If the revenues earned by a Ministry were the basis for determining what its expenditures should be, it might be desirable to show the relation of the Ministry to the revenues earned. Such is not the case, however. The revenues of a Ministry have little or nothing to do with that Ministry's expenditures.

The second paragraph of this article requires that all laws in force authorizing the collection of revenues and other receipts, shall be cited in the estimate of receipts. The citation of the laws will indicate the authority for the collection of the revenues or receipts, and at the same time will serve as a means of control over the possible omission, from the estimate of receipts, of items which should be included therein.

Article 13 provides for a departure from the present practice in preparing the estimate of receipts for the annual budget. The estimate is said to be based upon the actual receipts of the preceding year and of the first months of the year in which the budget is being prepared, taking into consideration, also the economic condition of the country and any changes in the laws affecting revenue. This system has not, however, been strictly observed in all cases, and estimates of revenues sometimes depend largely upon the judgement of the person preparing them. If he is of an optimistic temperament he may exercise his optimism to the full. This is emphasized in the case of the special property tax(1), the estimated revenue from which for the years 1924 and 1925 was calculated at 333,000,000 and 300,000,000 zlotys respectively. Since this was a new tax in 1924, the estimated revenue for that year could not be based upon actual revenues of a previous year. The estimate of 300,000,000 zlotys for the year 1925, however, was clearly based upon other factors than actual revenue from that tax for 1924 inasmuch as the actual revenue therefrom in 1924 was only 189,000,000 zlotys. This shrank to 59,500,000 zlotys in 1925, or 240,500,000 zlotys less than the estimate for the latter year.

The present practice, under the provisions of the annual Treasury Law of conferring upon the Minister of Finance the power to apportion credits authorized in the annual budget, within the limits of the revenue actually available is a practical, acknowledgement of the danger to the country of accepting fully the estmates of revenue upon which the expenditures are voted. Estimates are only estimates even though based upon actual conditions in the past. There is less risk involved,

(1) *i. e. "Capital Levy". — Editor's Note.*

however, in basing the estimates entirely upon actual results in the past than in basing them partly on those results and partly on hopes for the future, hopes which are likely to be unduly optimistic. The evil effect of excessive estimates of revenue is that appropriations based upon those estimates are usually excessive.

Under the operation of the authority of the Ministry of Finance to apportion credits within the limits of the actual revenue available, there is a salutary check upon the possibility of expenditures exceeding revenues regardless of what the estimates of revenues may have been. This check was in force in 1925 and operated to reduce expenditures that year by 194,000,000 zlotys below the amount voted in the budget. It did not, however, prevent a deficit for that year. It may reasonably be assumed, however, that there would have been no deficit in 1925, or that the deficit would have been less if the estimates of revenues for that year had been prepared in the manner suggested in the proposed organic budget law.

The calculation of the estimates in the manner suggested would be futile, however, if Parliament, in adopting the proposed law should not bind itself to abide by the limitations upon itself provided in the law. The Parliament of Poland has each year altered the budget as submitted by the Government, increasing and reducing at its pleasure the items contained therein. In 1925 the Government's estimate of revenues was increased by 52,668,740 zlotys in certain items and reduced by 28,173,894 zlotys in others, resulting in a net increase in estimated revenues of 24,494,840 zlotys. Similarly, the Government's estimate of expenditures was increased by 48,137,687 zlotys in certain items and reduced by 1,127,050 zlotys in others resulting in a net increase of estimated expenditures of 47,010,637 zlotys.

While the Constitution impliedly gives to Parliament the right to amend the annual budget bill as submitted by the Government, it is believed by your Commission that in the interest of the general welfare of the Country the Diet and the Senate should refrain from increasing the estimates of revenue submitted by the Government in the annual budget bill. In the light of the importance to the Country of a balanced budget, the Parliament should provide, in the rules of

procedure of each branch thereof, that the budget bill as submitted by the Government shall not be amended upward as regards either revenues or expenditures without the consent of the Government, except where the amendment concerns only the expenditures of the Diet and the Senate, as provided in Article 20.

Articles 15, 16 and 17 relate to the budget of expenditures. Reference has already been made, in the first part of this report and in the explanation of article 10, to the annual provisions concerning expenditures which the Government or the Diet may consider it desirable to incorporate in the annual budget law. Such provisions would have the force of law only during the fiscal year covered by the budget in which they are included.

The only change proposed by article 16 in the existing main classification of expenditures is the introduction of the word "item" instead of the word "chapter" to represent the individual objects of expenditure in the budget. The word "item" expresses more clearly an object of expenditure than the word "chapter".

Article 17 is in conformity with existing practice.

Article 18 is substantially the same as is now provided in the annual Treasury Law.

Article 19 introduces a change in present practice with respect to the transfer of credits between items of different parts (Część) of the budget. In accordance with this article, such credits may be made by the Minister of Finance, with the previous approval of the Diet, if in session and, if not in session, then with the previous approval of the President of the Republic. The approval of the President in such cases, would be in consonance with the recent constitutional changes which give the President the right to issue decrees with the force of law.

The coordinate action of the Supreme Board of Control in the question of budget credits is proposed here in view of the recommendation of your Commision in another Report that the central accounting and auditing functions of the Government should be consolidated in the Supreme Board of Control. If that recommendation should be adopted, that Board, instead of the Ministry of Finance, would have the

accounting records with which to make the certification and report referred to in this article.

The delegating to the Minister of Finance of the power to make transfers of credits without distinction of the kind of credit to be transferred, as also the limiting of this power to the Minister of Finance with the approval of the President of the Republic, is believed by your Commission to be a logical sequence of the Minister's power to grant credits and of his responsibilily for a balanced budget.

To grant to the President of the Supreme Board of Control the power to make transfers of credits within his own budget, as was provided for in the Treasury Law of 1925 and as has been proposed in the Treasury Law for 1926, is to make an exception in such matters in favour of that Board. In the judgement of your Commission such an exception is not justifiable. The annual budget law, if prepared and adopted in the manner proposed by your Commission, will be the fiscal program of the Government. Only the authority responsible for the budget should be authorized to make changes therein. The President of the Supreme Board of Control has the right by law to defend before the Diet his estimates of expenditure at the time the budget bill is under consideration by that body. As soon as the budget has been adopted, however, any subsequent change therein should be made only as provided in the proposed organic budget law.

The same may be said with respect to that part of the budget relating to the credits voted to the Diet and the Senate. The power to transfer those credits should be exercised only by the Minister of Finance in the manner provided in the proposed organic budget law.

Article 20 contains a provision which is of vital importance to the success of a budget program, namely a provision restricting the right of Parliament to amend the budget bill. Reference has already been made to this subject in connection with the explanation of article 13. If responsibility is to be clearly established as between the Government and the Parliament for an annual fiscal program as expressed in the budget, the Parliament should accept the principle enunciated in this article. A similar principle is observed in England where the Parliament initiates no financial legis-

lation not requested by the Government. The acceptance of this article by the Parliament would be a substantial contribution to the united efforts now being made by the Republic of Poland to establish itself upon a firm foundation of economic and financial stability.

Article 22 provides for several changes in existing practices concerning the form in which estimates of expenditure shall be forwarded to the Minister of Finance. It is believed by your Commission that the estimates should be in comparative form, as proposed in this article, as an aid to the Minister of Finance in quickly understanding the estimates for the new year and in preparing the draft of the budget bill.

Article 23 continues the present right of the Minister of Finance to make regulations covering the form and the details in which the estimates of expenditure shall be submitted to him. Such matters are subject to change from year to year and hence should not be defined specifically in an organic budget law.

While the form and detail of estimates of expenditure are left to be determined by the Minister of Finance, it may be, pertinent to say here that, in the opinion of your Commission, the estimates for each Ministry or other independent office should be prepared in such form and detail that it will be possible to determine therefrom at a glance the total estimated expenditure of each organization unit or service of that Ministry or other independent office. As an illustration in point it is impossible to tell from the budget the cost of the Customs Service as a whole, or the cost of the Treasury Department. The expenditures of the head offices of the Customs Service and of the Treasury Department, are combined with the expenditures of the head offices of several other Departments in the Ministry of Finance. All of these Departments are considered as of the third instance in the existing scheme of governmental administrative machinery, and hence their expenditures are combined instead of the expenditures of each being shown separately.

There is a distinct advantage to the Government, the Parliament and the public in knowing what is the cost of each activity of the Government. Such costs should be available

without the necessity of analyzing the accounts. Wherever it is possible to show the complete estimated expenditures of a service or organization unit of a ministry without disturbing the relationship of the first, second and third instances to each other, it should be done and the budget bill should be drawn so as to accomplish this purpose.

With respect to the schedules of estimated expenditures which are now inserted in the margin of the annual budget as explanation in detail of lump sums voted by the Parliament, it is believed by your Commission that these schedules should be continued and although not voted specifically in that detail, they should be as binding as the sums voted, and should be altered only upon the approval of the Minister of Finance.

Articles 24, 25 and 26 are similar in their provisions to the provisions of existing law or procedure, with the exception of the dates mentioned therein. While the dates given are tentative and may be changed if it is expedient to do so, it is believed that at least three months will be required for the preparation of the Budget by the Minister of Finance and for the conferences thereon with the Council of Ministers.

Article 27 provides for certain documents which shall accompany the budget bill when forwarded to the Diet. No such balance sheet as is referred to in this article is now prepared by the Government. Changes in the existing accounting procedure designed to permit of the preparation of balance sheets are proposed by your Commission in a separate report. The balance sheet and other documents mentioned in this article are not exclusive; other documents or statements in addition to those named may be forwarded with the budget bill if such are deemed necessary by the Minister of Finance.

Articles 28 to 35 introduce certain changes in existing law or procedure concerning the opening of additional credits. The Treasury Law of 1925, which was a part of the budget for that year, provided that the Minister of Finance might propose to the Diet credits outside of the budget. A similar provision was included in the preliminary budget for 1926, although that budget as a whole was not approved by the Diet. Regardless of whether the provision be included or not in the annual budget law, the Government has the right

to initiate legislation which obviously would include a request for credits outside of the budget.

No provision is made by law, however, concerning the procedure in the event that the Diet is not in session. Further, there is a distinction between a credit which is supplemental to one already granted and a credit which is entirely new or for which no provision is made in the budet. Articles 28 to 35 provide the procedure for granting credits when the Diet is not in session and make the distinction clear between the two kinds of credits and the procedure to be observed when the need for such credits arises.

The approval of the President of the Republic is provided for in all cases of the granting of additional credits when the Diet is not in session and when such credits do not involve a mere transfer of funds between certain items of the budget as described in connection with article 19. A time limit is provided, also, within which supplemental credits may be granted. The object of a time limit on the granting of such credits is to establish a control over them and to prevent possible waste and extravagance. After the expiration of the first half of a fiscal year it will be possible for all persons concerned to form a more exact judgement on the actual requirements of budget items for the balance of a year than would be possible if additional credits and transfers of funds could be requested at any time during the year. This time limit will require all persons concerned to make their original estimates of expenditures, conform as strictly as possible to the actual requirements for the year.

For the reasons given in connection with the discussion of article 19, the Supreme Board of Control is required to verify requests for supplemental credits.

Article 35 emphasizes the importance of maintaining the equilibrium of the budget when the granting of supplemental credits is involved. The establishment and maintenance of a balanced budget is one of the most important problems which confronts the Government of Poland today. Much has been written and spoken upon this subject in Poland and considerable curtailment of Government expenditures has been accomplished with this object in view. The most important problem, however, is not that of effecting economies

in credits after they have been granted by the Parliament. The study and survey of the exact needs of the Government and of the revenue that will be available to meet those needs, after eliminating all non-essential expenditures and all estimates of revenues which are not based upon actual experience of the past, are even more vital to the problem of balancing the budget.

There is appended to this report a statement showing the result of the operation of the budget for the year 1924 and the main causes leading to the deficit of 173,292,206 zlotys for that year. This deficit was said to be practically entirely covered by the expedient of issuing fiduciary money to the amount of 150,600,000 zlotys and by means of a loan of 20,800,000 zlotys from the Bank of Poland. To say that a deficit is covered in this manner, leads many people to believe that the finances of the Government are in good shape and that no deficit exists in fact. This is misleading. The continuation of this method of covering deficits would obviously lead to disaster.

In connection with a balanced budget there is another problem which requires the serious attention of the Government. This is the method of paying the salaries of public employees. Your Commission are informed that the practice in Poland is to pay all government employees their salaries in advance on the first day of the each month instead as is customary in most countries to pay them at the end of each month. There are even times when two months salaries are paid to all employees in one month if a Sunday or holiday should follow the last day of a month. The practice, however, of paying salaries each month in advance of the period for which they are earned may result in the payment for services which are never rendered and is a practice which sound business policy would discourage. It should be discontinued.

Article 36 provides for a restriction upon supplemental credits granted by the Diet. The desirability of such restriction has been referred to in connection with the explanation of articles 13 and 20.

Article 37 is substantially the same as is provided in the Constitution.

Article 38 is new, but its purpose is so obvious that explanation of its inclusion in an organic budget law may be omitted.

Article 39 establishes the precedence of the budget bill over appropriation bills other than those which are designed to meet an emergency of the nature referred to in article 31. With these exceptions, the budget bill should receive the prior consideration of the Parliament. The budget bill is usually the most important single piece of legislation presented annually to the Parliament. It represents the Government's annual fiscal program. The consideration by the Parliament of any other financial measures, with the exception referred to, might not only delay proper consideration of the budget bill but might seriously affect some of the provisions of that bill.

Article 40 is in accordance with a recent amendment to the Constitution. While your Commission doubt the wisdom of some of the provisions of the amendment which relate to the budget, there is no alternative to restating them in the proposed organic budget law.

The Parliament has five months in which to consider the budget bill. That time is more than ample, in the opinion of your Commission, for the Parliament intelligently to study and approve the bill, if political log-rolling and jockeying are eliminated from the field. To make it possible for such an important matter to remain unsettled from one year to another, is to make politics and political considerations paramount to the welfare and public credit of the Country.

APPENDIX

Project of an Organic Budget Law

Article 1. The Government shall submit to the Diet in accordance with the Constitution, at least five months before the beginning of the budget year, a budget of receipts and expenditures. The budget shall be submitted in the form of a bill, printed and distributed to all the members of the Diet and the Senate.

Article 2. The budget bill shall contain in one document a statement of the estimated receipts and a statement of all the estimated expenditures required by the Government for the fiscal year to which the bill applies.

Article 3. The budget bill shall be divided into three parts. The first part shall contain a summary statement of the estimated receipts and estimated expenditures; the second part shall contain the details of the estimated receipts, and the third part shall contain the details of the estimated expenditures.

Article 4. The budget of expenditures shall be based upon the budget of receipts and the total of the former shall not exceed the total of the latter.

Article 5. The budget bill shall be approved annually by the Parliament in accordance with the Constitution.

Article 6. The fiscal year shall be the same as the calendar year, and shall begin the first of January and end the 31st of December.

Article 7. To facilitate the payment of expenditures and the collection of receipts which may be pending at the close of a fiscal year, a supplementary period of 3 months shall be established, which shall begin on the first of January and end on the 31st of March of each year. During this supplementary period the receipts uncollected at the close of the fiscal year immediately proceding shall continue to be collected and the

expenditures of that year awaiting payment on December 31st thereof shall continue to be paid. The receipts which remain uncollected at the close of a fiscal year and which are collected in the supplemental period thereof, shall be applied to the payment of the obligations of the Government which remain unpaid at the close of that fiscal year.

Article 8. No expenditure shall be incurred in any fiscal year which is chargeable to the budget or other laws of the preceding or following fiscal year. The expenditures properly chargeable to the fiscal year in which they have been incurred and which were not paid on the 31st of December of that year, shall be paid within the supplementary period provided for in Article 7. Those expenditures authorized for the fiscal year ending December 31 and not paid on or before the 31st of March following may be included in the budget of a subsequent fiscal year for payment therein. On the 31st of March of each year the accounts of the fiscal year immediately preceding shall be closed, and all the receipts of that fiscal year which have not been collected by the 31st of March shall, when collected, become part of the receipts of the year in which they are collected.

Article 9. The annual budget, approved and promulgated as provided by law, shall be known as the "Budget Law of the Republic of Poland".

The Budget of Receipts

Artlcle 10. The budget of receipts shall be divided into two parts. The first part shall contain such annual provisions concerning the collection and disposition of the receipts as the Government may consider necessary to include therein. Such provisions shall not create new taxes nor modify, nor suppress existing taxes.

Article 11. The second part of the budget of receipts shall contain all the items of receipts, classified, as follows:

a) From national properties.
b) From national enterprises.
c) From Customs.
d) From taxes, direct and indirect.
e) From miscellaneous sources.

The budget of receipts shall state the laws which authorize their collection. Only that portion of the net revenues of State railways and other enterprises required by law to be paid into the national treasury shall be included in the heading marked "b" above.

Article 12. The estimated proceeds from foreign or domestic loans, and similar credit transactions, shall not be included in the budget of receipts.

Article 13. The budget of receipts shall not exceed the average of the actual collections of the three preceding fiscal years. If, however, additional revenues will prospectively be collected as a result of amendments or changes already made in the laws, such additional revenues shall be included as separate items, after the above mentioned budget of receipts which shall not exceed the average for the preceding three years has been determined. The budget of receipts, calculated as indicated above, shall be the basis for the determination of the budget of expenditures, unless there is, in the opinion of the Minister of Finance, sufficient justification for a lower estimate of revenue from any particular source, in which case the Minister of Finance shall give his reasons for such opinion in a statement accompanying the budget bill.

Article 14. All receipts of the Government shall constitute one general fund from which the expenditures of the Gevernment shall be paid.

Budget of Expenditures

Article 15. The budget of expenditures shall be divided into two parts. The first part shall contain such annual provisions or regulations, concerning expenditures as the Government may consider it necessary to include in the annual budget law. The second part shall contain the expenditures which the Government considers necessary for the public service during the fiscal year to which the budget of expenditures corresponds.

Article 16. The expenditures shall be classified by parts (część) which shall correspond to the President of the Republic, the Seym (Diet) and Senate, the State Board of Control, the Prime Minister, each one of the Ministries, and any other independent service or organization unit of the Government; the parts

(części) shall be divided into sections which shall correspond to the several main organization units of a Ministry or other independent office; the sections shall be divided into chapters to correspond to the several subdivisions of each main organization unit, and the chapters shall be divided into items, numbered serially for each part (Część).

Article 17. Expenditures shall be stated in detail in accord ance with the classifications required by articles 16 and 23 of this law, and the credits authorized or opened for such expenditures shall be applied exclusively to the objects for which they have been appropriated, except as the objects may be modified by transfers of credits or additional credits as authorized by this law.

Article 18. The credits as voted by the Parliament may be opened from month to month by the Minister of Finance in such amounts that the total thereof shall not exceed the total of the estimate of receipts for the fiscal year provided that the total of actual receipts for the fiscal year is not less than the total of the estimate of such receipts.

Article 19. The transfer of credits between items of the same chapter, or between items of different sections of the same part (Część), may be made by the Minister of Finance. The transfer of credits between items of different parts (Część), may be made by the Minister of Finance, with the previous approval of the Diet, if in session; and if the Diet is in recess, then they may be made with the previous approval of the President of the Republic, with the obligation of submitting a statement thereof for the approval of the Diet at the next regular session of that body. Provided, that transfers of credits between items of the same chapter or between items of different sections of the same part, shall be made only upon presentation of written evidence by the requesting authority that there is an unencumbered and unnecessary balance available in the respective items, and, further, that requests for such transfers shall be transmitted to the Minister of Finance through the Supreme Board of Control, which Board shall certify to the condition of the respective items concerned and may express its opinion in writing as to the advisibility of such transfers. No such transfer of credits, after approval as required by this law shall become effective

until notice thereof shall have been received by the Supreme Board of Control.

Article 20. The budget of Expenditures shall not exceed the budget of Receipts. The Parliament shall not increase any item of the budget of expenditures, nor insert in it any new items, unless such increase or addition meets with the approval of the Minister of Finance and the equilibrium between the estimated receipts and expenditures be not disturbed thereby. Provided, that the Parliament may amend the bill by increasing or diminishing the items therein relating to the Diet and the Senate. Any item of expenditure which has been proposed by the Minister of Finance, may, however, be reduced or eliminated by the Parliament.

Article 21. No decree shall be issued by the executive or other power which shall have for its object the alteration of salaries or other forms of remuneration, as fixed in the budget or other law. The budget law shall not alter the salaries and expenses provided for by special laws.

Formation of the Budget

Article 22. In the formation of the budget, each Ministry and other independent organization unit of the Government, shall prepare and transmit to the Minister of Finance, not later than May first of each year, an estimate of the expenditures required for the next fiscal year. Such estimate shall be in comparative form, and shall include the amounts of expenditures of the previous fiscal year, the amounts authorized for the current fiscal year, and the amounts estimated for the succeeding fiscal year, classified in accordance with the main classification prescribed in article 16. The details of this classification shall be as prescribed by the Minister of Finance in accordance with article 23 of this law. The estimate shall cite the law, contract, or other authority if any, which authorizes the expenditure. Expenditures which are provided for in special laws shall be printed in different type from that used for expenditures subject to change in the budget law.

Article 23. The Minister of Finance shall prescribe, in regulations covering the subject, the form and detail in which the items of expenditure shall be stated in the estimates of

expenditure submitted to him for the preparation of the annual budget, furnishing for this purpose, standard blank forms to all Ministries and others concerned.

Article 24. The Minister of Finance shall prepare, during the months of May and June of each year, the draft of the annual budget bill. For this purpose the Minister of Finance is authorized to alter, eliminate, increase or reduce any item in the estimates of expenditures as submitted by the ministries and other independent governmental units, as the total estimated receipts as calculated in accordance with this law, and the financial condition of the Country, may seem to require to assure a balanced budget.

Article 25. During the first week of July of each year, the Minister of Finance shall submit to the Council of Ministers his draft of the annual budget bill, in summary form or in such detail as may be requested or desired by the Council of Ministers.

Article 26. When the Council of Ministers shall have concluded its study of the draft of the annual budget bill, the budget bill, shall be prepared in final form for presentation to the Diet, after incorporating therein such changes as may have been adopted by the Council of Ministers.

Article 27. The budget bill shall be accompanied by the following documents:

a) A general balance sheet showing the assets, liabilities and reserves of the Government as of the close of preceding fiscal year.

b) A statement of the revenue and expenditure of the preceding fiscal year.

c) A report by the Minister of Finance expressing the results of the operation of the budget of the preceding fiscal year, the financial situation of the country, the condition of its credit, and a general outline of the fiscal policy of the Government, together with such suggestions for the improvement of the country's finances as he may think desirable in the public interest.

Additional Credits

Article 28. The power to authorize or propose additional credits, shall be conferred only on the Minister of Finance, subject to the limitations established in this law. Such addi-

tional credits shall be known as "supplemental credits" and "extraordinary credits".

Article 29. Additional credits shall be opened only with the previous approval of the Diet, except as provided otherwise in article 19. In the event that the Diet is not in session the additional credits may be opened with the previous approval of the President of the Republic, with the obligation of submitting a statement thereof for the approval of the Diet at its next regular session.

Article 30. Supplemental credits shall be those authorized or proposed to increase existing appropriations when the latter have proved to be insufficient for the requirements of the service for which they were appropriated. Supplemental credits shall not be opened until six months after the opening of the fiscal year in which they are authorized. Supplemental credits shall not be granted without the express authority of the Diet if they are for objects for which appriopriations have been expressly denied by the Diet at the time of voting the budget law or subsequently at the time of requesting legalization thereof.

Article 31. Extraordinary credits shall be those authorized or proposed in case of internal disorders, conflagrations, foreign aggression, plagues, or other public calamity, or a new and urgent need for which no appriopriation of funds was made in the current budget law.

Article 32. The limitation of time expressed in article 30 shall not apply in the case of additional credit occasioned by one of the circumstances mentioned in article 31.

Article 33. The authority making a request for supplemental credits shall submit in support thereof to the Minister of Finance, through the Supreme Board of Control the folowing information:

a) Amount of the original credit.
b) Total amount drawn against such credit.
c) Balance unexpended in the original credit.
d) Amount of Commitments still unpaid, chargeable to the original credit.
e) Free or unencumbered balance in the original credit.
f) Reasons for the insufficiency of the original credit.

g) The balance in other credits at the disposal of the authority making the request, which may be transferred without serious detriment to the service for which they were originally granted.

The Supreme Board of Control shall verify such of the information contained in the above request as may be possible of verification from its records, and may express its opinion in writing as to the advisability of granting such supplemental credits. No such credits, after approval as required by this law, shall become effective until written notice thereof shall have been delivered to the Supreme Board of Control.

Article 34. The Minister of Finance shall submit to the Diet, with every request for authorization to grant additional credits, a statement indicating the sources of the funds necessary to cover the said additional credits.

Article 35. In no case shall the granting of supplemental credits be permitted to disturb the equilibrium of the budget.

Legislative Credits

Article 36. No supplemental credits to the budget law shall be voted by the Diet except upon the request of the Minister of Finance.

Article 37. No extraordinary credit nor any proposed law involving the expenditure of public funds shall be voted by the Diet unless the Diet shall at the same time provide the revenue necessary to cover such credit or proposed expenditure.

Revenue Bills

Article 38. No project of law shall be voted by the Diet which shall repeal any law covering revenues which are included in the budget law of the current or of the following fiscal year, unless the Diet shall provide at the same time new revenues to replace those discontinued by the repeal of such law, or unless it is provided in the repeal project that its repeal provisions shall not take effect until after the close of the fiscal year covered by the last budget law.

Article 39. The Parliament shall not consider other appropriations until the budget bill has been finally acted

upon in the manner provided by law, unless such other appropriations are occasioned by one of the circumstances mentioned in Article 31 of this law.

Approval of the Budget Bill

Article 40. The budget bill shall be approved by the Parliament in the manner and within the time limits provided for in the Constitution. The budget bill shall be published by the President of the Republic as a budget law:

a) In the form as adopted by the Diet, if both the Diet and the Senate have considered the bill within the time required by the Consitution and the Diet has either approved or rejected the amendments introduced by the Senate.

b) In the form proposed by the Government, if neither the Diet nor the Senate has decided anything as regards the entire bill.

If the Diet rejects the budget bill as proposed by the Government and the Diet is dissolved without passing the budget bill and without passing a provisional budget for such time as shall elapse until the opening of the new Diet the Government shall have the right to make expenditures and collect revenues within the limits of the last year's budget until the adoption by the Diet and the Senate of a provisional budget which must be proposed by the Government to the Diet on the first meeting after the election.

Article 41. All laws and parts of laws inconsistent with this law are hereby repealed. If any item of the budget bill passed under the provisions of this law shall be held to be invalid upon any ground, such invalidity shall not affect the legality of the budget bill as a whole or of any other item of such bill.

Article 42. This law shall go into effect from the day of its promulgation in accordance with law.

REPORT

ON THE

CUSTOMS ADMINISTRATION

Introduction

In making their survey of the Polish customs administration your Commision have been guided by the thought that it would be better to build on the foundation of the present system of administration than to undertake the building up of an entirely new structure.

Although the time alloted for this survey has been brief, nevertheless sufficient data have been secured to permit a study of the existing organization, its methods of operation and control, the location and character of many of the customs stations, the difficulties of administration at the various boundaries, the Upper Silesian situation, the Danzig question and certain other problems. It is hoped that the suggestions which follow will assist the Government in creating a more efficient administration and in thereby increasing customs revenues.

Your Commission appreciate the great difficulties which confronted the organizers of the present customs service in 1920. For more than one hundred years the people living in the three different parts of what constitutes modern Poland were subject to German, Russian and Austrian customs laws. A new custom law uniformly applicable to all three sections was no simple matter to frame. The importers and exporters of each territory were accustomed to the law prevailing in the country to which that territory had belonged. The question of admistration was likewise a difficult one. Persons who were not experienced in customs administration could not be safely entrusted with the administration of a new customs law under such difficult circumstances. Therefore former officials of all three of the above governments had to be depended upon for putting the necessary machinery

into motion. This was in June 1920, at the time when the new Republic was suffering from the effects of the Bolshevik invasion.

It is now six years since the first tariff law of the Republic was passed. A second law was passed by the Diet on July 31, 1924. This second law is still in force. Both the above laws were largely copied from the former Russian law with all its cumbersome provisions and with its difficult administrative procedure. Some features, however, of the former German and Austrian laws were incorporated.

Sufficient time has now elapsed in which to give the system a fair trial. The following chapters present a review of the results and recommendations for improvements in the system.

CHAPTER I

The Customs Law

All of the duties in the present Polish customs law are specific. For tariff purposes commodities are divided into eleven principal groups:

I.	Foodstuffs and animals . . .	Par. No.	1 — 40
II.	Products of animal origin and manufactures thereof . . .	„ „	41 — 57
III.	Timber and articles of wood .	„ „	58 — 64
IV.	Building material and earthware	„ „	65 — 78
V.	Fuel, tar, pitch & manufactures thereof	„ „	79 — 88
VI.	Chemicals	„ „	89 — 137
VII.	Ores, metals and metal articles .	„ „	138 — 175
VIII.	Paper, paper articles and printing	„ „	176 — 178
IX.	Textile manufactures	„ „	179 — 208
X.	Wearing apparel, fancy goods, stationery	„ „	209 — 215
XI.	Explosives	„ „	217.

Although tariff schedules based on specific duties are usually easier to administer than those based on ad valorem duties the present Polish law is a difficult law to interpret and enforce. This is due chiefly to the fact, that the law contains a rather restricted nomenclature of the merchandise on which duties are collected. Take for example, the chemical list (paragraphs 89 to 137 inclusive. Schedule VI.) containing 48 paragraphs. This is obviously quite inadequate for the proper assessment of duty on the great variety of chemical materials and compounds. The administration of this section

of the law is further complicated by the listing in 19 of the 48 paragraphs of certain basic chemicals like Iodine and Bromine (par. 112, subsec. 1, schedule VI.) as being free from duty. No mention is made as to whether the salts, compounds, or derivatives of these chemicals are dutiable or not.

It is difficult in many instances to determine just what the framers of the law wished to have the duties assessed upon and likwise to what merchandise they wished to give free entry. The chemical schedule is only one of many instances of this difficulty.

The situation is further complicated by the numerous bulletins issued by the Department. Many of these contain conflicting interpretations of the law. There seems to be a lack of uniformity and purpose in the preparation of these bulletins. However, this is more the fault of the law itself than it is of those who administer it. The best tariff experts in the world would have difficulty in interpreting consistently the present Polish tariff law. The law is so poorly constructed and the deficiencies so permeate its whole structure that the enactment of a new law would be preferable to the attempt at a thorough-going revision of the present one. What Poland needs and the need is urgent, is a new tariff law which is simple, clear and definite in its designation, of what is dutiable and what is not dutiable and in its classification of dutiable merchandise.

As stated before, the present law was copied from the old Russian law. Slight changes were made here and there to suit the requirements of the new Republic with a view to giving protection to the country's industries. That part of the law relating to classification of merchandise, however, is based entirely on the Russian tariff act of 1903. It is doubtful if a more clumsy or out-of-date system of classification of merchandise exists in any country.

It would have been wiser for Poland to have built along the lines of the old Austrian or German laws. Still better would it have been to take the „Salzburger Agreement" which relates to the „Zoll-Union" entered into by Austria and Germany during the World War. Why the Russian Law of 1903 was taken as a model is difficult to understand. Your Commission do not wish to devote much time to a criticism of the present

law but they believe that they cannot too strongly urge upon the Government the need of breaking away from it.

Should the Government decide to prepare a new tariff law in the near future, the Commission wish to make the following suggestions.

1. **Specific Duties.** Adherence to the principle of specific duties is recommended. Because of its relative simplicity of application, this system is better adapted for customs administration in a new state like Poland than would be a system based on ad valorem or mixed duties. There are a few instances, however, in which ad valorem rates might be applied with better effect from a revenue standpoint. New chemicals are constantly appearing in the world markets. To cover such contingencies it is much easier to frame an effective blanket clause on an ad valorem than on a specific duty basis. The market value of some new chemical product may be several hundred zlotys for a small package containing but ten or twenty grams. On an ad valorem basis the government's revenue would be protected in such instances. It would be difficult to frame a blanket clause to cover such cases in a law in which specific duties only were used and at the same time insure the government its just share of revenue. This would be especially true in the case of chemicals in concentrated form. It therefore might be judicious to apply an ad valorem rate of duty in such cases.

2. **Grouping of Merchandise.** A grouping of merchandise along the lines of the United States customs law or the Canadian customs law is suggested. The present tariff law of Poland contains but eleven groups. The American law contains 15 groups and a special grouping of all items under the free list. The Polish law does not contain a grouping of items that are free, a fact which causes much conflict between importers and customs officials and which accounts largely for the great number of protests now made to the Customs Council.

3. **Nomenclature.** The law should contain an alphabetical schedule of dutiable merchandise showing the particular paragraph of the law to which any particular class of merchandise belongs. Articles which are especially mentioned in the law as being on the "free list" should also be listed in the schedule. The absence of such an alphabetical schedule is

one of the greatest drawbacks of the present law. The number of disputes, errors in classification and in assessment, and the resultant protests would be reduced to a minimum if the Government would issue in connection with the law a complete and well defined glossary or alphabetical shedule on the lines recommended above. The installation of such a schedule would make possible a material reduction in the present personnel of the Service. The problem is the more serious because of the lack of well trained and experienced customs examiners and appraisers in the country's customs service. Certain European countries have such comprehensive tariff schedules, that they now require importers or their agents, in addition to filling in a certain form of declaration, to classify the merchandise in question, to state the paragraph of the law under which it falls and finally to compute the amount of duty they must pay on the importation in question. A failure to classify the merchandise properly, or the neglect to comply with prevailing customs regulations in this regard subjects the importer to a penalty of 10 per cent of the correct amount of duty for which he is liable. The above plan could be put into effect in Poland, provided that a complete alphabetical schedule of dutiable merchandise were prepared. If the Government should decide not to enact a new tariff law in the immediate future, steps should be taken at once to arrange for a complete and detailed schedule under the existing law along the lines above described.

4. **Present Minimum Amount of Duty Collected.** At present the minimum duty collected on any item on verbal declaration is 0.15 zlotys on highways and 0.50 zlotys on trains. It is recommended that the minimum be increased to one zloty. In other words, if the duty on a single importation amounts to less than one zloty there should be no assessment of duty. The reduction of revenue resulting from this change will be very small while the saving of expense in the labour of customs employees and the elimination of a certain degree of annoyance to the public will more than compensate for the slight loss of revenue involved.

CHAPTER II

Administration of the Law

Because of the nature of their task customs officials in any country are not likely to be popular, and since a favourable disposition on the part of the public toward any Government service is conducive to efficiency in that service, the customs law and the administrative regulations should do everything possible to place the service in a favourable position before the public.

The duties of customs officers, especially of those in charge of customs houses, should be clearly stated but not meticulously prescribed. Customs officers, particularly the higher ones, should be allowed a reasonable amount of discretion in the performance of their duties. The present law restricts these officers too severely in their official activities and unduly limits their executive authority. The attempt to enforce numerous restrictions, prohibitions and detailed regulations from which no deviation is permitted, often brings contempt and ridicule upon customs employees for no other reason than that they are conscientiously carrying out the law. This condition adds to the difficulties of administration. The public are often led to feel that the only way to "get even" with the customs official against whom they think they have a grievance is to violate the law whenever violation would be to their advantage.

An example, cited to your Commission, of the absurd results which follow the lack of discretionary powers given to customs officials is the following: A Roumanian family desiring to enter Poland arrived at the border with all their household effects. In making out their list of household articles which they desired to bring with them, and which had been approved

by the President of the district, they failed to mention a small second hand baby carriage. The family was allowed to enter, but the baby carriage was held at the border station for several weeks until a permit had been obtained from Lwów to allow its free entry. Another example of the same evil may be given. A certain importer received a permit from the Department of Commerce and Industry to import one hundred kilos of Glaubersalts (Sodium Sulphate). The permit was good only for thirty days. The merchandise arrived at the border. It was weighed by the customs officer who established the fact that the net weight was one hundred and one kilos and forty grams instead of one hundred kilos. The permit, however, was issued for one hundred kilos only. The railroad agent who acted in this case as the agent of the importer, who was five hundred kilometres distant from the scene of action, discovered that he could not open the package in order to remove the excess, without destroying the container. He therefore decided that the whole shipment should remain in the custody of the customs officers until another permit arrived to allow the entry of the additional 1.40 kilos. Before the permit for the entry of the extra weight arrived, however, the thirty days period of grace on the first license had expired, so the railroad agent informed the importer to make an application for a new permit or for an extension of the old one. Before this had arrived, the permit to allow the entry of the extra weight had expired, so that in desperation the railroad agent finally informed the importer that he had returned the entire shipment and advised him to make immediate application for a new permit for the full amount of the merchandise in question. Many similar cases have been cited to your Commission.

The last illustration suggests the desirability of extending the thirty day period regarding import licenses to sixty days. Your Commission understand that these import licenses are issued by the Ministry of Commerce and Industry, and that the change here suggested is therefore one that falls within the province of that Ministry.

The procedure involved in the importation of merchandise into Poland is, in the judgement of your Commission, unnecessarily elaborate and some recommendations are herewith

submitted for its simplification. As a preliminary to these recommendations the various steps that must be taken are briefly summarized:

1. Exporter's declaration.
2. Registry of merchandise upon arrival at customs office on frontier of Poland.
3. Preparation of a transfer list of the merchandise if the merchandise is to be delivered to a consignee at one of its interior customs offices.
4. The placing of a seal or label on all containers of merchandise imported unless imported in carload lots when a seal is placed upon the car.
5. Registration of the merchandise in the interior customs office to which it is forwarded.
6. Registration of the gross weights of the merchandise in the interior customs office.
7. Importer's declaration of the merchandise.
8. Statistical statement of the merchandise, prepared in the interior customs office.
9. Review by the customs authorities of all documents accompanying an importation of merchandise.
10. Examination and appraisal of the merchandise and determination of the duties.
11. Audit and review of customs appraiser's findings.
12. Payment of the duty by the importer.
13. Final review of customs declarations and all accompanying documents relating to an importation of merchandise.

The following changes are recommended in the foregoing procedure and documents:

1. **New form of declaration**. A new form of declaration should be provided. The declaration now required of the foreign exporter should suffice, and none should be required of the importer. This will require slight changes in the form now used for the exporter's declaration. Blank spaces should be provided for the customs examiner with heading notations such as: "These columns for use of the customs examiner only". In these columns for the examiner space should be provided for the following: "Paragraph of the law", "The rate of duty applicable to the merchandise", and "The amount of duty to be collected".

2. **Eliminate duplicate registry of merchandise.** The duplicate registry of merchandise in the interior customs office should be eliminated. There is no necessity of making the same entry at the frontier and in the inland office.
3. **Transfer list.** The transfer list seems an unnecessary duplication of effort. With slight changes an extra carbon of the registry now made at the frontier office could be used as a transfer list.
4. **Abolish book of weights.** The book of weights now kept at the interior customs office seems to be unnecessary, and should be abolished.

Reference may here be made to the procedure in the handling of parcel post packages. Examination of parcel post packages arriving from foreign countries and the assessment of duty on such merchandise is made by officers of the customs service assigned to all post offices in Poland at which large quantities of such mail may be received. The procedure in all these offices is uniform. The collection of the duty is made by the post office officials, credit being given the Ministry of Finance and the money being deposited to the general cash account of the postal service.

There is an unnecessary review and examination of small mail packages now entering Poland. At the present time all parcel post packages coming from the United States are concentrated at Toruń. This office is in the province of Posen and belongs to the Posen customs district. Approximately three thousand parcel post packages are received at this office every month. Ninety eight per cent of these parcels are intended for charitable and relief purposes and nearly all the parcels contain old clothes of various description. Ten customs employees are constantly engaged in handling these gift packages, the weights of which range from three to ten kilos. Very few of the packages contain clean wearable material. Much of the clothing is soiled, yet the customs procedure in handling each parcel is carried out to the last letter of the law.

A package containing ten different items of wearing apparel, with each item falling under a different paragraph of the tariff law involves a declaration for each item, and a detailed calculation of the amount of duty, to which the recipient is liable. It often develops that the addressee is

too poor to pay the duty and if he can prove this, the parcel is released free of duty. The result is that many non-revenue producing transactions are carried through the books and records of the office daily at a considerable expense to the Government.

Duty on used wearing apparel. As a means of solving the problem of used wearing apparel your Commission recommend that the whole parcel be weighed and that a duty be assessed at some specific figure per kilogram. This recommendation applies only to old clothes. Parcels containing new wearing apparel should be treated in the regular manner. If after due examination and weighing of the parcel post packages it is finally ascertained that the addressee is unable to pay the duty, this can be remitted as at present.

Export parcel post and other mail. The thorough examination given all outgoing mail to foreign countries at the present time in many of the postal sub-customs offices seems to be an expensive and unnecessary procedure. The following table shows the amount of such work handled in the post office at Posen from January 1st 1926 to June 30th 1925:

Month	*No. of export letters and parcels examined*
January	1647
February	1657
March	2830
April	1492
May	1375
June	1212
Total	10233

To handle this export mail the Posen Office employs one customs officer of the tenth grade, one postal official of the eleventh grade and two postal employees of the fourteenth grade. All export packages and mail which are regarded by the officials as being possible media for the violation of the present law prohibiting the exportation of gold, silver money or other valuables, are subject to an examination. Registered packages are also opened and examined. During the period from January last to June 30th 1926, the following articles were found and were held as being subject to seizure unless

the senders could furnish satisfactory proof that there was no intent to violate the existing law.

One lady's watch, second hand value about 100 zlotys
One gentleman's watch, value „ 40 „
One lady's ring „ „ 50 „

Your Commission have elsewhere recommended the repeal of the present restrictions on the export of currency and other valuables. In accordance with this recommendation it is here recommended that the present examination of all letters and other mail to foreign countries be abolished.

Customs Rules and Regulations

Rules and regulations for the customs service of Poland have been published at irregular intervals. Thus far there has been no attempt to coordinate these rules and regulations. Ammendments have been issued at frequent intervals, but with the work relative to legal administrative procedure distributed among three different sections, this lack of coordination and uniformity in administration may be expected to increase in the future.

Regulations affecting customs administration are also issued by the Ministry of Commerce and Industry. These include the regulations relative to drawbacks. In June 1920 a joint set of regulations relative to customs administration was issued by the Minister of Finance and the Minister of Commerce and Industry. In December 1920 a more extended joint set of regulations on the same subject was issued by these two Ministries.

Article 7 of the law of July 31st 1924, which is the existing Polish customs law, authorizes the Minister of Finance, upon the approval of the Minister of Commerce and Industry and of the Minister of Agriculture to prescribe various rules and regulations relative to export taxes, changes in import duties, the opening bonded warehouses, to prohibit or restrict the importation of certain classes of merchandise, and to forbid the exportation of certain other classes.

Although article 3 of the law of July 31, 1924 prescribes that the entire administration of customs shall be left in the

hands of the Minister of Finance, the next article limits this authority relative to the establishment of border customs houses and provides that no new customs houses on the border can be constructed without the approval of the Minister of Commerce and Industry and the Minister of the Interior. Your Commission realize that the law of July 31, 1924, was enacted under emergency conditions. The emergency, however, no longer exists and the Minister of Finance should now be given full executive power and control over customs administration. As long as rules and regulations for customs administration are subject to the approval of three different Ministries, it will be difficult to have efficient administration.

The procedure in irregular cases will now be treated.

Paragraph 32 of the regulations issued December 13, 1920, which fixes a two-year period during which the Ministry of Finance can claim additional duties from an importer in the case of a clerical error or for other reasons resulting in an underpayment of duties, should be changed. Many complaints have been presented to your Commission from importers and others with regard to the Government's privilege under the existing law of collecting additional duties in the above mentioned cases up to two years after the merchandise has been passed by the customs officials. In nearly all such cases the merchandise has been sold before the additional duties are assessed, and if the amount of additional duty to be collected represents any substantial sum or percentage of the total value of the merchandise, the importer, must often face a heavy loss on the entire transaction, a loss which he is forced to stand simply because an error, for which he was in no way responsible, was made by the customs officers. Your Commission believe that this two-year period should be reduced to six months for the present and later to three months. There should be no limit in the case of fraudulent transactions. In the United States the government has sixty days in which to make amendments on liquidated entries or entries upon which duties have been paid. This amendment can only be made on appeal before the customs court. After this sixty-day period has expired the entry must stand as final unless there is a fraudulent transaction involved, in which case there is no time limit.

Another defective feature of the present system is the fact that the importer is not notified of any refund due to him that may be established by an audit made during these two years. Such a notice should be sent to him as soon as the fact is established, and the refund should be promptly made.

Refund of Duties Once Collected

All merchandise upon which a duty has been paid and which has passed from customs control should be treated as a closed transaction as far as the Government is concerned. In no case should the duty be refunded, except in case of illegal assessment, and except also in the case of the entry of merchandise for exhibition and display purposes.

At present duties are refunded in many instances for causes which are exceedingly trivial though the Government retains the manipulation charge. (On freight shipments the manipulation charge equals 5% of the total duty assessed. On express shipments the charge is 15%). Merchants who import merchandise, and who, on account of some misunderstanding with the foreign manufacturer or exporter, desire to re-export it later, should be given to understand that no refund of duty will be made in such cases.

Protests and Appeals

At the present time any person importing merchandise into the Republic who, after having paid the duty thereon believes that an error has been made in the classification or in the assessment of the duty and that he has therefore overpaid the Government, may make a claim for proper adjustment of his case within 30 days after date of payment of such duty. This claim must be made in writing and all documents relating to the case in question, together with samples or photographs of the merchandise must be forwarded to the Ministry of Finance at Warsaw. Such cases are handled in Section "A" of the Department of Customs. About 2,100 cases are handled each month.

The number of protests could be automatically lessened if the Department of Customs would publish a list of deci-

sions at short intervals. These decisions are administrative rulings of the Department, many of them are of great importance and if they were published regularly in such a manner as to be useful to examiners and customs officers in general much good would result. The information so published would likewise be of great value to the commercial world and the number of appeals would be reduced. Under the present system the result of each decision is given to the originating office only.

These decisions should be serially numbered. The more important decisions should be given in full and a brief synopsis given of the less important ones. Decisions should be printed in pamphlet form so that these can readily be bound. At the end of each calendar year all decisions for the year should be bound in one volume and the volume should be well indexed.

Your Commission would like to make a few recommendations regarding the physical appearance of the room of the Ministry of Finance in which these decisions are being handled at the present time. The room in question is known as the merchandise sample room and contains many samples of merchandise all of which represent cases which have been decided in the past. The first impression one gains upon entering this large room is that it is a "junk shop". Merchandise, papers, documents and books are strewn in great confusion and disorder on desks, tables and chairs. A proper system of filing these samples should be introduced and one of the persons working in the room should be made responsible for keeping its contents in order.

Advisory Council

The advisory council of the Department of Customs consists of representatives from the Department of Commerce and Industry, the Ministry of Finance, and of Polytechnic schools and Industry in general. The council is supposed to be a sort of voluntary organization. It meets twice a week and takes up such matters as may be referred to it by the Minister of Finance. One of the principal duties of the council is to review customs cases which have been decided by the

Department of Customs. In case a person is dissatisfied with a decision or ruling made by the Department of Customs he has the right of appeal to the advisory council or to take his case to the High Court of Government Administration. In the former case he is not present or represented before the council when his case is taken up, while in the latter instance he has all the privileges of a plaintiff in any court of jurisprudence. The advisory council handles about 300 cases a month while the number of cases decided before the High Court of Government Administration is relatively small, rarely amounting to more than 10 or 15 cases per annum.

The decisions of the advisory council likewise should be published and this could be done in conjunction with the publication of decisions of the Department of Customs. Such cases as are decided by the High Court of Government Administration should also be published from time to time.

Fines and Penalties

Article 9 of the act of July 31, 1924 prescribes that, until the enactment of a penal law for all tax matters, the Minister of Finance is authorized, with the approval of the Minister of Justice, to publish an authentic Polish text of the penal clauses of the Russian penal law. The same article prescribes the adoption and views of the Austrian and German penal law in customs violations in the respective territories of Poland formerly governed by these two nations.

Your Commision have elsewhere called attention to the enormous expense of administering the customs guard service. Even if the Government of Poland had a force of customs guards three times the present size it would be impossible to prevent smuggling in all instances. There are other means of preventing smuggling. One of the most effective is the infliction of heavy fines and penalties and imprisonment upon offenders. Your Commission, not having seen a draft of the proposed penal customs code, is unable to make any comments thereon. However, they recommend that the proposed customs penal code shall provide for the application of rigid fines and penalties in all cases of violation of the customs law.

Clerical Errors

Errors in the computation of figures or declarations and various other clerical errors are of too frequent occurence. (Nearly a thousand errors were discovered in documents forwarded to Lwów from Kraków in three months). In order to lessen the number of clerical errors any clerk making such an error is held accountable for the same and in case the Government suffers any financial loss by reason of such an error he is required to reimburse the Government for the full extent of the loss. When one takes into consideration the scarcity of educated and well trained clerks in the customs service and the low standard of intelligence of the personnel, many customs offices have to contend with, the present regulation relative to clerical errors seems too severe. When clerical errors are the result of carelessness there might be some justification for the present rule, but your Commission have been informed that most of the errors are made by clerks who have a very poor education and to penalize such employees because of their ignorance seems unjust.

The Commission again wish to emphasize the great need of attracting capable and well educated young men into the customs service. Every possible effort should be made by the Ministry of Finance to make this service attractive. Attention is also directed in this connection to the recommendations regarding the organizing of classes of customs employees and the establishment of a school of instruction. These measures will provide one helpful check on the numbers of errors committed. It is recommended that the Government exercise greater diligence in recovering from importers the amounts due on account of errors, and that the clerk be relieved of responsibility for making good such losses. Other and more appropriate penalties for carelessness should be applied.

Rewards for the Detection of Fraud

Under the present law customs employees, who through their vigilance detect frauds on the customs revenue, are given an opportunity to share in the amount of money the Government receives from the person found guilty of the

fraud. The reward in question is based on the value realized at the sale of confiscated merchandise. In case the violator escapes and the merchandise is taken into custody, the reward is based on a scale ranging from 30% to 60% of the value of the merchandise. In case the violator is also taken into custody, the basis of the reward ranges from 40% to 75% of the value of the merchandise. Employees do not share in the revenue collected from fines and penalties or in any revenue that may be received in the form of additional duties levied upon the confiscated merchandise.

The fact is recognized that customs employees are poorly paid, and the framers of this law relative to rewards to customs officials maintain that since the Government cannot afford to increase the wage compensation of customs employees it should give them opportunity to increase their incomes by granting them a reward every time that they, through their own vigilance and their own initiative bring a violator of the customs law to justice. No Government should maintain any such agreement between itself and its employees. The latter are sworn to do their duty and in return are supposed to receive an adequate wage. The proper remedy for poor wages is beetter wages, not a compensation of this sort which weakens the morale of employees, diverts their attention unduly to petty spying to the annoyance of the public and brings reproach upon the whole customs administration.

The principal criticisms which your Commission have received on the present practice in Poland in this respect have been from customs officials themselves. The self-respecting customs official looks upon this law as a reflection upon his own sense of duty and honour. In the main Polish customs officials are loyal and energetic. Many of them moreover whose duties are of such a nature as to prohibit them from sharing in any reward at any time because their duties are administrative, feel that the present system unjustly discriminates against them.

Your Commission, however, are in favour of acknowledging any extraodinary display of courage and vigilance when manifested by customs employees in protecting the revenue of the Republic. Recognition of such extraordinary services should be made in some other way. In another part of this

report recommendation is made for the establishment of a General Inspectorate in the Department of Customs Headquarters at Warsaw. One of the duties assigned to this inspectorate should be the investigation of cases of extraordinary service which may seem to justify a special reward. The recommendations of the inspectorate should be followed. Promotion to a higher grade is a commendable method of rewarding a faithful employee whose services under extraordinary circumstances merit such consideration and who is qualified for the higher position. Another possible method is the granting of extraordinary service medals. Special rewards should be given only rarely and in case of extraordinary service. No such rewards should be given except on the recommendation of the inspectorate and great care should be taken to avoid abuses and to prevent rewards from being given on the basis of personal or political consideration.

Rewards to Others than Employees for the Detection of Violation of the Customs Law

While your Commission are opposed to the present system of giving rewards to employees, they are not opposed to granting rewards to individuals who are in no way officially connected with the customs administration. The United States government and the Canadian government have found such a policy profitable. Your Commission therefore recommend that the following provision which is based upon the United States Tariff Law be made a part of the tariff law of Poland:

"Any person, not an officer of the Republic of Poland who detects and seizes any vessel, vehicle, merchandise and baggage subject to seizure and forfeiture under the Polish customs laws, and who reports the same to an officer of the customs, or who furnishes to a representative of the Ministry of Justice or the Ministry of Finance, or to any customs official, original information concerning any fraud upon the customs revenue or concerning a violation of the customs law perpetrated or contemplated, which detection and seizure or information leads to a recovery of any duties withheld or of any fine, penalty or forfeiture incurred, may be awarded and paid by the Ministry of Finance a compensation of 25 %

of the net amount recovered, but not to exceed 50,000 zlotys in any case, which shall be paid out of moneys provided in the budget for that purpose. For the purpose of this section, an amount recovered on bail bond shall be deemed a recovery of a fine incurred.

Officers of the Republic shall not share in such awards. Any officer of the Republic of Poland who directly or indirectly receives, accepts, or contracts for any portion of the money which may accrue to any person making such detection or seizure, or furnishing such information, shall be guilty of a felony and, upon conviction thereof, shall be punished by a fine of not more than 10,000 zlotys, or by imprisonment for not more than one year, or both, and shall be thereafter ineligible to any office or honour, trust or emolument in the government service. Any person who pays to any such officer, or to any person for use of such an officer, any portion of such money, or anything of value for or because of such money, shall have a right of action against such officer, or his legal representative or against such person or his legal representative, and shall be entitled to recover the money so paid or the thing of value so given".

The following extract, taken from the Report of the Secretary of Treasury of the United States for the fiscal year 1925 shows how effectively such a provision operates: "The increase in the maximum which may be allowed as compensation to informers in customs cases, provided by the tariff act of 1922, has stimulated the activities of informers and resulted in the apprehension of many violators of the customs law. Through this means $ 707,168 has been recovered during the fiscal year 1925 in connection with which awards amounting to $ 176,792 were paid". Attention is invited to the fact that the reward paid informers in the United States represents but 25% of the total value of the money recovered by the government. Your Commission believe that 25% is a sufficient share to grant to informers in the cases referred to above.

CHAPTER III

Administrative Organization and Personnel Including Guard Service

The laws of the Republic of Poland charge the Ministry of Finance with the responsibility of enforcing the tariff law and the collection of all customs duties levied on foreign merchandise entering the Republic. This responsibility is met by means of the customs service organization which has its headquarters in the Ministry of Finance and which reaches to the frontiers of the Republic. The head of the customs service in the Ministry of Finance is the director of the customs and his control of this service is exercised through four sections as follows:

a) **The Tariff Section.**

This section handles all matters in regard to the application of the law; decides on tariff questions; cooperates with the customs advisory counsil; handles customs appeals cases; and has charge of the statistical and the experimental laboratory.

b) **The Customs Regulation Section.**

This section settles all matters in regard to customs policy which are within the jurisdiction of the Ministry of Finance; it also has jurisdiction in all matters in regard to customs procedure related to international agreements including the relations with the Free City of Danzig.

c) **The Customs Procedure Section.**

This section decides all matters of customs procedure except those handled by the previous section. It cooperates with "the Presidency" in the organization of customs offices,

in the selection of personnel and in the training of forces. It also has charge of the accounts of the customs houses, supervises the budget and settles customs penalty cases.

d) **The Customs Guard Section.**

This section has charge of all matters in regard to smuggling and the patrol of the frontier. It also has charge of the training and equipping of the customs guard.

Attention is called to the vast amount of legal and technical procedure involved in this present arrangement of departmental sections. Sections (a), (b) and (c) are charged with the administration of matters which are all related to law, regulations and technical customs procedure, leaving (d) the only section free from responsibility in this regard. The lack of administrative control is conspicuous. Seventy five per cent of the procedure is technical, based on law and regulations, very little attention is given to actual administrative procedure.

The situation in the headquarters of the Bureau of Customs of the United States Customs Service in Washington is in marked contrast with the above organization [1]). The procedure has been so simplified and the instructions and regulations have been so unified, that the legal and technical procedure in the Bureau has been reduced to about 15 per cent of the whole, notwithstanding the fact that the United States have a very intricate and complicated tariff law. Your Commission believe that the procedure in Poland could be made more simple and more efficient by centralizing all matters pertaining to law, rules and regulations and all other administrative matters of a technical nature in one section, instead of distributing them among three sections, as is the case under the present plan. A plan of organization along this line is submitted elsewhere in this report. (See chart No.1. in the appendix of chapt. IV). While the executive direction is nominally in the hands of the director of customs, the real control of departmental administrative procedure under the present organization is distributed through and carried on in these sections, and

[1]) *On this subject see "The Customs Service", by Laurence F. Schmeckebier, "Service Monograph of the United States Government No. 33". Baltimore 1924. Especially pp. 80-ff.*

the director of customs really acts only in a supervisory capacity. The actual management rests largely in the hands of the section chiefs.

In accordance with plans now being developed in the Ministry of Finance relative to the organization of the Department of customs, it is proposed to weaken still further the influence of the director of customs by transferring all powers of appointment and control over personnel in the customs service from the customs department to the department of the Ministry of Finance to be known as the „Presidency".

Executive Authority of the Director of Customs should be Increased. Under the present system of organization the executive powers of the Director of Customs are therefore very limited, although the director is supposed to be responsible for the efficient administration of the entire customs service. He has five district offices under his supervision in addition to the inspectorate at Danzig and the customs guard organization. The total personnel under his control exceeds 7,500 individuals and he is responsible for the annual collection of from 175,000,000 to 250,000,000 zlotys. His present authority is not commensurate with the responsibility that is placed upon him. He should have absolute power to appoint or dismiss any official in the service. In rank and grade he should be equal to the chief of the Excise Tax Department and he should have authority to issue administrative regulations without consulting the advisory council. Any executive who is responsible for the efficient administration of so important a service should have authority adequate to enable him to use his initiative and executive ability for putting improvements in that service into effect. If the customs service in the Republic is to attain maximum efficiency one of the first steps to be taken is the placing of complete executive power and authority in the directing head of the organization. The next step is to select an efficient director of customs.

It is is not enough that the director of customs be a man thoroughly experienced in customs procedure. He should also have had experience in industrial office management and should possess the ability to select and train capable

subordinates. The latter qualities are even more necessary than a thorough knowledge of customs technique. The present organization of the department of customs and the methods of administration in general reflect the absence of these qualifications and of this executive control and direction.

The following table shows the number of higher and lower officials now employed in the department headquarters together with their respective grades. The table also shows the number of employees engaged in customs guard procedure at headquarters.

Employees of the Department of Customs

Grade	On the records of the head office			Delegated from Customs Offices Customs Guard			Total
	Higher offic.	Lower offic.	Total	Higher offic.	Lower offic.	Total	
IV	1	—	1	—	—	—	1
V	5	—	5	1	—	1	6
VI	9	—	9	1	—	1	10
VII	9	—	9	4	—	4	13
VIII	4	1	5	6	—	6	11
IX	1	10	11	4	—	4	15
X	—	6	6	—	8	8	14
XI	—	—	—	—	2	2	2
XII	—	—	—	—	1	1	1
Total	29	17	46	16	11	27	73

1. Higher Officials 45
2. Lower Officials 28

The above table shows that of the total of 73 employees engaged in administrative work at departmental headquarters in Warsaw 45 are higher officials, and 28 are in the lower ranks. This is like an army with more generals than privates. The entire headquarters staff of the United States Customs Bureau in Washington, D. C. is 53 persons, of whom 6 are higher officials.

In as much as all the work incidental to the customs guard service is performed at the frontiers and throughout the several customs collecting districts of the Republic and directed

from the headquarters offices of these districts, your Commission believe that the maintenance of a force of 27 customs guard officials in Warsaw for administrative purposes is an unncessary duplication of effort. Your Commission recommend that this force be reduced at least 75%.

The Commission further recommend that the present force engaged in customs administrative work at headquarters in Warsaw be reduced by 25%. Both the above recommendations can be made without detriment to the service.

The Customs Guard

The customs guard service of the Republic is a large and semi-military organization under the control of the Ministry of Finance and the immediate supervision of the director of customs. Its principal duty is to patrol the frontiers and prevent smuggling and similar offences. Guards are also stationed at all the interior customs houses, at warehouses and on through international trains crossing Pomerania. The principal officer of the guard service is the chief inspector who has the rank and emoluments of grade V in the civil service. He is attached to the headquarters office of the Deparment of Customs in the the Ministry of Finance. Subordinate to him are 24 officials known as higher inspectors who are attached to the various customs houses throughout Poland. Each of these higher inspectors has under his supervision a number of commissary zones each of which is in charge of a commissary. The commissariats in turn are divided into customs guard post stations. The following table shows the three principal administrative units of the customs guard service, namely inspectorates, commissariats and posts or stations, in each customs collection district.

Table Showing the Distribution of the Administrative Units of the Customs Guard Service

Unit of Guard	District					
	Warsaw	Wilno	Posen	Mysłowice	Lwów	Total
Inspectorates	3	1	9	3	8	24
Commissariats	16	5	51	17	37	126
Posts or Stations	90	36	360	83	211	780
No. of kilometres of frontier .	320	98	1312	358	1397	3485

Customs Frontiers

The above table shows that the total number of kilometres patrolled by the customs guard is 3,485. This, however, is not the total number of kilometres of frontier in the whole Republic, for 2,035 kilometres of the northern and eastern frontier are patrolled by the military forces. So far as this frontier is concerned the prevention of smuggling is a problem for the military forces. The frontier for which the customs guard is responsible is as follows:

Seacoast	142 klm.
Danzig	139 „
Germany	1,804 „
Czechoslovakia	988 „
Total . .	3,485 klm.

Strength of the Customs Guard

The following table shows the total strength of the customs guard service together with the number of officers and men in each grade or rank, and the strength of the guard in each collection district:

Designation	Customs Guard Inspection	District					
		Warsaw	Wilno	Posen	Myslowice	Lwów	Total
Chief. Insp.	1	—	—	—	—	—	1
Super. Insp.	—	1	—	1	1	1	4
Inspector	—	2	—	4	2	4	12
Super. Com.	1	5	1	9	3	5	24
Commissary	—	14	4	45	16	37	116
Under. Com.	—	7	4	22	6	10	49
Total . .	2	29	9	81	28	57	206
Minor officials							
Sub. Corp.	—	13	5	48	20	30	116
Corporal	—	68	28	270	67	196	629
Sub. Guard	—	120	32	410	200	265	1027
Guard	—	482	122	1584	832	1088	4108
Total number of minor officials	—	683	187	2312	1119	1579	5880
Grand total of higher & minor officials. .	2	712	196	2393	1147	1636	6086

The total personnel of the guard service, as shown by the above table, is 6,086 officers and men. The cost of this serv-

ice is large. The preliminary budget of 1926 carried a total of 16,230,004 zlotys for the customs guard alone. This represents an expenditure of 4,657 zlotys per kilometre. Your Commission appreciate the fact that the Republic of Poland maintains a well organized and well equipped customs guard service. They believe, however, that relatively less attention should be given to the prevention of smuggling on the various borders and relatively more to the disclosing of false declarations and other frauds upon the revenue.

The total cost of the administration of the customs service, exclusive of the customs guard and the distribution of receipts to Danzig, was a little less than 7.000.000 zlotys during the calendar year 1925. The total for 1926 was estimated in the preliminary budget at 6,074,180 zlotys. Poland is therefore spending nearly two and a half times as much money on the customs guard service as on all other activities of the customs service exclusive of the Danzig administration.

Your Commission believe that the introduction of certain changes in the organization of the customs guard service will make possible a material saving in the cost of its administration and at the same time improve its efficiency. As stated above there are at present 24 inspectorates distributed in the various customs districts. Each of these inspectorates has from three to five clerks. Under each inspectorate there is a certain number of commissariats (an average of about five to each inspectorate), distributed in sectors along the border and subdivided into various customs guard stations or patrol posts. The number of posts or stations in a commissariat ranges from thirty to thirty five. The division of authority commencing with the lowest rank therefore, begins with the first class private at a patrol post and runs up the line through the corporal, superior corporal, under commissary, commissary, super-commissary, inspector and super-inspector to the chief inspector. The President of the collection district has full authority over all. Your Commission see no reason for maintaining the inspectorates nor the super-commissariats, and recommend their elimination. The operation of this change in the district of Posen would be as follows: This district now has nine inspectorates and 51 commisariats with a total of 360 stations

or patrol posts. The inspectorates should be eliminated and the number of commissariats reduced to forty with a roughly equal distribution of the sectors among the remaining commissariats. The ranking commissariat offices in each sector should be appointed chief of the sector and should fulfill the duties of the present inspectorate. The adoption of this plan would considerably simplify the administration of the customs guard.

The Customs Inspectorate Service

Although the customs service has a well organized customs patrol to prevent smuggling on the various borders, there is no well organized effort to prevent or detect such frauds as are perpetrated in the course of a transaction which is prima facie legal. At the present time there are but two customs inspectors in the entire customs field exclustive of Danzig. These two inspectors act upon their own initiative and are of much less value to the service than they would be if their work was coordinated under an efficient directing head. It is therefore recommended that for the prevention of fraud on the customs revenue such as false declarations upon entry of merchandise, bribing of customs officers and falsification of records in accounts by such officers, a strong force of inspectors be organized under a capable administrator. The authority of these inspectors should cover cases of smuggling also. This inspectorate should be useful in reducing the present super-audit and excessive examinations of customs declarations and accounts such as is now conducted by the headquarters staff and involves much needless expense to the Government.

Your Commission has prepared a draft of a law designed to aid the customs service in establishing this important organization with the least possible delay. It is included as an appendix to this chapter. The proposed law authorizes the director general of customs to issue rules and regulations with the approval of the Minister of Finance, governing the duties and functions of the customs inspectorate officers. The inspector general should prepare a manual for inspectors and assistant inspectors of the customs inspectorate service. This manual should be approved by the director of customs

and by the Minister of Finance and should provide in detail for the procedure in making a) customs office investigations, b) drawback investigations, c) smuggling investigations, d) customs guard investigations, e) miscellaneous investigations.

Provisions should also be made for the following matters:

a) Assistance for any inspector or assistant-inspector of the customs inspectorate service from any officer or employee who, because of his special skill or knowledge, might be useful in carrying on any investigation. A request for such officer or employee should be made by the inspector or assistant inspector concerned upon the chief customs officer of the district in which such officer or employee works and the said chief customs officer should be directed to give careful consideration to any such request.

Inspectors who are assigned to certain districts should confine their labours to those districts as much as possible, and should not go beyond the limits of their respective districts without authorization from the general inspector of customs, except in cases of emergency when it would be impracticable to wait for such authorization. Such cases should be covered by a general ruling. Circumstances surrounding them should be immediately reported to the office of the inspector general of customs.

b) The duties of the officers of the customs inspectorate, including the following:

1. Examination of the books, papers and accounts of all customs officers. Officers in charge of customs offices are required upon proper request to submit their books, papers and accounts for examination.
2. Investigation of drawback claims and allowances, false declarations as to weight and nature of merchandise, smuggling, and all other violations of the customs law.
3. Investigation of and report upon all applications for the establishment of new rates of drawback or modifications, amendments or extensions of existing rates or other matters pertaining to drawback.

   When application is made for establishment or extension of drawback rates, the factory or other establishment of the applicant should be visited and thorough investigation made of the use of imported material on which

drawback is desired. The quantities of imported materials consumed in producing a given quantity of product should be ascertained together with the quantity and value of wastes. Where this cannot be done owing to a lack of adequate records the agent should require that proper records be installed by the manufacturer, and copies of these records should be transmitted to the office of the general inspectorate together with the agent's report thereon.

Supplementary sworn statements and sworn abstracts from manufacturing records and all similar documents referred by collectors to the officers of the customs service inspectorate, should be verified by visiting the factories, examining the records and inspecting the conditions of manufacture. Such verifications and other special drawback investigations requiring travel outside the district should be referred by the officer receiving them to the officer in charge in the district in which the investigation is to be made.

4. Investigation of the books and records of the customs guard and report to the Minister of Finance of any deficiency or neglect of duties.

Officers of the inspectorate of the customs service inspectorate should not interfere with the regular transaction of customs business, but should be required to cooperate thereon with local officers.

Instruction of Customs Officials and other Employees

The customs service of Poland is deficient in a well trained personnel especially in efficient examiners and appraisers. The examiners and appraisers are the most important unit in the customs service in as much as they have to examine and classify, for the purpose of collecting the customs duties, all merchandise entering the country. Inexperienced or otherwise inefficient examiners and appraisers may easily cause a diminution in customs revenue. In order that the work of examination and appraisal may be efficiently performed examiners and appraisers must be trained technically both in the mercantile arts and in customs law and procedure. All

customs laws are intricate and it requires years of study before examiners and appraisers become adequately acquainted with the law.

Your Commission therefore recommend that the Ministry of Finance establish a comprehensive system of instruction for customs officials. Such a system should not be difficult to establish and it should provide for the cooperation of scientific schools, agricultural colleges, commercial and technical schools and gymnasia. The plan of instruction should provide for classes for minor officials and other subordinate employees in each of the four districts where district headquarters are located. It should also provide for a general school of instruction for higher officials of the various customs districts and for junior officers of the customs service and of the guard.

The chief custom officer in charge of each customs district should be responsible for the proper instruction and training of the personnel in his district. He should arrange for the instructors and the fixing of the hours of instruction. Classes should be conducted at such hours and at such places as would least interfere with the general administration of any customs office after a plan and schedule fixed by the director general of customs. Special attention should be given to the following subjects:

1. The tariff law of Poland and other laws and regulations that concern customs problems.
   a) Regulations on administrative procedure,
   b) Classification and identification of merchandise,
   c) Declarations, assessment of duty and liquidation,
   d) Decisions of the Ministry of Finance in customs appeal and court cases,
   e) Treaties and international postal conventions,
   f) Treaty and agreements between Danzing and Poland,
   g) Consular regulations and maritime law of Poland,
   h) Regulations of the Department of Commerce and Industry, referring to such parts of the customs, commercial and penal codes of Russia, Germany and Austria as relate to Customs administration,
   i) Customs tariffs of various countries.
2. Organization of the customs service.

a) Departmental organization and procedure,
b) Field service, including geography and topography of Poland, the location of customs offices, the duties of the customs guard with the location of posts and stations, ways and means of preventing smuggling and other frauds on the customs revenue, the location and function of private and bonded warehouses and the proper use of the drawback.
3. General.
a) Office management,
b) Government accounting,
c) Correspondence,
d) Languages,
e) Elementary chemistry, comprising simple tests used in determining the character of merchandise.
f) Discipline and courtesy.

While this list of courses has been carefully selected it may be changed to suit the particular needs of the several districts.

The district school should be open to all employees upon the recommendation of the chief customs officer in the district in which the employee is stationed. All employees enterring the customs service after the establishment of the district schools, should be required to attend classes and permanent appointment should be conditional on their passing satisfactory examinations therein.

The general customs school schould be located in Warsaw. Officers and other employees assigned to Warsaw for instruction could be given temporary duty in departmental headquarters. They should be allowed a certain amount for living expenses in addition to their salary while attending the school. An effort should be made to give the students in this school a thorough training in office management, including special courses in correspondence and in the keeping of files and records.

The general customs school should be open to all employees who have passed a satisfactory examination in a district school. Officers and employees who have attended both district and general school should be rated according to their school records including the final test or examination. Admission to the general school should be restricted to

those having the highest rating in the district schools. Suitable diplomas and certificates should be awarded to officers and employees who have satisfactorily completed the courses in the general school and promotion should be based largely on the rating received in either or both of the schools.

Recording and Filing of Correspondence

The present system in the head office of the department of customs of handling correspondence and of recording and filing it, is cumbersome and inefficient. There is unncessary recording of correspondence received in each section (to which it is forwarded for action thereon).

The correspondence should be recorded in the mail room only. As the correspondence is distributed to the different office sections it should have a small printed form attached to it called a "routing slip". These routing slips should be printed in duplicate and numbered to correspond to the register number of the letter shown in the card index in the mail room. When letters are received in a section the chief thereof simply initials the routing slips as an acknowledgment of the receipt of the letters. These routing slips are returned and filed in chronological order in the mail room. Thereafter as letters are answered, credit is given the section to which the letter was charged by transferring the slip from a current file to a "dead file" (or answered). A modern system of filing correspondence is also important from the standpoint of efficient office prastice. The department receives an average of about one hundred and sixty letters daily and has a force of four clerks handling the "registry" alone. Two clerks should handle at least four hundred letters a day, if the recording system now used were changed to the one suggested above.

The system of filing correspondence in the department of customs headquarters is also antiquated and inefficient. All correspondence that has been disposed of, is kept in books arranged in chronological order. Separate books are maintained for the office of the Minister, the chief of customs, each unit of the department, the Free City of Danzig, and for various other officials and departmental divisions.

Correspondence books are renewed annually. An appropriation of funds sufficient to modernize the present filing system would be a profitable investment. Filing cabinets should be provided as well as the necessary alphabetical files, which should be arranged according to subject matter and subdivided according to the names of the senders and recipients.

APPENDIX

to

CHAPTER III

Draft of a Bill for the Organization of a Customs Service Inspectorate for the Republic of Poland

Art. 1. There is hereby established in the Department of Customs a Customs Service Inspectorate at the head of which shall be an Inspector General of Customs.

Art. 2. The inspector general of customs shall be appointed by the director of customs with the approval of the Minister of Finance.

The director of customs may dismiss or suspend the inspector general of customs at any time.

Art. 3. The inspector general of customs shall previously have been an officer of the customs service and shall be thoroughly versed in the duties of that service. No person shall be eligible for appointment to the office of inspector genaral of customs who shall have had less than five years experience in a post of executive responsibility in the customs service.

Art. 4. The inspector general of customs shall be given the status of grade IV and shall be entitled to the pay and all emoluments of that grade.

Art. 5. The inspector general of customs shall give a bond for the faithful performance of his duties in such sum as shall be designated by the Minister of Finance.

Art. 6. The inspector general of customs shall maintain an office in the department of customs at Warsaw. He shall make such visits to the several customs offices and customs patrols as he shall deem advisable for the proper administration and enforcement of the existing laws and regulations of

the customs service. He shall also make such special investigations as the director of customs or the Minister of Finance may require.

Art. 7. There shall be an assistant inspector general of customs, who shall be appointed by the inspector general of customs, whith the approval of the director of customs. The director of customs shall have the power to dismiss or suspend the assistant inspector general of customs at any time. It shall be the duty of the assistant inspector general of customs to assist the inspector general of customs in the administration of his office and to perform such other duties as the inspector general of customs may require.

Art. 8. The assistant inspector general of customs shall be given a status thereto of grade V and shall be entitled to the pay and to all emoluments corresponding thereto.

Art. 9. The assistant inspector general of customs shall be required to give bond, for the faithful performance of his duties, in such form as may be required by the Minister of Finance.

Art. 10. The officers and employees of the customs inspectorate service, shall be subject to transfer or dismissal at the discretion of the inspector general of customs, whenever in his judgement the interests of the service require.

Art. 11. The inspector general of customs shall have the general duty of inspecting the customs service, and to make such investigations as may appear necessary to detect frauds and other violations of the customs law. In the course of this inspection he and his authorized agents shall be empowered:

a) to examine the books, papers and accounts of all customs officers and other persons in charge of the administration of the customs law, including the customs guard,
b) to examine the books and records of any person, firm or corporation engaged in the importation of merchandise into Poland, for the purpose of investigating violations or alleged violations of the customs law,
c) to examine premises, warehouses and other places in which merchandise may be kept or stored, for the purpose of investigating violations or alleged violations of the customs law, and to seize any merchandise found

therein upon which the proper customs duties have not been paid,

d) to arrest without warrant any person found committing any act declared by the customs law to be an indictable offence,

e) to take testimony under oath to compel the appearance of witnesses and the production of books and papers in any investigation. To make such other investigations as may be required of him by the director of customs.

2. Any person, firm or corporation which refuses to submit to the examination or inspection of books, accounts, premises or merchandise as provided for in this article shall be subject to a fine of not more than 10,000 zlotys, in addition to any penalties now provided in the penal code for resisting an officer in the discharge of his duties.

Art. 12. The staff of the inspector general of customs shall be known as the "Customs inspectorate". It shall consist of inspectors, assistant inspectors, secret service agents, and such clerical and other assistants as the volume of work performed by this office may require. Inspectors shall have the pay and allowances of grade VI or VII, assistant inspectors shall have the pay and allowances of grade VIII, and secret agents shall have the pay and allowances of grade VI.

Art. 13. The number of inspectors, assistant inspectors, secret service agents, clerks and other employees necessary for fhe proper functioning of the customs inspectorate shall be as provided in the annual budget law.

Art. 14. The provisions of the civil service law shall apply to the officials and other employees of the customs service inspectorate, in so far as such provisions are not in conflict with this law.

Art. 15. The director general of customs shall promulgate the regulations governing the organization and duties of the customs service inspectorate with the approval of the Minister of Finance, and shall issue new regulations or revise existing ones from time to time as the exigencies of the service may require.

Art. 16. All laws and parts of laws inconsistent with this act are hereby repealed.

Art. 17. This law shall become effective on January 1, 1927.

CHAPTER IV

The Consolidation of Customs Collection Districts and Customs Houses

For customs administrative purposes the Republic of Poland is at present divided into five customs collection districts (See map of present arrangement of districts No.2. in the appendix of this Report). These collection districts were arranged so as to conform as nearly as possible to the border lines of former German, Austrian and Russian Poland. This arrangement was followed in order to utilize the penal code of Russia, Germany and Austria for the punishment of violations of the customs law. Each of these collection districts maintains a headquarters office for the staff of clerks and officials. The penal code used in each district and the location of the districts are indicated in the following table.

Name of District	*Location of Headquarters*	*Penal Code Used*
Lwów	Lwów	Austrian
Mysłowice	Mysłowice	German
Posen	Posen	German
Warsaw	Warsaw	Russian
Wilno	Wilno	Russian

The administrative affairs of each district are in charge of a chief who is known as the President of the collection district. He has authority over the field service of all the customs houses, over the administrative personnel in his district and over the customs guard assigned to his district. The work performed in the headquarters office is purely administrative. In addition to the five collection districts,

mentioned above, Poland maintains an indirect control over the customs service in the Free City of Danzig. This will be discussed in a special memorandum on the Danzig customs situation. The following table shows the number of officials and employees in the headquarters offices of the various districts and their respective grades:

Group of Salary	Territory of the Customs Direction					Customs Inspectorate of Danzig	Total
	Warsaw	Wilno	Posen	Mysłowice	Lwów		
Officials							
IV	—	1	1	—	—	—	2
V	1	—	1	1	2	1	6
VI	10	3	10	5	5	4	37
VII	17	6	17	17	17	6	80
VIII	37	13	36	36	29	6	157
IX	67	30	106	97	59	2	361
X	61	17	154	214	66	—	512
XI	30	7	101	137	49	1	325
XII	4	2	—	—	4	—	10
Total . .	227	79	426	507	231	20	1490
Minor employees							
XIII	—	—	—	6	—	—	6
XIV	—	—	—	—	—	—	—
XVa	4	1	15	7	12	1	40
XVb	30	16	—	—	—	—	46
XVI	16	3	29	66	12	—	126
Total . .	50	20	44	79	24	1	218
Grand total	277	99	470	586	255	21	1708

By simplifying the proceedings in the various headquarters offices the number of employees could be considerably reduced. The district headquarters office of Lwów appears to be efficiently administered but even in this office there is much unnecessary copying by hand of records and documents.

Reduction in the Number of Customs Districts

Your Commission recommend that the number of customs collection districts be reduced from five to four. With the adoption in the future of a new penal code for customs and other revenue violations there will be no further necessity for observing the old lines of division. The proposed reduction can best be effected by consolidating the Wilno with the Warsaw district offices. Importers and others may oppose the closing of the Wilno office but the small amount of duties collected in this district does not justify the continuance of this office. The cost of collecting the customs revenue is higher there than in any other district of the Republic as will be seen from the table on page [1]) of the Report. From January 1st to June 30th, 1926 a total of 1,076,629 zlotys was collected in the district of Wilno. The expense of administering the district during the same period was as follows:

Administrative expense	customs	149,141	zlotys
„ „	guard	236,406	„
	Total	385,547	„

In view of the expense of administering the Wilno district, which, during the first half of 1926 was 45% of the collections for that period, the recommendation that this office be closed and its territory transferred to the jurisdiction to the Warsaw office seems fully justified.

The effect of this consolidation would be to give to the headquarters office of the district of Warsaw the administration of the Wilno district, and only one administrative force would be necessary for the new consolidated district. To meet the extra office work in the Warsaw office which would result from this consolidation not more than six additional officials and other employees would be needed in place of the twenty-three now employed in the Wilno office.

It is also recommended that the lines of the remaining districts be rearranged according to the plan illustrated on map No.3. in the appendix of this Report. By comparing

[1]) *Editor's Note. This table has not been added to the Report by its author.*

this map with map No.2. in the appendix of this Report, which shows the present arrangement of districts, the advantage of the proposed arrangement will be apparent. In addition to the economy effected by the change there will be various administrative advantages. Upper Silesia, for example, is at present the smallest district in extent of territory, but is second in importance in the amount of duty collected. One half of the internal border line of this district adjoins the present district of Warsaw, while the other half adjoins the district of Lwów. The district of Upper Silesia (known as the district of Mysłowice) could well be extended to include the province of Kielce of the Warsaw district and the province of Kraków of the Lwów district. This territory would then be unified and the overlapping and duplication of effort which exists at present would be eliminated. The headquarters of this enlarged district should be moved to Kraków as soon as the exigencies of the service permit.

Your Commission are not sufficiently familiar with local conditions to recommend the abolition of particular customs offices but suggest that the Government give careful study to the question of the advisability of the eliminating of some of these numerous offices. For instance, three customs offices in the Mysłowice district which are situated at railway stations of minor importance could be abolished and their functions taken over by other offices of this district without any detriment to the service. Two of these offices, Oświecim and Dziedzice, are on a line from Zebrzydowice to Kraków and Lwów and all of the work now porformed at Oswiecim and Dziedzice could be transferred to Zebrzydowice office. The third is the Goleszów office on the line Cieszyn-Bielsk, the work of which could be disributed to the several adjoining offices in the district.

Construction of Customs Office Buildings

The budget for 1926 provides 498,000 zlotys for the purpose of constructing new buildings for customs office purposes. A member of your Commission has visited several of these buildings now under construction including the one being built at Łagiewniki in the district of Mysłowice and

also the one at Karol-Emanuel in the same district. A new building for the customs office at Bytom (Chorzów) should be built. This is an important railroad junction through which a considerable volume of imports and exports is handled. The present quarters are inadequate. The building now in use is an old one-story frame structure built on rotting piles and it must soon be abandoned as unfit for its purpose. So important a station calls for a better building.

Plan for a Model Customs House

The ground plan for a model railway customs house is submitted in the appendix of this Report. It is listed as plan No.4. The building shown on the plan has a ground floor space of 12.02 by 21.42 metres and in addition to the necessary space for the customs service proper it provides for an office for railway administrative purposes and another for the railway customs agent. Your Commission are informed that the approximate cost of such a building in brick and cement would be 35,000 zlotys. Such a building would be better adapted for customs purposes than any of the buildings now being constructed and the cost would not be so great. The principal criticism of the buildings now under construction is that they are cut up into too many rooms. The ground plan of the building submitted in this Report calls for an open vestibule or lobby through which importers and the public in general may pass from the declaration desk to the final liquidation or cash window without retracing their steps or going into separate rooms. Although the plan here submitted calls for a two-story building the details for the second floor have not been included. This floor may be arranged to meet the requirements of the particular district or territory in which the building is to be located. A railway customs house of the type shown above should adjoin a railroad warehouse.

Plan for a Model Customs and Railroad Warehouse

There is also submitted with this Report a ground plan for a model customs railroad warehouse. It appears in the appendix of this Report as plan No.5. This plan is offered

with the suggestion that it might profitably be employed in those instances in which the customs and railroad administration are considering the construction of warehouses for joint customs and railroad purposes, though it is too expensive for adoption in the cases of warehouses already built. This plan calls for four railroad sidings each branching out from the main fright or switching line. Such an arrangement would permit the quick unloading of any two cars or the partial unloading and transfer of freight without the necessity of shifting a whole train of cars. One such warehouse is now in operation in Lwów district. It is especially recommended for junction points where much freight is transferred either for export or for reloading for transmission to interior points and might well be adopted at the new port of Gdynia.

RESUMÉ OF RECOMMENDATIONS

A list of the principal recommendations made in this Report is given below:

1. The principle of specific rates of duty should be retained. Ad valorem rates might be applied in an omnibus clause covering all articles not otherwise provided for, and in certain other cases to which specific duties are not easily applicable.
2. In the preparation of a new tariff law special attention should be given to the question of grouping of merchandise. The present system of grouping should be extended. Articles which are allowed free entry should be listed in one group.
3. The new law should contain an alphabetical schedule of dutiable merchandise showing the particular paragraph of the law under which any particular class of merchandise falls.
4. The minimum amount of duty now collected should be raised from 50 groszy to 1 zloty.
5. The duties of the higher customs officers especially those in charge of customs houses, should be clearly stated but not limited.
6. A new and simpler form of declaration should be prepared.
7. Duplicate registry of merchandise in the frontier office and in the interior customs office should be changed to single entry in the frontier office.
8. An extra carbon of the frontier registry should be used as a transfer list.
9. The present book of weights should be abolished.
10. The present procedure regarding the examination of parcel post packages from foreign countries should be modified.

11. The present system of assessing duty on used wearing apparel should be changed.
12. Present system of examining mail, letters and parcels addressed to foreign countries should be modified.
13. A complete set of rules and regulations should be published in one volume. A greater coordination and uniformity of policy in issuing amendments to regulations should be introduced.
14. The period of the Government's right to collect additional duties should be reduced from two years to six months.
15. Duties once paid upon the basis of a legal assessment should not be refunded.
16. Decisions of the Ministry of Finance regarding customs appeals cases should be published weekly and distributed to all customs houses and stations in the Republic.
17. Decisions of the advisory council should also be published at frequent intervals and distributed to all customs houses and stations.
18. Severe fines and penalties should be imposed upon customs violators.
19. The present regulations regarding clerical errors should be changed. Carelessness should be penalized.
20. The present system of rewarding employees who apprehend smugglers in the line of regular duty, or who detect other violations of the customs law should be abolished.
21. The reward given for detection of violations should be limited to 25% of the value of the merchandise. Persons in the Government's service should not be eligible to receive such reward.
22. The present departmental organization of the customs service should be reorganized.
23. Personnel section of the departmental headquarters organization should remain under the control of the chief or director general of the customs service.
24. An efficient and well experienced executive should be selected for the position of general director of the customs service. He should be given full control over the organization.

25. Authority to appoint and remove employees in the customs service should remain in the hands of the general director of customs.
26. The present office of the customs guard inspectorate should be abolished and the duties of this office transferred to the ranking commissary officer. The personnel of the guard should be reduced.
27. Reduce the number of customs collection districts in Poland from five to four. Close the Wilno headquarters office.
28. Certain customs houses and stations should be closed and others consolidated.
29. A strong organization should be provided for the prevention of frauds upon the customs revenue.
    Plans for such an organization are submitted together with a draft of an appropriate bill.
30. Proper courses of instruction for customs officials should be provided,
31. The management of offices in general should be improved. Modern equipment such as filing system, typewriters, adding machines and other labour saving devices should be installed.
32. The present personnel of the customs service should be reduced.
33. New customs houses which are to be built in the future should be constructed on practical lines.

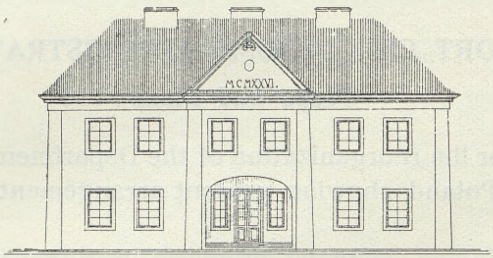
APPENDIX

REPORT ON CUSTOMS ADMINISTRATION

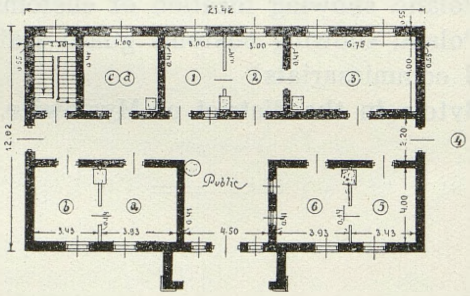
Maps and Plans

1. Outline for the reorganization of the Department of Customs.
2. Map of Poland showing present arrangement of collection districts.
3. Map of Poland showing proposed arrangement of collection districts.
4. Plan for model customs house.
5. Plan for customs and railroad warehouse.
6. Map of Poland showing location of customs offices.
7. Map of Poland showing customs guard stations, inspectorates and commissariats.
8. Map of Bytom in the district of Mysłowice.

FRONT



GROUND FLOOR



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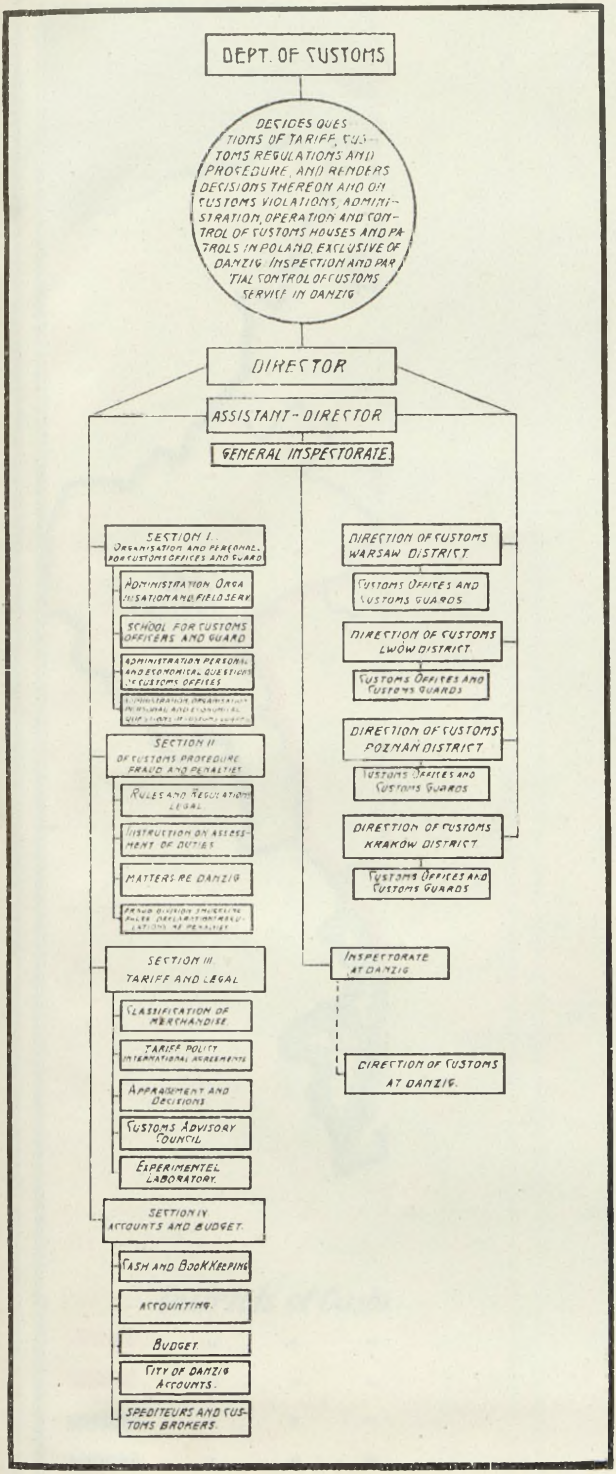
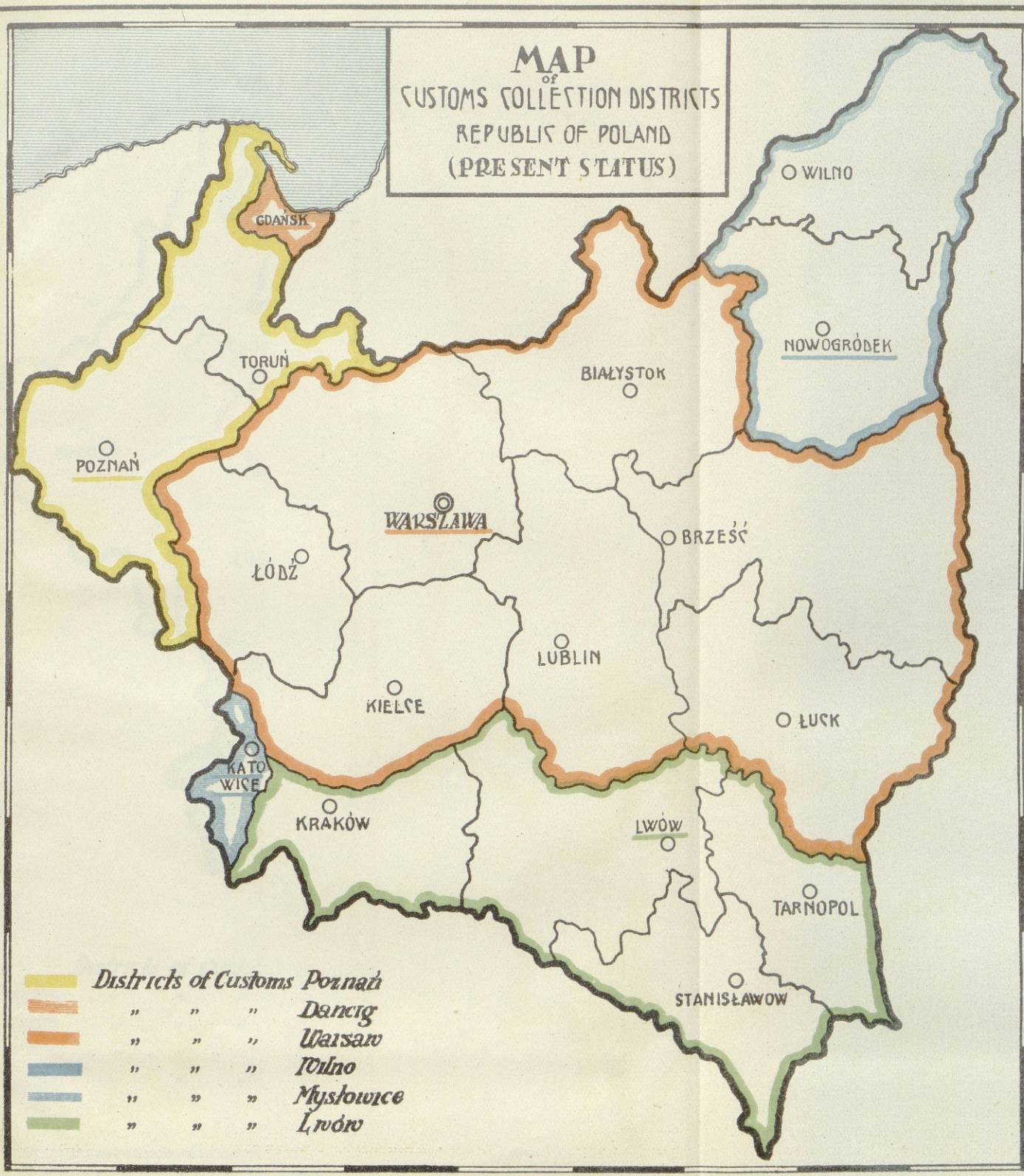
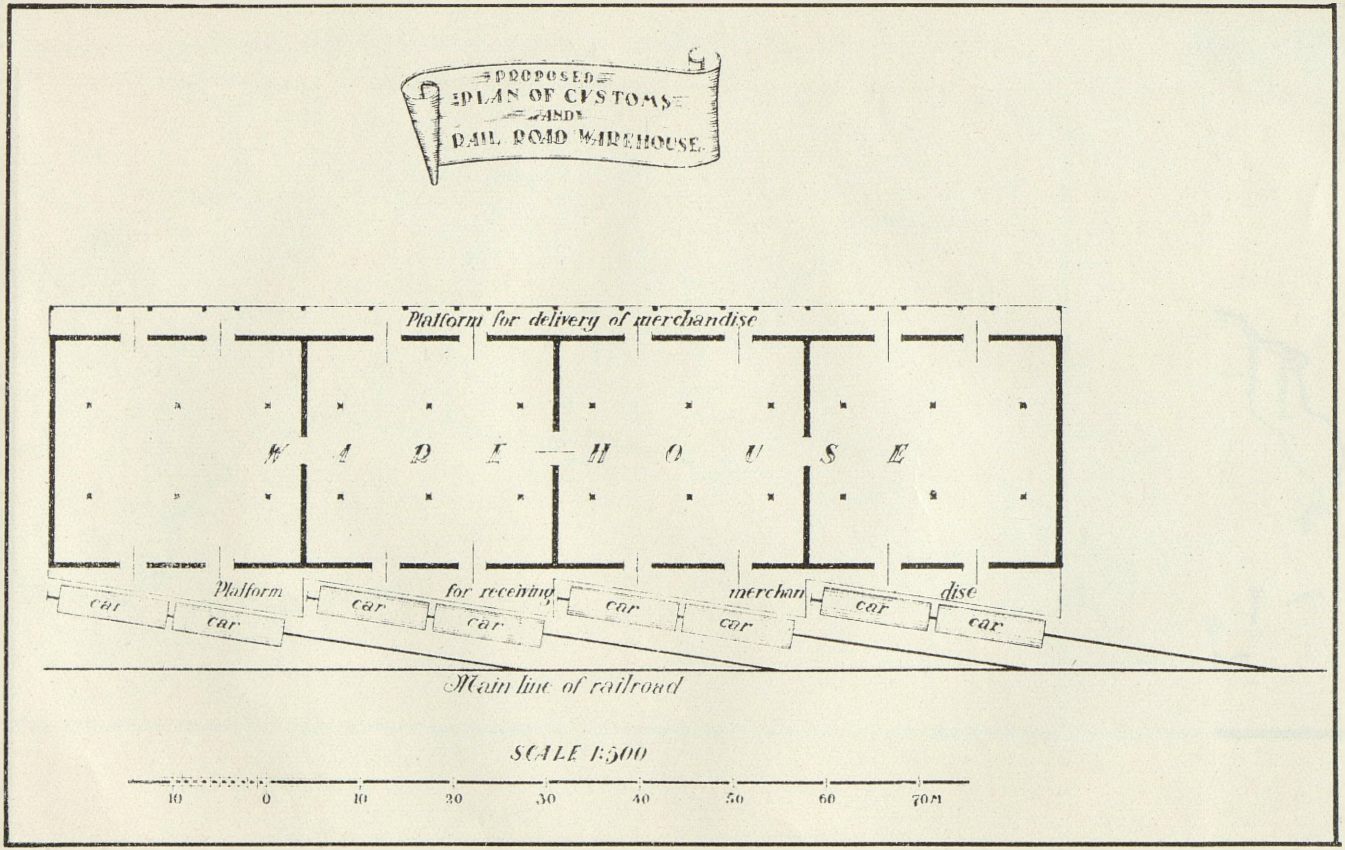

DEPT. OF CUSTOMS
DECIDES QUESTIONS OF TARIFF, CUSTOMS REGULATIONS AND PROCEDURE, AND RENDERS DECISIONS THEREON AND ON CUSTOMS VIOLATIONS, ADMINISTRATION, OPERATION AND CONTROL OF CUSTOMS HOUSES AND PATROLS IN POLAND, EXCLUSIVE OF DANZIG. INSPECTION AND PARTIAL CONTROL OF CUSTOMS SERVICE IN DANZIG
DIRECTOR
ASSISTANT-DIRECTOR
GENERAL INSPECTORATE
SECTION I.
ORGANISATION AND PERSONNEL FOR CUSTOMS OFFICES AND GUARD
ADMINISTRATION ORGANISATION AND FIELD SERV.
SCHOOL FOR CUSTOMS OFFICERS AND GUARD
ADMINISTRATION PERSONAL AND ECONOMICAL QUESTIONS OF CUSTOMS OFFICES
SECTION II
OF CUSTOMS PROCEDURE, FRAUD AND PENALTIES
RULES AND REGULATIONS (LEGAL)
INSTRUCTION ON ASSESSMENT OF DUTIES
MATTERS RE DANZIG
SECTION III
TARIFF AND LEGAL
CLASSIFICATION OF MERCHANDISE
TARIFF POLICY INTERNATIONAL AGREEMENTS
APPRAISEMENT AND DECISIONS
CUSTOMS ADVISORY COUNCIL
EXPERIMENTEL LABORATORY
SECTION IV.
ACCOUNTS AND BUDGET.
CASH AND BOOKKEEPING
ACCOUNTING
BUDGET
CITY OF DANZIG ACCOUNTS
SPEDITEURS AND CUSTOMS BROKERS
DIRECTION OF CUSTOMS WARSAW DISTRICT
CUSTOMS OFFICES AND CUSTOMS GUARDS
DIRECTION OF CUSTOMS LWÓW DISTRICT
CUSTOMS OFFICES AND CUSTOMS GUARDS
DIRECTION OF CUSTOMS POZNAN DISTRICT
CUSTOMS OFFICES AND CUSTOMS GUARDS
DIRECTION OF CUSTOMS KRAKOW DISTRICT
CUSTOMS OFFICES AND CUSTOMS GUARDS
INSPECTORATE AT DANZIG
DIRECTION OF CUSTOMS AT DANZIG.

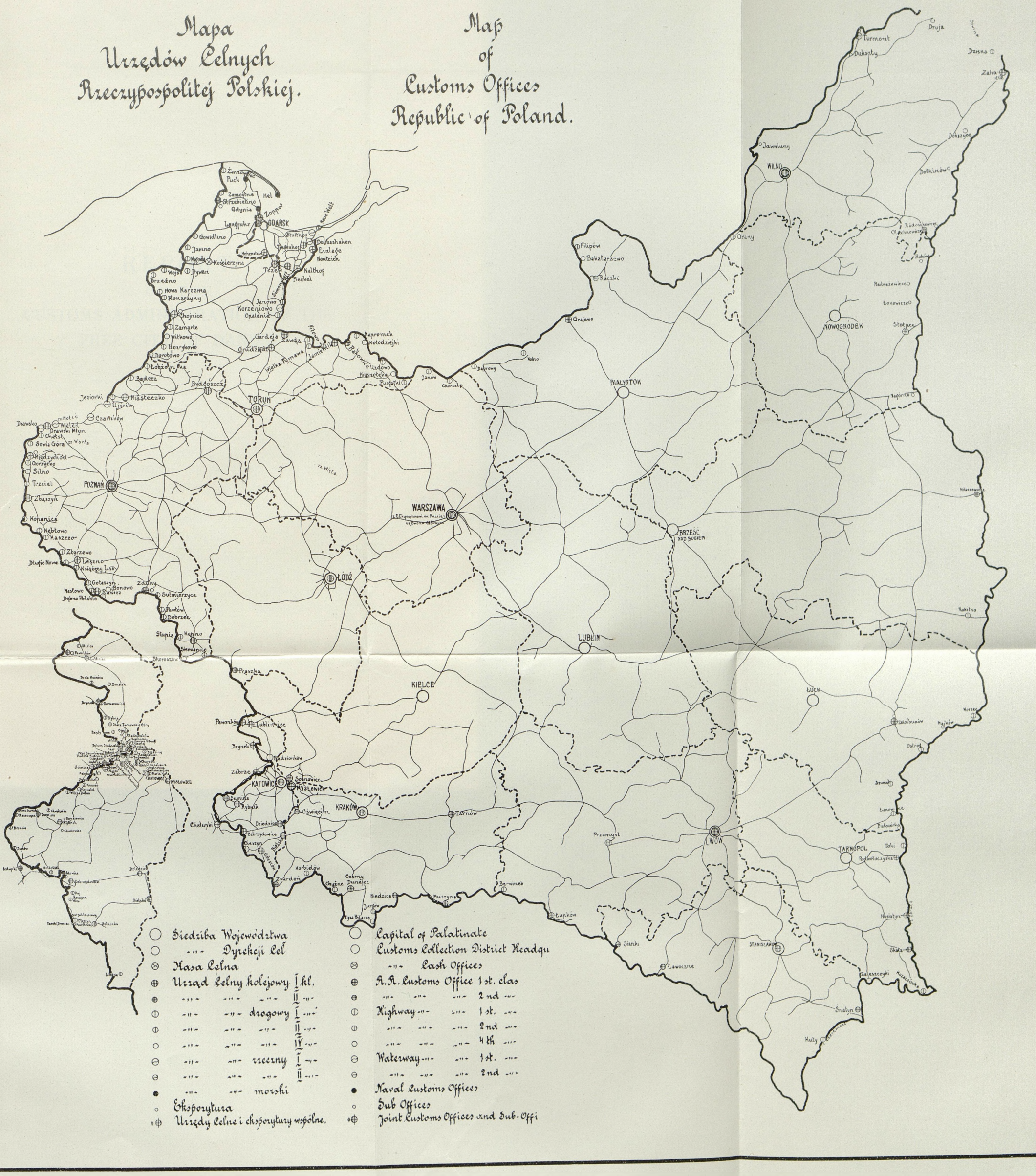

MAP
of
CUSTOMS COLLECTION DISTRICTS
REPUBLIC OF POLAND
(PRESENT STATUS)
GDANSK
TORUŃ
POZNAŃ
WILNO
NOWOGRÓDEK
BIAŁYSTOK
WARSZAWA
BRZEŚĆ
ŁÓDŹ
LUBLIN
KIELCE
ŁUCK
KATOWICE
KRAKÓW
LWÓW
TARNOPOL
STANISŁAWOW
Districts of Customs Poznań
" " " Danzig
" " " Warsaw
" " " Wilno
" " " Mysłowice
" " " Lwów

MAP
CUSTOMS COLLECTION DISTRICTS
REPURLIC OF POLAND
(PROPOSED STATUS)
GDAŃSK
TORUŃ
POZNAŃ
ŁÓDŹ
WARSZAWA
BIAŁYSTOK
WILNO
NOWOGRÓDEK
BRZEŚĆ
LUBLIN
KIELCE
KATOWICE
KRAKÓW
ŁUCK
LWÓW
TARNOPOL
STANISŁAWOW
Districts of Customs Poznań
" " " Warsaw
" " " Kraków
" " " Lwów
" " " Danzig


PROPOSED
PLAN OF CUSTOMS
AND
RAIL ROAD WAREHOUSE.
Platform for delivery of merchandise
W A R E — H O U S E
Platform for receiving merchan dise
car
car
car
car
car
car
car
car
Main line of railroad
SCALE 1:500
10 0 10 20 30 40 50 60 70M

Mapa Urzędów Celnych Rzeczypospolitej Polskiej.

Map of Customs Offices Republic of Poland.


Żarnowiec
Puck
Hel
Zamostne
Strzebielino
Gdynia
Zoppot
GDAŃSK
Neue Welt
Langfuhr
Stutthof
Gowidlino
Jamno
Mydoła
Kościerzyna
Hohenstein
Dirschau
Dulbashahen
Einlage
Neuteich
Tczew
Kalthof
Pieckel
Dywan
Wojan
Brzeźno
Nowa Karczma
Konarzyny
Chojnice
Janowo
Korzeniowo
Opalenie
Zamarte
Withowo
Henrykowo
Dorotowo
Łobżonka
Bądecz
Bydgoszcz
Gardeja
Zawda
Grudziądz
Wielka Tymawa
Jamielnik
Ritowo
Bakowice
Uzdowo
Krasnotopka
Purdałki
Janów
Chorzele
Nasromek
Kołodziejki
Grajewo
Kolno
Piątrowy
Filipów
Bakałarzewo
Raczki
Orany
Jawniuny
WILNO
Turmont
Druja
Dukszty
Dzisna
Zaha
Dokszyce
Dolhinów
Radoszkowicze
Olszanowicze
Rakiszki
Rubieżewicze
Łozowicze
NOWOGRÓDEK
Stołpce
Jeziorki
Miasteczko
Liszcze
Czarnków
Drawsko
Wielen
Drawski Młyn
Choćsk
Sowia Góra
Międzychód
Gorzycko
Silno
Trzciel
Zbąszyń
Kopanica
Kębłowo
Kaszczor
Zbarzewo
Długie Nowe
Leszno
Książęcy Las
Gołaszyn
Bonowo
Rawicz
Masłowo
Dębno Polskie
Żdżary
Sulmierzyce
Pawłów
Dobrzec
Słupia
Kępno
Siemianice
Skoroszów
Praszka
Pawonków
Lublinieniec
Brynek
Radzionków
Zabrze
KATOWICE
Sosnowiec
MYSŁOWICE
Dziedzice
Zebrzydowice
Cieszyn
Bielsko
Chałupki
Dumnia
Rybnik
Oświęcim
KRAKÓW
Tarnów
Przemysl
LWÓW
TARNOPOL
Podhołoczyska
Toki
Tłumacz
Łanowce
Białozórka
Horbielów
Zwardoń
Chyżne
Czarny Dunajec
Jurgów
Biedzice
Muszyna
Barwinek
Łupków
Sianki
Ławoczne
STANISŁAWÓW
Zaleszczyki
Kozaczówka
Śniatyn
Kuty
Horodenka
Hubsztyn
Skała
Rohatyn
Mikaszewicze
Ostróg
Szumsk
Zahołbunów
Majków
Korzec
ŁUCK
KIELCE
LUBLIN
BIAŁYSTOK
TORUŃ
POZNAŃ
ŁÓDŹ
WARSZAWA
BRZEŚĆ NAD BUGIEM
Nagórna
Rakitno
Tczew
Nowe Miasto
Pelplin
Skarszewy
Kościerzyna
Kartuzy
Żukowo
Pruszcz
Tczew
Gniew
Nowe
Starogard
Tczew
Skarszewy
Kościerzyna
Kartuzy
Żukowo
Pruszcz

REPORT

ON THE

CUSTOMS ADMINISTRATION OF THE FREE CITY OF DANZIG

REPORT

on the

Customs Administration of the Free City of Danzig

By virtue of an agreement entered into in 1921, the Free City of Danzig and the Republic of Poland are mutually concerned in the amount of customs revenue collected under the tariff law of the Republic. The Free City of Danzig by the terms of this agreement is acting as agent of the Republic of Poland in the collection of customs revenues. Poland therefore, has a right to exercise certain jurisdiction over the customs administration in Danzig.

Poland's jurisdiction over customs administration in Danzig is exercised through an organization known as a "Customs Inspectorate". In view of Poland's interest in the customs administration of the Free City, your Commission made two visits to Danzig, of two days each i.e. August 9th and 10th, and August 20th and 21st. The following officials of the Government of Poland and of the Free City were interviewed:

Comissioner Strasburger, Poland's representative in Danzig,
Director Kurnatowski, Chief of the Customs Inspectorate,
Inspector Weiss, of the Customs Inspectorate,
President Sahm, City of Danzig,
Senator Volkman, Minister of Finance,
Staatsrat Kraeft, Chief of Customs.

In addition to the above, many minor officials and other employees of the Danzig Customs Administration were also interviewed. Various customs houses were visited, including the main post office. A tour was made of the harbour and the location of the different customs houses noted. A visit was also made to the Drawback Section of Danzig customs service and to the school of instruction maintained for customs officials by the Free City.

Recommendations and Remarks

Your Commission have the following recommendations to offer relative to the customs administration in the Free City of Danzig.

1. **Number of Customs Houses.** The following table shows the number and designation of the various customs houses now operating in the Free City (see accompanying chart showing location of each).

Interior Customs Houses	7
Frontier Railway	1
Frontier Road	4
Sub-offices	4
Harbour and River Offices	9
Total . .	25

In addition to the above customs houses there are also six stations known as "Expositures" where certain customs procedure is carried out. This makes a total of 31 customs stations in Danzig where duties are collected. The maintenance of the various customs houses is a very expensive item in the cost of administration. All interior customs houses should be consolidated into one central station. The nnmber of harbour offices should be reduced to three. The river offices should be closed and all work now performed in these offices transferred to the harbour offices. All expositures should be closed. In this manner the number of customs stations now in operation could be reduced from 31 to 13.

2. **Number of Warehouses.** At the present time there are over 200 private warehouses scattered throughout the Free City. None of these 200 private warehouses is bonded and no customs official has the direction and constant supervision of the merchandise stored in such warehouses. The only Customs Control over the merchandise stored therein is represented by a key to the warehouses. Many of these warehouses, however, are nothing but portions of the importers' own premises. No imported merchandise should be permitted for a moment to leave the sole custody of the customs service until the duties thereon have been assessed and paid unless the merchandise is to be deposited in a warehouse which is under government bond and subject to the constant control

and supervision of representatives of the customs service. The present practice is a great hindrance to efficient and economical administration. At the present time a customs official may be obliged to visit any one of these scattered warehouses in order to carry out the procedure necessary for the collection of the duty on any merchandise which the importer or his agent may desire to declare for entry.

By building several very large warehouses distributed at points where most needed, the evils and defects of the warehousing situation would be remedied.

3. **Cost of Collecting Customs Revenue in the Free City.** The estimated expenditure for customs administration in the Free City of Danzig provided for in the budget of 1926/27 is 6,485,000 gulden (11,348,750 zlotys). The estimated receipts for the same period are 16,600,000 gulden, or approximately 29,050,000 zlotys. Both these estimates are taken from the Jacobsen-Janssen Report made for the League of Nations, dated July 19th, 1926. This report calls attention to the high cost of collecting the customs revenue in the Free City. The following abstract is taken from page 43 of the above report.

> "If the 16,600,000 gulden were obtained, the expenditure of the customs administration in Danzig would amount to 39% of the gross receipts — a very high percentage".

Your Commission have taken for consideration the figures represented in the actual receipts for the first six months of the present calendar year, i.e., 18,404,600 zlotys, and they estimate that the gross receipts for the second half of the present calendar year will be approximately 21,600,000 zlotys, bringing the total estimated receipts for the calendar year 1926 up to approximately 40,000,000 zlotys. If the actual receipts do not exceed the above estimate the cost of collecting these 40,000,000 zl. will be a very high, approximately 28% of the gross receipts. This percentage of cost of administration (28%) while lower than the percentage (39%) referred to in the Jacobsen-Janssen report is still an abnormally high percentage for the cost of administration.

The chief factors which contribute to this high cost of administration are the following:

a) A needlessly large number of officials and other employees. The following figures were obtained from the Chief of the Customs Inspectorate at Danzig:

Number of officials in Customs offices	1,058.-
Border officials, Sea coast, Zoppot, Neue Welt	105.-
Border officials Nehrung, Frisches Hafen and Nogat . . .	73.-
Total	1,236.-
Headquarters Office Danzig	154.-
Total	1,390.-

Your Commission believe that the above force of employees in the customs administration of the Free City of Danzig is out of proportion to the actual requirements of the service and could be reduced at least fifty percent without detriment to the service.

b) Higher rates of salaries than are paid in many other countries, notably, in Germany and France. The average rate of salaries paid in Danzig is more than twice the average rate paid in Poland [1]).

The average salaries paid to lower officials and minor employees in the Danzig service are likewise much higher than those paid by the Customs service of Poland. A minor

[1]) *The following table shows the monthly salaries paid by the Free City of Danzig to the chiefs of seven different customs offices located in the Free City, compared with the monthly salaries paid by the Republic of Poland to corresponding officials in Customs offices in Poland, which are comparable in size to those located in the Free City and mentioned in the table.*

Salaries of Chiefs in Danzig Service	Zlotys	Salaries of Chiefs in the Service of Poland	Zlotys
Post Office Station . .	1,758	Post Office Station . .	530
Packhof	1,688	Packhof	424
Freibezirk	1,688	Freibezirk	323
Hafenkanal	1,645	Hafenkanal	424
Bahnhofleegeter . . .	1,163	Bahnhofleegeter . . .	323
Langfuhr	1,058	Langfuhr	323
Zoppot	945	Zoppot	323

Guldens converted to zlotys at a rate of 175 zl. to 100 gul. Rate September 15, 1926.

official in the lower grades in Danzig is paid on an average 857 zlotys (490 gulden) monthly while the average salary of the same official in a similar grade in the customs service of the Republic is but 347 zlotys.

While the average salary paid the customs employee in the Customs Service in Poland is very low, the salaries paid by the Free City of Danzig to its customs employees are out of all proportion to the present cost of living in the Free City as compared with the pre-war period.

Your Commission believe that the present high scale of salaries paid customs officials in the service of the Free City constitutes a big factor in the present high cost of administration.

c) The intricacies of the Polish Tariff Law which is in operation in Danzig. The defects in this Law and the difficulties encountered in its administration have been referred to by your Commission in a separate Report on the Customs Service of Poland.

d) The use of a double set of bookkeeping records, due to the requirement of the Ministry of Finance of Poland, that the cash accounts in the Customs Service in Danzig be stated in gulden and in zlotys.

4. Inspectors. The Free City of Danzig maintains a customs inspection force of its own. Therefore your Commission recommend that the present force of 18 inspectors of the Customs Service of the Republic now on duty in Danzig should be reduced to not more than five.

Your Commission further recommend, that as a matter of policy a number of customs officials of Danzig citizenship be employed by the Republic of Poland. The duty of the Danzig nationals in the customs service of Poland should be naturally confined to the territorial limits of the Free City.

The number of inspectors relieved from duty in the Free City through the proposed reduction in force could be transferred to the new inspectorate of the customs service of the Republic, recommended in your Commission's general Report on Customs Administration.

5. Drawback Situation in Danzig. The drawback regulations of the Republic as they apply to Danzig differ from

those which apply to Poland. Regulations for Danzig are based on commercial relations existing between Germany and Danzing prior to the World War. The present system is unfair both to the commercial interest of Danzig and to the revenues of Poland. The Danzig regulations should be made to conform with those of Poland.

6. School of Instruction for Customs Officers. The Customs administration of the Free City maintains a splendidly equipped and well arranged school for the instruction of customs officers and other employees of the Danzig Customs Service. While approving the plan of instruction in principle, your Commission believe that the present school of instruction in Danzig is too extensive for the size of the district.

The existing agreements between the Free City of Danzig and the Republic of Poland have been taken into consideration in making the above recommendations.

Your Commission recommend that Poland exercise its right to request such changes in these treaties as may be necessary to give effect to its suggestions.

In conclusion, your Commission find that further economies, in addition to these specified above, might be effected in the Customs administration of the Free City, if the recommendations contained in the general report on Customs Administration regarding the simplification of the administrative procedure are put into effect.

REPORT
ON THE
SALT INDUSTRY OF POLAND

CHAPTER I

INTRODUCTION

Status of the Salt Monopoly

The Austrian Mining Ordinance of July 11, 1835., (Legal Code, Vol. 63. No. 113), declared the production of salt to be a state monopoly. This law is still in effect in Galicia. There is no law making the production of salt a monopoly in any other part of Poland. However, all the salt mines and brine works in Poland, with one exception, were previous to 1918 the property of the Governments which occupied the country. The mines, therefore, became the property of the Republic of Poland when it came into existence.

The one exception was the salt mine at Wapno, which was opened in 1908 by the Solvay Company under a concession from the German Government. After 1918 the Solvay Company offered to sell this mine to the Polish Government at a price equal to the amount which had been invested. The Government did not exercise its right to purchase, probably due to lack of funds.

On December 30, 1924., a Presidential Ordinance, (Journal of Laws, No. 117, section 1043), declared the sale of salt in Poland to be a monopoly. This law became effective on January 30, 1925. It delegated to the Minister of Finance the control of the sale of salt in Poland together with its importation and exportation.

The salt industry now functions as follows: The State salines (salt mines and brine works[1]) and the Solvay Company's

[1]) *There is no single word in English which covers both salt mines and plants which produce salt by evaporating brine. Therefore, the Polish word "saline" has been used throughout this Report with that meaning.*

mine produce the salt and ship it on instructions received from the Sale of Salt Bureau. The latter organization approves the licenses of salt wholesalers issued by District Treasury Offices [1]), receives orders from these licensed wholesalers and sends the orders to the salines. The Sale of Salt Bureau pays to the Direction of State Salines an agreed-upon amount per ton which covers the cost of production and it sells the salt to the wholesalers at a fixed price which is uniform through the country (since July 6, 1926) and averages about 535 per cent of the present cost of production. The maximum price at which wholesalers may sell to retailers and the maximum price at which retailers may sell to the public are fixed by the District Treasury Offices[1]) and vary according to local conditions.

Scope of Report

This report on the Salt Industry of Poland covers the following organizations:

Sale of Salt Bureau in the Ministry of Finance.
Direction of State Salines in the Ministry of Industry and Commerce.
Privately owned mines.

Offices and Mines Visited

In securing information as to the conditions prevailing in this industry, the following offices and mines were visited:

Sale of Salt Bureau in Warsaw
Direction of State Salines in Warsaw
State Salt Mines at Wieliczka
" " " " Bochnia
" Brine Works at Ciechocinek
" " " " Inowrocław
" " " " Wieliczka
" " " " Dolina
Solvay Salt Mines at Wapno
"Tesp" Brine Works at Stebnik
" " " " Kałusz

[1]) *i. e. Provincial Treasury Offices. — Editors's Note.*

The Report

In this Report complete descriptions of the methods now followed in the above offices and mines have not been attempted. Present conditions and methods are referred to only in so far as it has seemed necessary to establish the need for the changes recommended in the Report.

Your Commission wishes to acknowledge with appreciation the generous assistance in the formulation of this Report given by the various Ministries and by private citizens.

The statements of facts in this Report have been checked by the Direction of State Salines where they concern production, and by the Sale of Salt Bureau where they concern distribution. These Bureaus, of course, have no responsibility for the recommendations of the Commission.

CHAPTER II

THE EXCESS PRODUCTION CAPACITY OF SALINES

Capacity of Salines

Authorities appear to agree that the deposits of salt in Poland are sufficient to supply its population for several thousand years [1]). The salines which are now in operation have a total producing capacity of 586,500 tons per year with the present equipment, methods and number of workmen (Table 1). Improved methods with a small investment in equipment and the present number of workmen could probably double the producing capacity of existing salines, that is, produce 1,000,000 tons per year. The consumption of salt in Poland in 1926 will be approximately 340,000 tons (Table 2). It is apparent therefore that the capacity of Polish salines is too great for the domestic needs of the country. It is a fact too well understood to require proof that when mines or manufacturing plants are operated at less than capacity, the product costs more than it would cost if the plants were operated at full capacity.

Unless Poland can build up a large trade in salt, which under present conditions seems highly improbable, the producing capacity of Polish salines should therefore be reduced. Obviously, those salines in which the costs are highest are the ones which should be closed first (Table 3).

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[1]) *"Sól i Saliny Polskie" by Bukowski and Jackiewicz (p. 34) says "Poland's deposits of salt are estimated at 6 billion tons and are sufficient to supply the needs of the whole mankind for the next 400 years and those of the population of Poland for the next 15,000 years".*

TABLE 1

Producing Capacity of Salines with Present Methods Equipment and Number of Workmen Compared with Actual Production in 1925

	Producing Capacity with Present Methods	1925 Production	% of Capacity Used
Rock Salt			
Wieliczka	225,000 t.	92,583 t.	41.2
Bochnia	60,000	41,203	68.5
Wapno	150,000	86,422	57.5
Total	435.000 t.	220,208 t.	50.7
Brine Salt			
Wieliczka	25,000 t.	22,002 t.	88.0
Inowrocław	45,000	38,940	86.5
Bolechów	8,000	4,783	60.0
Dolina	8,000	4,835	60.0
Drohobycz	6,000	5,150	86.0
Kosów	8,000	3,262	40.8
Lacko	12,000	7,438	61.5
Łańczyn	6,000	4,923	82.0
Stebnik	14,000	7,609	54.5
Kałusz	7,500	7,437	99.0
Ciechocinek	12,000	3,442	28.6
Total [1])	151,500 t.	109,821 t.	72.6
Grand Total	586,500 t.	330,029 t.	56.5

[1]) *The figures for Solno and Barycz have been omitted from the table. They represent production of brine which is used only in the manufacture of soda.*

Authority: "Sól i Saliny Polskie" by K. Bukowski and A. Jackiewicz Tablica I.

TABLE 2

Consumption of Salt in Poland

	1924	1925	1925 est.[1])
Imports	2,533 t.	3,187 t.	1,444 t.
Domestic Sales of Sale of Salt Bureau	219,957	305,894	339,716
Total Domestic Consumption . .	222,490 t.	309,081 t.	341,160 t.

Bochnia

The cost of production of rock salt in Bochnia in the first 6 months of 1926 was 47 zl. per ton, which is 45% higher than in Wieliczka, mainly due to the fact that the deposits of salt in the former are found in clay and sand-stone and the labour necessary to mine it is therefore excessive. The natural conditions are so much more favourable in Wieliczka, which is only a few kilometers distant, that it is unwise to do any mining in Bochnia.

Wieliczka Brine Salt

The cost of Wieliczka brine salt for the first half of 1926 was 56 zl. per ton, as shown in table 3, but an invention in connection with the "Vacuum" apparatus, which is now on trial, and other improvements may possibly materially reduce this cost.

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[1]) *The estimate of imports for 1926 is made up of actual imports for the first 3 months (361 tons) plus an estimate for 9 months at the same amount per month.*

The estimate of sales for 1926 is made up of actual sales for the first 6 months (139,716 tons) plus an estimate of 200,000 tons for the second 6 months, an increase for the half year of 43%. Due to seasonal demand the sales for the second half of the year exceeded those for the first half in 1925 by 44% and in 1924 by 83%.

Authority: Central Statistical Office.
Sale of Salt Bureau.

TABLE 3

Production Costs per Ton of Salt

	1925	1926 (6 mos.)
Rock Salt		
Wieliczka	29.56 zl.	32.59 zl.
Bochnia	41.31	47.28
Wapno	28.00[1])	28.00[1])
Brine Salt		
Wieliczka	60.11	56.08
Inowrocław . . .	35.30	34.48
Bolechów	68.49	63.62
Dolina	68.95	67.02
Drohobycz . . .	61.83	55.84
Kosów	87.51	86.67
Lacko	73.56	65.76
Łanczyn	57.88	60.15
Stebnik	63.30	57.87
Kałusz	63.99	60.62
Ciechocinek (about)	95.00	95.00

These figures include: Salaries & Wages
Materials & Supplies
Pensions
Social Welfare Charges
Overhead
Taxes
Depreciation

Recommendation No.1.

Close the Bochnia mine immediately.

Close the following 8 salines as soon as Wieliczka and Inowrocław can supply the demand for brine salt:

Lacko
Drohobycz

[1]) *This is the cost to the Sale of Salt Bureau, but not the cost to the Solvay Company. The price in the table is for ground salt. Lump salt is 25 zl. per ton.*

Authority: Direction of State Salines.

Bolechów
Dolina
Łańczyn
Kosów
Stebnik
Kałusz (see map, Table 4.)

Disposition of Stebnik and Kałusz

The salines at Stebnik and Kałusz are leased to the Potash Salt Exploitation Company, Inc., known as "Tesp". There are two contracts between the Government and „Tesp" covering salt. The Stebnik contract is dated February 27, 1922 and runs for 40 years. Stebnik agrees to produce 9,000 tons of salt per year, if that much is required by the Government and the Government agrees to pay a price equivalent to the cost of production plus 10%, if this price is not higher than the average cost of other salines in Eastern Galicia. Stebnik further agrees to pay to the Government 7% of its total sales of salt as a rental for the use of plants and equipment.

The Kałusz contract is dated March 10, 1921, runs for 40 years and specifies a production of 6,000 tons of salt per year. Other provisions are similar to those in the Stebnik contract.

In order to execute these contracts "Tesp" made certain investments in buildings and equipment, and assumed certain obligations to pay pensions to former salt miners.

Recommendation No.2.

Negotiate a new contract with "Tesp".

This contract should provide, among other things, for the following:

a) "Tesp" to keep shafts and galleries open, but not to keep equipment in repair.[1])

[1]) *Objections to the closing of salines in Eastern Galicia have been advanced because Wapno and Wieliczka are fairly near the Western borders of Poland and might be occupied by an invading army. (See map, Figure 4.). In such a case Stebnik and Kałusz mines could be reopened and put back into production quickly and with a small expenditure. In*

b) "Tesp" to have right to remodel buildings for purposes other than the production or storage of salt.
c) "Tesp" to pay a rental for land and buildings.
d) The Government to reimburse "Tesp" for its investment in equipment for the production of salt.[1])
e) The Government to take over from "Tesp" all obligations to pay pensions to former salt miners.[1])

Disposition of Other Salines

The other seven salines mentioned in Recommendation No.1., are admirably suited for health resorts. The buildings now used for concentrating and drying pans and for the storage of salt could be easily transformed into salt baths, swimming pools and gymnasiums. The offices and the living quarters of the office personnel could be remodelled into hotels.

One of the members of your Commission visited three of these salines and made the following notes:

Bochnia

This saline is located on a hillside in picturesque country. The town of Bochnia straggles up the hill with crooked streets and quaint houses surrounded by remarkably luxuriant flower gardens. The saline owns extensive grounds well adapted for promenades, band concerts, tennis courts, and outdoor and indoor swimming pools filled with running salt water. The buildings belonging to the saline, as well as others in the vicinity, could be remodelled into baths, moderate priced hotels, dance halls and cinemas. Bochnia is 38 klms. from

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the opinion of your Commission there is no real advantage in keeping them in production at a loss in the interim.

In case of war it would be better to put these two mines into production than the other salines in Galicia because they could be opened by "Tesp", an organization which will be functioning continuously without any cost to the salt industry.

[1]) *These expenditures can easily be paid for out of the savings which can be made by the reorganization of the salt industry as recommended in this Report.*

Kraków and can be easily reached by railway or autobusses. It would make an ideal all-the-year-round week-end resort for the middle classes of Kraków.

Dolina

This is a quiet village in the eastern part of Galicia with a small lake on one side and on the other the foothills of the Carpathian mountains, which are themselves visible in the distance. The saline is nicely situated on the outskirts of the village; the buildings are well adapted for baths and hotels and the extensive grounds are particularly suited for sunken gardens and tennis courts. Dolina would make a good health and vacation resort for city people.

Kosów

This town in the southeastern corner of Poland is already famous as a health resort and if the saline were turned into salt baths and hotels, many more visitors would be attracted to Kosów. In changing the saline into a health resort, it should be placed under the charge of some famous Polish physician with a method of treatment entirely different from that of the health colony now located in Kosów. Each of these sanatoriums would then help the other.

The saline itself is located on a mountain stream at the beginning of the road from Kosów to Żabie which is famous for the beauty of its scenery. The costumes of mountaineers in this vicinity are among the most picturesque in Poland.

Recommendation No.3.

Dispose of the salines in Bochnia, Lacko, Drohohycz, Bolechów, Dolina, Łańczyn, and Kosów in the following sequence:

(a) Offer them without charge to the General Direction of Public Health.
(b) Sell them to private investors.
(c) Offer them without charge to the towns in which they are located to be used as municipal baths and parks.

In transforming these salines into health resorts it would be well to retain in a consulting capacity for a limited time an expert on the development and management of health resorts, a man familiar with such resorts in Switzerland, France or Germany. These resorts might be made to attract many tourists to Poland.

Disposition of Unnecessary Workers

The closing of the salines mentioned above and the reduction of the force at Wieliczka will release about 2100 workmen who receive in wages about 3,215,000 zl. per year (Table 5). It is to be regretted that so large a number of workmen should be released, but your Commission believe that it is unjust to the people of Poland to force them to pay more than, 3,000,000 zl. per year to keep men employed in relatively useless work.

Due to the fact that their work is usually completed early in the afternoon, many of these workers have learned other trades or purchased small plots of land which they farm. Consequently some of these workers will not suffer serious hardships when the salines are closed. Others may be employed by the health resorts which are recommended and some by "Tesp" as its production of potash increases. However, there will necessarily be some workers that will be seriously affected by the closing of these salines.

Recommendation No.4.

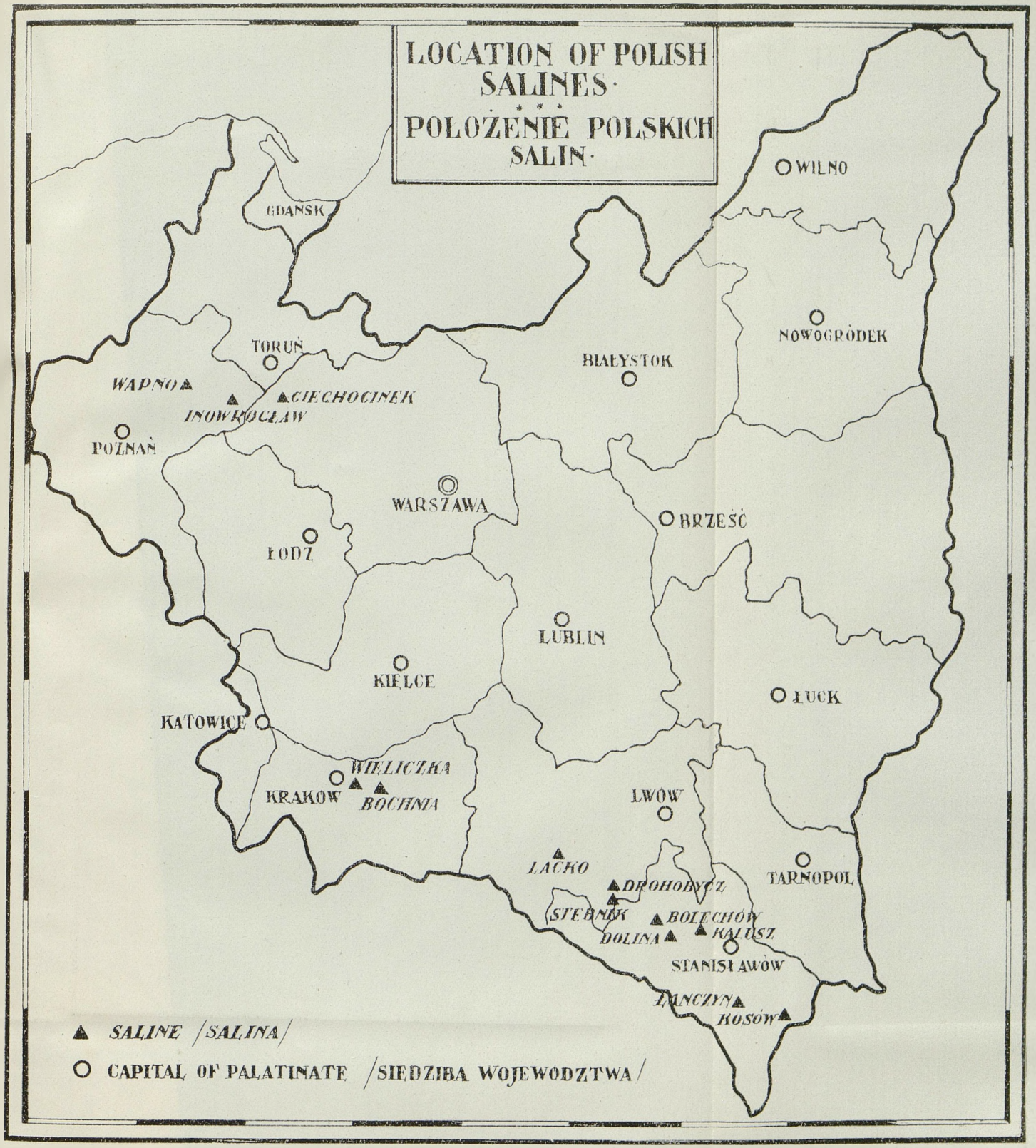
Release the 2,100 workmen listed in Table 5 as soon as production and stocks of salt in active salines can meet demands for consumption.

Assign a man trained in vocational guidance to help transfer to other industries the workmen who will be released by the closing of these salines.

Pensions

When the property of the salines has been disposed of and their present workers provided for, there will still remain the pensions for retired workmen. The pensions paid by the various salines during the year 1925 amounted to about 900,000 zl. as shown in Table 6.

FIGURE 4 /TABL. 4/.



MAPA
INSPEKTORATÓW i KOMISARJATÓW
STRAŻY CELNEJ
RZECZYPOSPOLITEJ POLSKIEJ.

MAP
SHOWING
CUSTOMS HOUSES AND CUSTOMS GUARD
STATIONS
IN
REPUBLIC OF POLAND

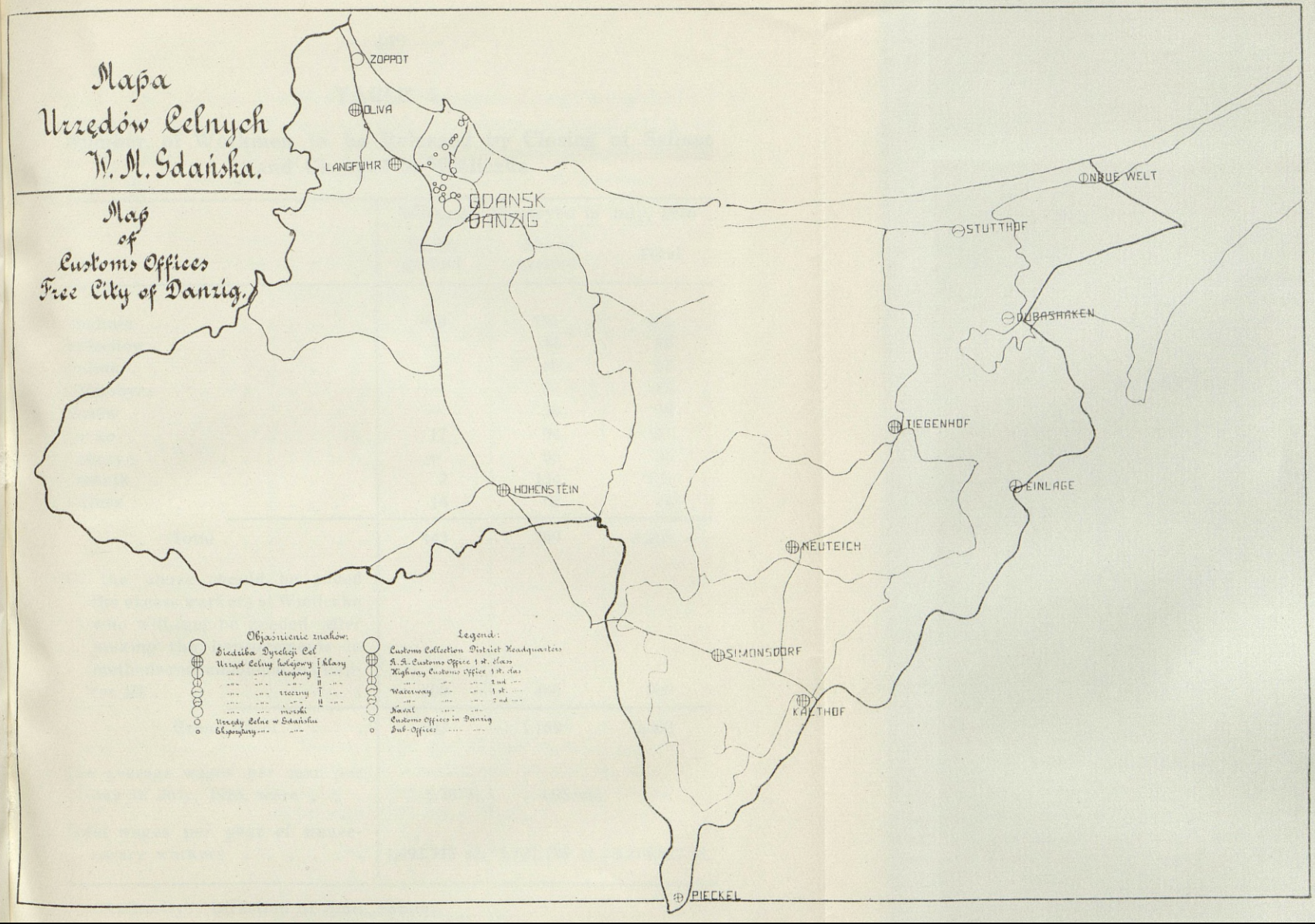

Mapa
Urzędów Celnych
W. M. Gdańska.
Map
of
Customs Offices
Free City of Danzig.
ZOPPOT
OLIVA
LANGFUHR
GDAŃSK
DANZIG
NEUE WELT
STUTTHOF
DIRSCHAUER
TIEGENHOF
EINLAGE
HOHENSTEIN
NEUTEICH
SIMONSDORF
KALTHOF
PIECKEL
Objaśnienie znaków:
Dyrekcja Dyrekcji Ceł
Urząd Celny kolejowy I klasy
drogowy I
II
rzeczny I
II
morski
Urzędy Celne w Gdańsku
Ekspozytury
Legend:
Customs Collection District Headquarters
R. R. Customs Office 1 st. class
Highway Customs Office 1 st. class
2 nd.
Waterway 1 st.
2 nd.
Naval
Customs Offices in Danzig
Sub-Offices

TABLE 5.

Number of Workmen to be Released by Closing of Salines and Changes in Wieliczka

	Workmen Employed in July, 1926		
	Under ground	Above ground	Total
Bochnia	410	151	561
Bolechów	—	83	83
Dolina	—	66	66
Drohobycz	—	54	54
Kosów	—	59	59
Lacko	17	94	111
Łańczyn	—	56	56
Stebnik	2	134	136
Kałusz	14	62	76
Total	443	759	1,202
To the above should be added the excess workers at Wieliczka who will not be needed after making the improvements in methods recommended in Chapter III	500	400	900
Grand Total	943	1.159	2,102
The average wages per man per day in July, 1926, were	5.28 zl.	4.95 zl.	—
Total wages per year of unnecessary workers	1,493,712 zl.	1,721,115 zl.	3,214,827 zl.

Authority: Direction of State Salines.

This amount will gradually decrease because the deaths on the pension rolls of the closed salines will probably overbalance the additions from the salines which are active.

The production of salt in Galicia was developed during the Austrian occupation far beyond the present needs of Poland. As a result there is in the salt industry an unusually high percentage of men who have been in the mines their entire working lives.

Although the manager of a saline has no control over the pensions he pays, these pensions are included in his costs of production and consequently the cost records do not reveal the efficiency of his management.

TABLE 6.

Pensions paid in 1925

	Pension Payments
Wieliczka	516,272 zl.
Bochnia	121,157 „
Inowrocław	— „
Bolechów	20,341 „
Dolina	19,716 „
Drohobycz	33,290 „
Kosów	56,676 „
Lacko	68,189 „
Łańczyn	31,693 „
Delatyn	27,807 „
Total	895,144 zl.

Pensions paid at Wapno are not included because they are small and are paid by the Solvay Company.

After 35 years work in one industry a worker is entitled to a pension which now averages about 800 zl. per year.

Authority: Direction of State Salines.

Recommendation No.5.

Charge all pension payments to a separate account kept in the head office and do not include them in costs of production of individual plants.

Disburse these pensions through the Postal Savings Bank and not through the Salines.

When the 2,100 workmen are released in accordance with Recommendation No. 4, they are legally entitled to 2 weeks pay, but to no pension. However, the practice in Galicia has

been for a workman so released to secure a doctor's certificate that he is unable to earn a living and present this certificate to the management of the saline. About 90% of these demands have been granted and pensions paid.

If this practice is continued, it will cost the salt industry about 1,680,000 zl. the first year with gradual decreases thereafter (the average pension is now about 800 zl. per year).

CHAPTER III

Improvements in Producing Salines

Many improvements can be made in the salines, which should be continued in operation, that is: Wieliczka, Inowrocław, Wapno and Ciechocinek.

Wieliczka Rock Salt.
Physical Lay-out of the Mine

Six levels are now being worked with chambers often far distant from shafts. This causes long hauls of mined salt, extended piping for compressed air or the use of hand-drills in chambers too distant for compressed air, long walks for miners, delays in handling materials at shafts because they have to be loaded at so many levels, difficulty in controlling men in such scattered locations, and other wasteful practices.

Recommendation No.6.

Limit the area worked to 2 levels and choose those levels in which large deposits of "shaft" and "green" salt are found near the shafts leading to the mills.

Work first the chambers nearest the shafts, depending in later years on improvements in transportation to keep down the cost of longer hauls.

Kinds of Salt to be Mined

The deposits of salt in the Wieliczka mine are of three kinds:

"Bronze" salt, 89—95% pure — found in veins,

"Green" salt, 95—96% pure — found in large blocks,
"Shaft" salt, 98—99% pure — found in veins.[1])

The present practice is to mine "green" and "shaft" salt at the same time and mix them as the rock salt goes into the mills, the result being a gray salt of about 97% purity One of the reasons for this mixing is to reduce the cost per ton, for "green" is cheaper to mine than "shaft" salt. This reduction in cost does not justify providing the public with salt of a lower grade of purity, particularly since the supply of the higher grade salt is almost inexhaustible and its cost of production can easily be reduced, as indicated in this chapter.

"Green" salt is cheaper to mine than "Bronze" because the chamber method can be used for "Green" while "Bronze" salt must be mined in pillars.

Recommendation No.7.

Discontinue mixing the different kinds of salt.
Produce 99% pure "Shaft" salt for table use and "Green" salt for cattle and industrial purposes.
Discontinue altogether the mining of "Bronze" salt.

Drilling Methods

Compressed air drills are used and four sides of a block of salt are drilled before blasting. If only one side of a block, i. e., the bottom were drilled, as is the practice in the coal industry, the amount of drilling would be reduced by 75%.

Recommendation No.8.

Drill blocks of salt only at the bottom.

The cost of drilling could be still further reduced by the use of Sullivan coal cutters similar to those now used in the Government coal mines at Brzeszcze. These cutters can be operated either by compressed air, which is now piped through the Wieliczka mine, or by electricity.

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[1]) *"Sól i Saliny Polskie", page 13, gives slightly higher percentages for "green" and "bronze" salt.*

Recommendation No.9.

Use coal cutters for mining salt both in chambers and veins.

Transportation of Rock Salt

Cars are hauled by one storage battery locomotive or by horses. This movement of material is too slow for the economical operation of shafts and milling plants.

Recommendation No.10.

Equip the mine with electric locomotives as soon as operations have been concentrated on two levels.

Provide for automatic dumping of loaded cars into chutes leading to the new underground milling plant.

Milling Rock Salt

A new milling plant is being built underground between the 5th and 6th levels.

Recommendation No.11.

Complete this underground mill as soon as possible and provide for automatic handling of material through all operations, such as:

Dumping of cars.

Carrying blocks of salt to mills by gravity chutes, or elevating devices.

Carrying material from coarser to finer mills.

Loading milled salt into cars or bags.

Weighing bags and sewing them by machines[1]).

Loading bags into cars.

Storage and Loading

The space for the storage of milled salt is entirely inadequate. As a result the peaks and valleys of consumption

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[1]) *When bags are sewed by machines less material is required in the bags and their cost is reduced by 20% or more. See the methods in use at Chorzów for sewing bags of nitrate.*

are passed on to the mines and the production program is in a continual state of change and uncertainty and the milling equipment is at times idle and at other times unable to meet the sales requirements. In order to reduce the costs of production and get the best results from labour and equipment, there should be a fairly even production schedule. When the output of the mine exceeds the shipments, the balance should be stored, and when shipments exceed the normal production, the difference should be taken out of storage.

Recommendation No.12.

Rearrange the present storage space and construct enough additional storage space to take care of reasonably large quantities of table and industrial salt.

Provide controlled, dry atmosphere in all storage rooms so that salt will not cake.

Store loose salt in bins or rooms so constructed that the salt can be loaded into freight cars without handling, using spreaders for filling cars similar to those now in use by "Tesp" for handling potash salt.

Store bags of salt so that they can be loaded into cars through gravity chutes.

Wieliczka Brine Salt
The "Vacuum" Process

The brine is purchased from the Solvay Company in the vicinity at a price which is much lower than the cost of producing brine by the "tower" method which was used up to November, 1925. The brine is purified, crystallized by a vacuum process, dried and packed.

Engineer Rusiecki has invented a method of preventing the clogging of pipes due to crystallization of salt, which will probably double the output of the present equiqment if it proves successful in its trials in September, 1926.

Recommendation No.13.

Push the experiments with Engineer Rusiecki's invention to a definite conclusion as soon as possible.

Operate Equipment at Capacity

The wages of the workmen and all the overhead of this part of the plant continue whether the equiqment has been used at 50 or 100 per cent capacity.

Recommendation No.14.

Operate the "Vacuum" equipment at full capacity all the time.

Provide the necessary storage capacity so that this can be done.

Maintenance of Equipment

The equipment for the "Vacuum" process, as well as the structural steel of the buildings, is rusty and therefore will not last as long as it would with good care.

Recommendation No.15.

Remove rust from all steel and iron and paint the equipment frequently.

Keep interior of buildings freshly painted.

Keep floors in good repair and clean.

Use of Dealers' Bags

It is the general practice for wholesalers to send their own bags to salines to be filled and returned to them. These bags are often received in bad condition and in Wieliczka a room full of women is kept busy mending them. The bags are frequently unsanitary, having been used for other materials such as fertilizers and vegetables. Maintainig the identity of these dealers' bags renders handling expensive and the storing of salt in bags impossible.

Recommendation No.16.

Discontinue the use of dealers' bags.

Provide bags of good quality for all shipments of salt charging for them a price equal to the retail price of similar bags.

Mark all bags with the name of the saline.

Credit wholesalers with the full value of all returned bags which are in good enough condition to be used again.

Sterilize all new bags before they are used and wash and sterilize all returned bags.

This recommendation applies not only to Wieliczka "Vacuum", but to all salines which ship table salt.

Packing in Boxes

A small proportion of "Vacuum" salt is packed in pasteboard boxes, but the salt in these boxes cakes, because they are not air-tight. The labels on the boxes are unattractive. There probably is in Poland, as in every advanced country, a market for salt which the housewives know to be exceptionally pure and which is put up in an attractive form.

Recommendation No.17.

Pack some "Vacuum" salt in sealed, air-tight pasteboard boxes.

Place around these boxes labels designed by a good Polish artist and carrying good advertising matter.

Install the necessary machinery to automatically fill, seal and attach the labels to these boxes.

Charge a price for salt packed in this way which is at least 20% higher than that packed in bags.

These boxes might be similar to the "Shaker" and other brands of salt which are so popular in the United States of America. They are made in two different sizes. They are cylindrical and the pasteboard is heavy enough to keep out practically all moisture and to prevent crushing in shipment. There is a small opening in the top through which the salt is poured and this opening has a tin cover which is easily opened and closed. A small piece of oiled paper is pasted over this opening when it is packed in order to make the container air-tight.

Nothing is printed directly on this container because the pasteboard is too coarse for colours or typed matter, but a label made of calendered paper and printed in several

colours is wrapped around and pasted to the container by an automatic wrapping machine.

If the salt is thoroughly dried when it is packed in these boxes and they are made air-tight, the salt will not cake but will pour readily from a small opening. Instructions on the label should tell the housewives to keep in a dry place a box which has been opened.

Advertising "Vacuum" Salt

A good market for salt packed in air tight boxes and sold at a high margin of profit can probably be developed by a comparatively small expenditure for advertising. This advertising might be of three kinds:

(a) **Visitors at Wieliczka.** About 100.000 visitors come to Wieliczka each year. As soon as the "Vacuum" plant is entirely mechanized and is being maintained in spotless condition, all visitors should be conducted through this part of the plant and have explained to them the remarkable purity of "Vacuum" salt. They should be shown that it is "not touched by human hands" and a sample box should be presented to each visitor.

(b) **Label on box.** This should be designed by one of the best commercial artists in Poland, printed in several coulours and be so attractive that the box would be conspicuous in every retail food store. The printed matter on the label should give instructions for opening and for keeping dry and should feature the following:

Wieliczka — the oldest salt mine now in use.

"Vacum" process - salt "not touched by human hands", the purity certified by some widely known authority.

The Polish eagle should not appear anywhere on the label and no attention should be drawn to the fact that the salt is produced or marketed by the State, for such advertising is of very doubtful value.

(c) **General advertising.** Some well designed display matter should be furnished to the better grade of retail food stores and a reasonable number of outdoor posters should be put up. All advertising should be confined to cities where there is a market for high-priced salt.

The only reasons for the special packing and advertising of "Vacuum" salt are to satisfy the public taste for exceptionally pure salt and to sell a part of the product at a high margin of profit.

Recommendation No.18.

Appriopriate a reasonable sum for packing and advertising Wieliczka "Vacuum" salt.

Wieliczka Management
Change in Management

The general manager was absent on his vacation when the writer visited Wieliczka. The conclusions arrived at in regard to the efficiency of the management are therefore not influenced by personal contact but based on the methods and conditions observed both above and below ground.

The methods of drilling, transporting and handling material have been developed with apparently no attempt to save human labour. The galleries are not kept clear and the equipment below and above ground has been allowed to deteriorate due to lack of attention. Only the old men are allowed to use the lift. All other miners are forced to climb both up and down the shaft and to walk long distances to their places of work. As a result they spend too short a time drilling, blasting or loading and cannot do a full day's work.

It is probably true that the Wieliczka management is not chiefly responsible for the unecessarily large number of employees on the pay roll. However, good management would not have wasted this excess labour by prescribing such slow and inefficient methods of production. On the other hand, it would have devised the most efficient methods possible without investment in new equipment and it would have used the labour thus released to keep galleries clear and in repairing and maintaining equipment, building and above-ground roadways.

Recommendation No.19.

Change the management at Wieliczka.

Choose as members of the new management men who have proved their ability in directing industrial enterprises.

Saving the Time of Workmen

As has been stated above a large part of the time of workmen is wasted.

Recommendation No.20.

Schedule the operation of lifts and the carrying of material so that all men who work underground will be carried up and down in lifts. If necessary, stagger the working hours.

Provide cars in which men can be transported from shafts to the chambers or galleries in which they work.

Furnish miners with the best tools available.

Locate the chambers, galleries and machines and plan the movement of material so that there will be little if any transportation of material by hand.

Paying Workmen by Results

It will be difficult to change workmen from their present time-consuming habits, but generous bonuses for production will be of great assistance in changing those habits and reducing the cost of mining. In America industrialists have found from experience that high wages, accompanied by good management, result in low costs of production.

Recommendation No.21.

Pay workmen above and below ground liberal bonuses for production but do not begin this until new methods and equipment have been installed and fair standards of output have been determined.

Records of Production and Costs

The costs of production, as they are now recorded, include pensions of retired employees and other items which have no connections with the production of salt. The cost per ton is figured by dividing the total expenditure by the total output. The quantity of output is subject to violent fluctuations and the cost per ton follows these fluctuations so closely that it is of no practical value in reflecting the efficiency of the management.

Recommendation No.22.

Eliminate pensions and other extraneous items from costs of production (see Recommendation No.5).

Keep a separate account for the entertainment of visitors, charging to it wages of guides and other direct expenditures and a share of the overhead of the mine, and crediting to this account all admission fees.

Keep expenditures for the maintenance of mines and equipment that are idle separate from costs of production.

Inowrocław Brine Works

The first brine well in Inowrocław was sunk in 1871. There are now three wells. Fresh water is pumped down through one pipe and brine pumped up through another. This brine contains from 22.5 to 23 per cent of salt and, since crystallization takes place at about 25 per cent, the evaporation is comparatively cheap.

The management of this saline is good, the methods of producing are economical, the control records are unusually simple and effective and consequently the costs of production are low.

This plant is now producing at very nearly the full capacity of its equipment, which is an increase of 20 per cent over last year. The closing of the salines mentioned in Recommendation No.1, will make it necessary to increase the production at Wieliczka and Inowrocław.

Recommendation No.23.

Increase the capacity of Inowrocław to 70,000 tons per year by building additional evaporating pans in the space now taken up with drying pans and install centrifical dryers and rotary tumblers similar to those in use in the "Vacuum" plant.

In spite of the installation of this additional equipment and the depreciation and the interest on investment which will have to be charged into the costs of production, the increased volume of production will reduce the cost per ton possibly to 30 zl.

Ciechocinek Brine Works

This is a health resort rather than a plant for the production of salt. The brine as it is pumped from the wells, contains only 6 per cent salt and crystallization does not take place until the brine is about 25 per cent salt. This amount of evaporation is much greater than is necessary to any other saline and therefore the expense of production is greater.

	Production cost per ton		Price paid by the Sale of Salt Bureau	
	1925	1926 (6 mos).	1925	1926
Ciechocinek	Zl. 100.22	95.00	70.00	70.00
Inowrocław [1].	37.76	34.48	70.00	60.00

So far as the production of salt is concerned the State loses 60 zl. on every ton of salt which is produced at Ciechocinek instead of at Inowrocław, for in the former plant it costs 95 zl. to produce a ton of salt and in the latter the cost is 35 zl.

However, the picturesque method of concentrating brine in Ciechocinek has been in use for 100 years and the people of Poland have come to regard it as beneficial to their health to breathe the salt air in the vicinity of these concentrators. There has gradually grown up around this process of concentration and the salt springs a health resort owned and operated by the General Direction of Public Health. Extensive buildings have been erected for salt baths and the resort has become so popular that the management expects to make a net profit in 1926 amounting to 700,000 zl. which it will reinvest in the property. The sale of health salts, a by-product of the manufacture of salt, is expected to bring in 100,000 zl. this year.

[1]) *The figure given in the book "Salt and Salines in Poland" is 35.39 zl. per ton, but since its publication taxes have been added and amortization charged, bringing this figure to 37.76 zl.*

The Sale of Salt Bureau now pays the Ciechocinek management 70 zl. per ton for all the salt it produces, but Ciechocinek is now contending that it should be paid a price which would cover its entire cost of producing salt, i. e., 95 zl. per ton.

In the opinion of your Commission, it is unfair for the Direction of Health to ask the Sale of Salt Bureau to pay the entire cost of production without crediting to it the 100,000 zl. received for health salts and an even larger amount for the antiquated process of concentration which is the nucleus of the health resort but is uneconomical so far as the production of salt is concerned.

Recommendation No.24.

Pay to the Ciechocinek management a price per ton equal to the cost of production at Inowrocław which will probably be reduced to 30 zl.

Make a contract with Ciechocinek to take 4,000 tons per year at the above price.

When this arrangement becomes effective the Direction of Health will probably charge to the cost of maintaining a health resort the difference between this normal cost of production of salt and its actual cost of 95 zl., which is the penalty for operating an uneconomic plant. The Ciechocinek management can afford to pay this out of its profits, which in 1926 are expected to amount to about 700,000 zl.

This change will make it possible for the salt industry to increase its remittances to the State Treasury by the difference between 70 zl., the present price per ton, and 30 zl. the recommended price. For 4,000 tons this would amount to 160,000 zl. per year.

Wapno Salt Mines

The salt mine at Wapno, owned by the Solvay Company has better natural conditions that any other saline in Poland. The salt, as it is taken from the mine, is 97 per cent pure. The operations of mining, grinding and sifting are extremely simple and the cost of production is therefore low. The supply of salt here is almost inexhaustible.

Due to the fact that there is no contract between the Solvay Company and the Polish Government, the former has not felt justified in investing much money in the mine. The equipment is therefore poorly suited to the needs of the mine and some of it is worn out.

Recommendation No.25.

Make a cotract with the Solvay Company for a reasonable period, possibly 5 or 10 years, at a price considerably below that now paid to the Solvay Company, possibly 18 or 20 zl. per ton. Let Government agree to take a minimum of 100,000 tons per year and the Solvay Company agree to deliver a maximum of 200,000 tons per year, if called for by the Government, due notice of increased demand to be given by the Government.

Such a contract would enable the Solvay Company to plan for a steady volume of output and would justify investments in electric coal cutters, electric locomotives in the mines, new hoisting machinery, milling machines, automatic sifters and packing apparatus. It would also enable it to pump the water out of the flooded shaft.

The price now paid to the Solvay Company for ground salt is 28 zl. per ton, and for lump sald 25 zl. This high price was based on several considerations which should not be given the same weight in the negotiation of a new contract.

Due to the fact that there was no contract between the Government and the Solvay Company, the latter ran the risk of losing its entire domestic sales if the Sale of Salt Bureau should decide to send its orders to some other saline. The Solvay Company, therefore, did not consider it wise to invest in labour-saving equipment which would reduce costs of production.

The Solvay Company in its letter to the Minister of Finance of January 12, 1925, claims the right to charge into its costs an annual amortization of 10%, which appears to be high since the shafts and galleries, which represent the largest investment, will probably last for 50 years or more.

The Solvay Company, according to its letter of January 12, 1925, apparently planned to distribute its cost of administration, return on investment and amortization, over an output of

64,000 tons per year. Recommendation No. 25 provides for an output of from 100,000 to 200,000 tons a year, and the above costs can therefore be distributed over almost three times the output which served as the basis for the present price.

The exports of Wapno will probably increase and obviously they should bear a share of the administration, interest and amortization. The present domestic price is sufficiently high to cover the entire overhead of the Wapno mine and, as a result, when the Solvay Company goes after export business, it can underbid the Government on Wieliczka salt. Possibly 20 or 25 per cent of the overhead of the Wapno mine should be carried by its export sales.

A new contract can undoubtedly be made at a considerably reduced price, but it should be borne in mind that if the price is too low, the Solvay Company will not have sufficient incentive properly to develop its mine.

CHAPTER IV

ALLOCATION AND COST OF PRODUCTION

Allocation of Required Production

The domestic consumption of salt in 1926 will probably amount to about 340,000 tons and will be made up as follows: (Table 7 A and B)

Brine salt for table use	112,000	tons
Rock salt „ „ „	203,000	„
„ „ „ industrial use . . .	20,000	„
„ „ „ cattle	5,000	„
Total	340,000	tons

Brine Salt

When the salines in Galicia are closed all brine salt will have to come from Wieliczka and Inowrocław. The capacity of the Wieliczka "Vacuum" plant is now 25,000 tons per year (Table 1), but if the invention of Engineer Rusiecki, referred to in Recommendation No.13., should prove successful, the capacity will increase to 50,000 tons.

The capacity of Inowrocław is now 45,000 tons (Table 1). Recommendation No.23 provides for increasing this capacity to 70,000 tons.

Recommendation No.24 provides for the production of 4,000 tons per year at Ciechocinek.

These three salines will therefore have a producing capacity of 124,000 tons of brine salt, a capacity which can probably

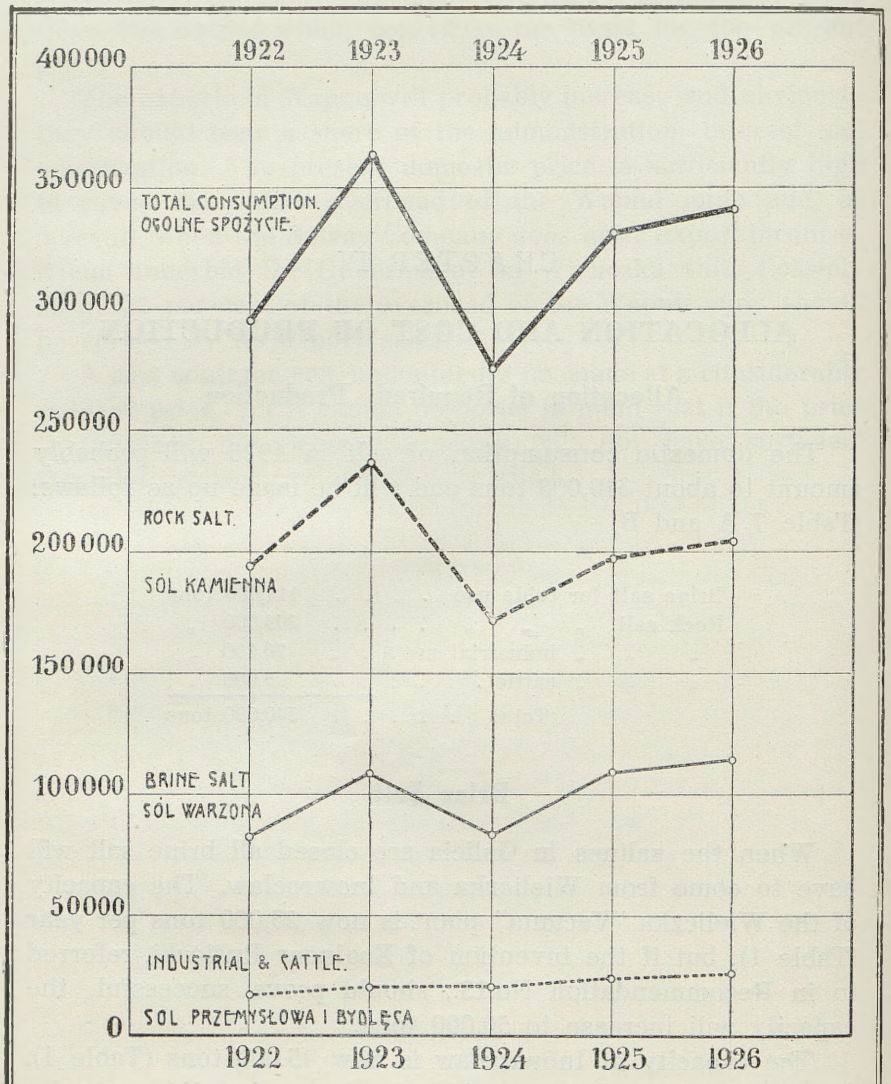

FIG. 7A. DOMESTIC CONSUMPTION OF SALT BY KINDS

TABL. 7A. KRAJOWE SPOŻYCIE SOLI PODŁUG GATUNKÓW.

be increased by good management. If the proposed improvements in the „Vacuum“ plant should not prove successful, one or two of the Galicia salines will have to continue in operation until some other method is found to increase the output of the „Vacuum“ plant.

TABLE 7—B

Domestic Production of Salt by Kinds

In Tons

	1922	1923	1924	1925	1926 est.
Brine salt	84,529	108,778	83,918	109,821	112,000
Rock salt for table use	193,424	235,077	171,212	198,158	203,000
Industrial	11,951	12,540	13,489	18,499	20,000
Cattle	5,500	6,912	6,641	3,551	5,000
Total	295,404	363,307	275,260	330,029	340,000

The figures actually represent production, but they are used because there were no available records showing consumption of the four kinds of salt. Stocks of salt have been low and these figures may therefore be regarded as very close to the amounts consumed.

The high sales in 1923 were due to the depreciation of the Polish mark. The sales in 1924 were therefore lower than normal.

Authority: „Sól i Saliny Polskie“, Tablica X.

Rock Salt for Table Use

The production of rock salt in both Wapno and Wieliczka can be increased indefinitely by the installation of better equipment and the extension of shafts and galleries. The consumers in the greater part of Poland prefer the white Wapno salt to the gray Wieliczka rock salt and it is therefore better to plan to increase the production of white than of gray salt.

Recommendation No.26.

Allocate orders for salt during the next year as follows:

Recommendation No.26 (continued)

Brine Salt

Ciechocinek	4,000 tons	
Wieliczka "Vacuum" . . .	50,000 „	
Inowrocław	58.000 „	(Note 1)

Rock salt for table use

Wapno	120,000 „	(Note 2)
Wieliczka	83,000 „	(Note 1)

Industrial Salt

Wieliczka	20,000 „

Cattle Salt

Wieliczka	5,000 „
Total . .	340,000 tons

The above recommendation assigns a larger production of rock salt to Wapno than to Wieliczka, in spite of the fact that the former is owned by a private corporation and the latter by the state. There are two reasons for this:

(a) The public prefers white to gray salt.

(b) If a contract is made with the Solvay Company at 20 zl. per ton, which is a generous price considering the favourable natural conditions at Wapno, this would be a lower cost to the Government than is likely to be reached in the production of pure shaft salt in Wieliczka.

Reductions in Cost of Production

It is impossible to tell in advance what will be the actual cost of production if Recommendations Nos. 1 to 25 are put into practice. A rough estimate is as follows:

(Note 1) If the sales should increase beyond the estimates of consumption, the excess orders for brine salt should go to Inowrocław and for rock salt to Wieliczka. Those two plants should take care of the peaks and valleys of consumption.

(Note 2) This quantity is about 40% greater than any previous output of the Wapno mine and is recommended only on condition that a contract is made with the Solvay Company at 18 or 20 zl. per ton (see Recommendation No. 25), which is a lower cost than can probably be attained at Wieliczka. If the costs were equal, a larger proportion of orders should go to Wieliczka than to Wapno.

Ciechocinek	4,000	tons at	30 zl.	120,000 zl.
Wieliczka "Vacuum"	50,000	„ „	30 „	1,500,000 „
Inowrocław	58,000	„ „	30 „	1,740,000 „
Wapno	120,000	„ „	20 „	2,400,000 „
Wieliczka - Rock	83,000	„ „	25 „	2,075,000 „
„ Industrial	20,000	„ „	20 „	400,000 „
„ Cattle	5,000	„ „	20 „	100,000 „
Total	340,000	tons		8,335,000 zl.

The cost of producing 330,000 tons in 1925 was 11,656.895 zl. (Table 8). The estimated reductions in cost would therefore amount to 3,321,895 zl. or 28.5 per cent of the 1925 costs.

TABLE 8.

Cost of Production in 1925

The Sale of Salt Bureau paid to salines in 1925:

Wieliczka	4,325,211 zl.
Bochnia	1,412,657 „
6 Eastern salines	2,122,026 „
Inowrocław	2,357,844 „
Ciechocinek	278,832 „
Stebnik & Kałusz	1,053,410 „
Wapno	2,061,089 „
[1]) Total	13,611,069 zl.

From which should be deducted:

Pension payments (Table 6)	895,144	
Cost of administration i. e. Direction of State Salines	114,878	
Savings remitted to Treasury	944,152	
		1,954,174 zl.
Net production cost		11,656,895 zl.

[1]) *This does not include 3,480 zl. paid to Chemical Factory "Radocha" or 700 zl. for acquisition of an old German stock.*

Authority: Sale of Salt Bureau
Direction of State Salines.

CHAPTER V

THE DISTRIBUTION OF SALT IN POLAND

Prices

The Minister of Finance, acting upon the advice of his Department of Excise and Monopolies, determines the prices at which the Sale of Salt Bureau sells salt to wholesalers. (Table 9). The District Treasury [1]) Offices fix the maximum prices at which wholesalers sell to retailers and at which retailers sell to consumers (Table 10).

Prices to wholesalers are uniform throughout Poland, but those to retailers and consumers are not. However, the Sale of Salt Bureau is planning to establish retail prices which will be uniform throughout Poland and to make them effective beginning January 1, 1927.

Licenses

Wholesalers in salt are licensed by District Treasury Offices[1]). In applying for a license a wholesaler submits his credentials to the District Treasury Office [1]). When they meet with approval of that office as to credit, they are sent to the Sale of Salt Bureau for its approval. The application is then returned to the District Treasury Office[1]) which issues a license to the wholesaler. There is no charge for the license but the wholesaler must pay a stamp duty of 35 zl. on the application. The licenses are good until revoked.

The plan has been to have one wholesaler for each 30,000 inhabitants or at least two in each district, but this number has been exceeded. In 1925 there were 1248 licensed whole-

[1]) *i. e. Provincial Treasury Offices. — Editor's Note.*

TABLE 9.

Prices Charged for Salt F. O. B. Station of Destination

September 1, 1926.

Kind of salt	Price per ton to wholesaler f. o. b. destination (a)	% of proposed production cost (b)
Brine salt	230,00 zl.	767%
Rock salt for table use		
Wapno	230,00	1150
Wieliczka and Bochnia .	157,00	628
Rock salt in lump form		
Wapno	228,00	1140
Wieliczka and Bochnia .	155,00	620
Industrial and cattle . .	40,00 (c)	200

a) Standard gauge stations only.
b) See last page of Chapter IV.
c) F. O. B. saline.

Authority: Sale of Salt Bureau:
Printed price list
of July 1, 1926.

TABLE 10

Present Cost and Prices Charged for Brine Salt for Table Use

September 1, 1926.

Cost of Inowrocław brine salt . . . 34,48 zl. per ton
Price to wholesaler f. o. b. saline
(before July 6, 1926) . . . . 200,00 „ „ „
„ to wholesaler f. o. b. destination 230,00 „ „ „
„ to retailer in Warsaw
(maximum) (a) . . . . . 255,00 „ „ „
„ consumer in Warsaw
(maximum) (b) . . . . . 300,00 „ „ „

a) Wholesalers sometimes sell to retailers at 10 to 15 zl. less than maximum price.
Sales to consumers are, of course, in smaller quantities than to retailers.
b) Municipal stores sell at 290 zl.

Authority: Sale of Salt Bureau.

salers. Some of these were war invalids, demobilized soldiers or widows. The accounting records of all licensed wholesalers are under the control of the District Treasury Offices[1]).

The Sale of Salt Bureau grants 30 days credit, if satisfactory guarantees are presented. No interest is charged for the first 15 days, but a rate of 6 per cent per annum is charged for the second 15 days. If a wholesaler fails to pay promptly the Sale of Salt Bureau charges 24 per cent for delay and collects the money by compulsion through the District Treasury Office[1]).

The salines must have bills of lading from the Sale of Salt Bureau for the shipment of salt to wholesalers. The Polish railways do not accept salt for shipment from salines on any other shipping documents.

Retailers of salt are not licensed.

Reports of several salt famines in districts and villages have been brought to the attention of your Commission, but they have had no opportunity to study these cases at first hand. These famines are said to be traceable in most cases to the financial condition of the licensed dealers and to be sufficiently frequent to have an appreciable effect on the consumption of salt.

Recommendation No.27.

Revoke all licenses to wholesalers in salt and discontinue their issuance in future.

Discontinue the fixing of prices to retailers and consumers.

Remove all restrictions on the shipment of salt and discontinue all other Governmental control over salt after it leaves the salines.

The frequent shortages of salt indicate that the present control of distribution forces the flow of salt through unnatural channels. When salt is allowed to move freely without any Governmental restrictions, it will be handled with other food products and shortages of salt are likely to discontinue.

The present elaborate Governmental control of distribution of salt does not seem to be justified. The cost of the control is far in excess of the receipts from the 35 zl. stamp on the application for a license. Free competition will prevent prof-

[1]) *i. e. Provincial Treasury Offices. — Editor's Note.*

iteering and may even result in a lower price to the consumer than he now pays. Salt is a commodity of such low value compared with its bulk that there is not likely to be any extensive smuggling. There is little danger that the public will be supplied with impure or unhealthy salt, because substitutes would be almost as expensive as the salt itself. Therefore, there appears to be no justification for Governmental control over the movement of salt after it leaves the salines.

Freight Charges

Prices to wholesalers (Table 9), since July 6, 1926, have been f. o. b. station of destination on standard gauge railways and have been uniform throughout Poland.

The payment of freight charges by the Government salt industry complicates its administration and, in the opinion of your Commission, is not worth while.

Recommendation No.28.

Quote all prices of salt f. o. b. saline.

Credits to Wholesalers

When the Government issues the credit needed to carry on the distribution of salt, it usurps the functions of banks and other credit organizations. The Government was probably forced in to this practice when it appointed as wholesalers disabled veterans and other persons without the financial resources needed by a dealer.

Recommendation No.29.

Gradually discontinue the issuance of all credits to wholesalers in salt.

Quantity Discounts

Each sale of salt involves administrative expenses including the making of records of various kinds. The quantity shipped on an individual order has little relation to the amount of clerical and administrative work done on that order and therefore the more small orders there are, the higher is the cost of clerical work and administration. The physical handling of

small orders is also more expensive per ton than of large orders.

It is obvious that salt should be shipped from the salines in as large quantities as possible and it makes no difference to the salines whether the salt goes to a wholesaler or to a retailer so long as the quantity is sufficiently large to cover the expense of handling.

Recommendation No.30.

Fix a minimum size of shipment for which orders will be received.

Give discounts for orders of unusually large size.

Give larger discounts for contracts calling for regular periodic shipments.

These discounts will make possible a more regular production schedule. Retailers large enough to buy in quantities will not be forced to purchase through middlemen.

Cooperation between Selling and Producing Agencies

The production of salt in the salines which are the property of the Government is under the control of the Direction of State Salines in the Ministry of Industry and Commerce. The prices to wholesalers are determined by the Minister of Finance upon the advice of the Department of Excise and Monopolies. The selling of salt is under the control of the Sale of Salt Bureau and the District Treasury Offices[1]), both of which are under the supervision of the Ministry of Finance. With four different Governmental agencies exercising control over one industry, there is, as might be expected, a lack of cooperation which reduces the profits to the Government.

The Department of Excise and Monopolies has succeeded, so far as your Commission have been able to learn, in fixing prices of salt which give the Government a high percentage of profit (Table 9) and which do not arouse the resentment of the public. These prices have now become well established and few if any, important changes will be required in the immediate future.

[1]) *i. e. Provincial Treasury Offices. — Editor's Note.*

The acceptance of Recommendation No.27 would relieve the District Treasury Offices[2]) of all control over the distribution of salt, since they would no longer issue licenses, fix prices or audit the accounts of wholesalers.

The principal duty of the Sale of Salt Bureau is to receive orders from wholesalers and allocate them to the proper producing salines. In the handling of orders the aims of this Bureau and of the Direction of State Salines are widely divergent; the former aims to sell what the public wants, and the latter wants to ship what the mines can produce. The public prefers white salt, but the largest Government mine can produce only gray salt.

In a privately owned corporation there is usually the same conflict between the selling and producing organizations, but cooperation between them is secured by the active head of the business to whom both of these organizations are responsible. In the Polish salt industry, however, the Sale of Salt Bureau is responsible to the Ministry of Finance and the Direction of State Salines is responsible to the Ministry of Industry and Commerce. No matter how closely in accord these two Ministers may be, the details of the salt business cannot go through their hands and it is not reasonable to expect full cooperation between the producing and selling organization of the salt industry unless their administration is centralized in one individual who can weigh conflicting interests and render the prompt decisions necessary for the successful conduct of the business.

The situation in this industry is further complicated by the fact that a part of the salt is produced by a private corporation, the Solvay Company, which has no connection with the Direction of State Salines, but whose product is distributed in the domestic market by the Sale of Salt Bureau.

Recommendation No.31.

Abolish the Sale of Salt Bureau.

Organize in the Direction of State Salines an Order Division which will receive orders from dealers and allocate them to salines.

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[2]) *See Note* [1]) *on page 477.*

Organize in the Direction of State Salines a Promotion Division, to which shall be assigned the duty of increasing the sales of package salt and of salt for cattle and industrial purposes.

Order Division

This division should be responsible for the allocation of customers, orders to the various salines. This allocation should be done in accordance with Recommendation No. 26, but the task will be difficult because there will necessarily be many conflicting aims, such as:

To make immediate shipment of the kind of salt wanted by a customer from the saline nearest to that customer.

To enable a saline to maintain a schedule of production with as few changes as possible.

To prevent exhausting stocks of salt at the various salines or overtaxing their storage capacities.

To provide for sending as many orders as possible directly from customers to salines.

To execute these responsibilities properly the Order Division must develop a technique of control which is prompt and accurate.

Recommendation No.32.

Develop a statistical organization which will accurately summarize, not later than one day after the facts, all stocks of salt and unfilled orders at salines.

Give each saline its production schedule for an entire month, not later than 10 days before the beginning of that month.

Promotion Division

It is not necessary to promote the sale of table salt in the domestic market by aggressive sales methods. A demand for salt already exists and all the Government has to do is to provide good salt at reasonable prices and orders will come in.

There are, however, three kinds of salt which are not used extensively in Poland:

A. High grade table salt put up in attractive packages.

B. Lump salt for cattle and other domestic animals.

C. Salt for industrial purposes.

A. The promotion work in connection with package salt is covered in Recommendation Nos. 17 and 18 of this Report.

B. The use of salt for feeding domestic animals appears to be less developed in Poland than in many other countries. Its promotion should be carried on in cooperation with the Ministry of Agriculture, which should share the expense. Among other things the Promotion Division should continuously furnish interesting information about this use of salt to the public press, the Ministry of Agriculture and to associations of cattle growers. This kind of salt could be put on sale at the Eastern and Posen fairs and at all other places where peasants come together in large numbers.

C. The promotion of the use of salt for industrial purposes requires personal solicitation and the negotiating of long term contracts for salt at low prices.

Recommendation No.33.

Appropriate a reasonable amount of money each year for promoting the sale of salt for cattle and for industrial purposes.

CHAPTER VI

The Export of Polish Salt

In spite of the fact that the producing capacity of Polish salines has been greatly in excess of domestic consumption, exports during recent years have been small.

		% of total production
1924 —	22,226 tons —	8%
1925 —	13,288 „ —	4%
1926 (7 mos.)	7,868 „ —	4%

These figures include exports from the Solvay Company's Wapno mine as well as from the Government salines.

Export Prices

In setting prices for export the Direction of State Salines should know accurately and in detail how its costs are made up and, in the opinion of your Commission, should adopt a policy along the following lines:

No order should be accepted at a price which does not pay all the expenses caused by the acceptance of that order, such as the labour used in mining, transporting and milling the salt, the power consumed and a reasonable amount to cover the wear and tear on tools and equipment.

If the Direction of Salines accepts a price below this point, the remittances of the salt industry to the Polish Treasury will be diminished by that amount, and the consumers in Poland will be paying a high price for salt in order to place it in the hands of the citizens of other countries at a much lower price.

A fuller discussion of export policies may be found in your Commission's memorandum on „Special Favours to the Export Trade".

Freight Rates on Export Shipments

Negotiations have for some time been under way between the Ministry of Railways and the Ministry of Finance to reduce the freight rates on export shipments of salt from Wieliczka to Gdańsk and Gdynia and from Wapno to those ports.

Recommendation No.34.

Bring these negotiations as to freight rates on salt to a definite conclusion at an early date.

CHAPTER VII

CONCLUSION

Organization

The divided responsibility which has existed in the salt industry up to the present time has, in the opinion of your Commission, prevented the proper functioning of this industry and has decreased the amount of revenue which unified management would have remitted to the State Treasury.

Recommendation No.35.

Place the salt industry under the control of one man, a good business man and engineer, who will have complete authority over:

The Direction of State Salines, including the functions now exercised by the Sale of Salt Bureau.

All contact with the Solvay Company's Wapno mine and other privately owned salines.

All contact with the General direction of Public Health regarding Ciechocinek and the Galician salines.

Give the Director of State Salines complete authority over all workmen and members of the management, with authority to hire new employees to transfer employees and to discharge them without the necessity of proving charges against them.

Provide the Director of State Salines with whatever expert assistance he may need to reduce costs and build up an efficient organization.

Keep this Director free from all political and bureaucratic interference.

Responsibility

The work of the Director of State Salines, after reorganization of the salt industry recommended in this Report, would be in the main a production task. The salt industry is not a complete monopoly either in production or selling. It has no connection with the other State monopolies and has little similarity to them. There is therefore no reason for transferring the Direction of State Salines to the Department of Excise and Monopolies.

Recommendation No.36.

Continue the present line of organization in which the Director of State Salines is solely responsible to the Minister of Industry and Commerce.

Summary

In this Report your Commission have recommended:

Reducing the production capacity of Polish salines to normal domestic requirements rather than attempting to use that capacity by „dumping" salt on foreign markets.

Improving the salines which are to continue in operation in order to reduce costs of production, and increase the revenues of the State.

Re-allocating the required production.

Removing all governmental control over the distribution of salt.

Consolidating the Sale of Salt Bureau with the Direction of State Salines.

Placing the entire salt industry under the control of the Minister of Industry and Commerce.

REPORT
ON THE
POLISH TOBACCO MONOPOLY

CHAPTER I

INTRODUCTION

History of the Monopoly

In 1775 the Polish Government gave a concession for the manufacturing of tobacco products to a private company. In 1781 this concession was revoked and tobacco was made a State monopoly. During the partition the monopoly system was continued in Austrian Poland but the excise system was used in German and Russian Poland. These two systems were continued for a time after the reestablishment of the Polish State.

A tobacco monopoly uniform throughout Poland was created by a law enacted by the Seym on June 1, 1922, which became effective in February, 1924. An Italian loan, amounting to 400,000 lire was received by the Polish Government in March, 1924, and of this sum 37,180,000 zl., representing approximately 40 per cent of the total loan, was turned over to the Tobacco Monopoly. This money was used mainly for the rebuilding of the tobacco factories in Austrian Poland, all but one of which having been destroyed during the war, and for the purchasing of all the machines and a few of the factories in the former Russian and German parts of Poland.

Present Status of Monopoly

There is a high duty on the importation of tobacco products.

The Tobacco Monopoly manufactures all of the cigars, cigarettes and other tobacco products which are made in Poland. It licenses all wholesalers and retailers. It fixes prices to be charged to consumers and the discounts to be granted to wholesalers and retailers.

Plants Visited

In connection with this study of the Tobacco Monopoly the following plants and offices have been visited:

Central Administration in Warsaw

Factories:	Kościan	
	Kraków	
	Łódź	
	Poznań —	Bukowska
		Jeżyce
		Łazarz
	Warsaw —	Miasto
		Ochota
	Winniki	
	Zabłotów	
Storehouses:	Katowice	
	Poznań	
	Warsaw	
	Zabłotów	
Retail Stores:	Katowice	
	Poznań	
	Warsaw	

Acknowledgment of Assistance

Your Commission wish to express their appreciation of the cordial and full cooperation in this study received from the Monopoly Administration, the department heads in the Warsaw office and the managers of the factories, storehouses and retail stores visited.

The Report

The Monopoly Administration deserves great credit for the building up of this industry. Your Commission, however, understands that the Government is not so much interested in words of praise as in discovering ways in which the Tobacco Monopoly can be improved. This report, therefore, is confined to brief references to present conditions which are believed to be unsatisfactory, followed by definite recommendations.

CHAPTER II

THE PURCHASE AND STORAGE OF RAW TOBACCO

Proportions of Imported and Native Tobacco

Purchases in zlotys of raw tobacco by the Monopoly made in 1925 and contemplated for 1926 and 1927 are as follows:

Year:	*Total:*	*Imported*	%	*Native*	%
1925 actual	91,417,885	90,779,530	—	638,355	1%
1926 planned	96,033,500	93,522,600	97%	2,510,900	3%
1927 „	102,345,600	97,920,000	96%	4,425,600	4%

THE PURCHASE OF IMPORTED TOBACCO

Italian Contract

The contract between the Polish Government and the Italian Consortium dated March 9, 1924 and running for 20 years stipulates that the Polish Tobacco Monopoly shall purchase as follows: 60 per cent of its import requirements of raw tobacco from the Italian Company, 20 per cent at public auction and 20 per cent from any source, at the discretion of the Monopoly. The prices paid for the 20 per cent purchased at public auction determine the prices to be paid to the Italian Company for the 60 per cent.

It is assumed that this contract cannot be changed or abrogated and therefore no recommendations are made in regard to its revision.

Method of Buying

Bids are asked and orders placed for large quantities of tobacco at one time. Your Commission have been unofficially advised that these orders are sometimes the largest of the year in the international tobacco market and that therefore they cause the higest peaks of demand. As a result prices, particularly for oriental tobacco, increase by 20 to 40 per cent, and soon after the purchase is negotiated, fall off to their former levels. This method of buying in large quantities at stated periods makes it impossible to take advantage of fluctuating market conditions.

Recommendation No.1.

Establish agencies in foreign tobacco raising countries and buy at auction in smalll quantities, direct from growers.

Quality of Tobacco Purchased

Among tobacco merchants the Polish Monopoly is known as a buyer of the cheapest possible grades of the various kinds of tobacco. These grades are said to be so near the unhealthy and unusable grades that tobacco delivered sometimes falls into the latter classification. Due to the short time available for this survey your Commission have not been able to investigate thoroughly the quality of tobacco purchased or the details of the methods of buying and inspecting. However, specific questions in several Monopoly factories as to changes in the formulas of mixtures used in making cigarettes and other tobacco products have indicated that during the last 12 months there has been a systematic lowering of the quality of tobacco used in the products of the Monopoly.

Recommendation No.2.

Decrease purchases of the lowest grades of tobacco and allow stocks to run down so that when the new brands mentioned in recommendation No.31 are decided upon, they can be put on the market without delay.

THE PURCHASE OF NATIVE TOBACCO

Regulations of Growers

Tobacco is grown principally in the Southeastern and Northern parts of Poland. Plants are supervised by inspectors and instructors who travel from village to village. After the crop is dried, planters are required to take the entire quantity to one of the purchasing depots of the Monopoly.

It is by some people considered autocratic for the Government to compel a peasant to deliver his entire crop to the Monopoly and buy back at a much higher price what he himself wants to use. The Monopoly fines the peasants for shortages in the delivery of tobacco planted and it is said that these fines sometimes exceed the value of the tobacco delivered. The animosity towards the Monopoly which this practice arouses is probably not compensated by the advantages gained.

Recommendation No.3.

Change the regulations in regard to tobacco growers to permit them to retain a reasonable amount of tobacco leaf for their own use.

Advance Payments to Growers

Through its inspectors the Monopoly makes advance payments in cash to the growers as follows: 25 per cent in the late spring and 35 per cent at the end of the summer. Some growers claim that advances are made on the basis of 1.20 zl. per klg. which is below the average price of native tobacco, and that when delivery is made and the tobacco is judged to be of a higher grade than that on which the advance was made, the Monopoly does not pay the difference between 1.20 zl. and the price which would have been paid if no advance had been secured. As a result these growers do not ask for advances from the Monopoly, but finance their crops in other ways.

Recommendation No.4.

If the claim is correct that the securing of an advance automatically puts a crop into a low priced grade change the regulations so that crops can be properly valued and paid for.

Grading of Tobacco Crops

After the tobacco leaves have been dried by the grower, he takes his crop to a fermentation storehouse of the Monopoly where it is weighed and graded by a commission of several members. The members of this commission are appointed by the Monopoly and some growers claim that the grading is frequently unjust. They claim further that appeals from the decisions of this commission which are sent to the Monopoly Administration in Warsaw are usually referred back for final settlement to the chief inspector who appoints the grading commission.

Recommendation No.5.

Change the personnel of grading commissions, so that the Monopoly will appoint one member, the growers one and the Department of Agriculture the third member.

Arrange for the referring of appeals to a disinterested person.

Establishing Grades of Native Tobacco

It is the policy of the Monopoly to purchase native tobacco at 35% less than the cost to the Monopoly of imported raw tobacco of the same grade. Some of the growers claim that the comparisons of grades of native tobacco with imported grades are not just, and that they are arbitrarily determined by the Monopoly.

Recommendation No.6.

Establish a fair comparison of native grades with imported grades by means of a commission representing the Monopoly, the growers and the Ministry of Agriculture.

Prices of Native Tobacco

The Monopoly pays 35% less for native than imported tobacco in order to cover the extra cost of transportation and fer-

mentation necessary for the native products. In 1925, when the native production was abnormally low, this percentage was apparently correct, but in 1926 and 1927 it is not probable that the expenses will bear the same relation to the value of the native product. The costs of inspection of growing crops and of fermentation would appear to be the only expenditures which should be charged into these accounts.

Recommendation No.7.

Pay for native tobacco prices which differ from those of similar grades of imported tobacco by a margin no greater than is necessary to cover actual expenses of inspection and fermentation.

Promoting the Culture of Tobacco

Your Commission regret that there was not sufficient time available to make a thorough survey of the growing of native tobacco and to arrive at a conclusion as to whether or not the statements of the growers mentioned above are correct. It was apparent, however, that the growers consulted felt that they had not received fair treatment from the Monopoly and that if its policies were more generous and less autocratic, there would be a great increase in the production of native tobacco and a marked improvement in its quality.

Experimental stations are maintained both by the Monopoly and the growers. One of the main purposes of an experimental farm is to stimulate among growers an interest in better grades of tobacco and it is therefore worth while to develop close cooperation among these experimental farms. The Monopoly might find it advantageous to assist financially in the experiments of these associations of tobacco growers.

THE STORAGE OF RAW TOBACCO

Scattered Stocks

Stocks of raw tobacco are kept in five warehouses located as follows:

Aleksandrów, near Toruń,
Maczki, in the Southwestern corner of Poland,
Oświecim, in the Southwestern corner of Poland,

Warsaw, in the centre of Poland,

Zabłotów, in the Southeastern part of Poland.

Stocks are also kept in all of the factories of tobacco products.

The stock of one grade is often scattered through many of these storehouses and factories and, as a result, it is exceedingly difficult to control it so as to avoid running out of stock or carrying so large a stock that the investment will be unreasonably high.

Recommendation No.8.

Reduce the number of warehouses for raw tobacco to three: one in the northwestern part of Poland, one in the southwestern part and one in the southeastern part.

Keep in the factories a minimum of one month's supply and a maximum of two months' supply.

If imported tobacco goes into a warehouse near the point at which it enters the country and is distributed from there only when the factory production schedules are definitely determined, transportation charges will be reduced to a minimum.

The tobacco imported through Czechoslovakia could be stored in Maczki or Oswiecim; and Zabłotów, which is a storehouse for native tobacco, might serve for importations through Roumania, although the location of a storehouse in this region should depend on the development of the Russian supply during the next few years. Tobacco imported by water should be stored in a warehouse to which the bales and cases should be delivered by lighter from the steamer. When the port of Gdynia has been sufficiently developed, the warehouse might be located there if climatic conditions are satisfactory; if not, it might be possible to lighter the cargoes a short distance up the Vistula. All storehouses should of course have a railway siding so that tobacco can be shipped in carload lots to the factories.

Reducing Variety of Raw Tobacco

A great variety of kinds of grades of tobacco is kept in stock and therefore the purchasing and storing is complicated and expensive.

Recommendation No.9.

Select a small number of kinds and grades of tobacco of which there is likely to be a satisfactory supply on the market each year. In working out the formulas for new brands of product use only the kinds and grades thus selected.

Reducing Investment in Raw Tobacco

The chief reasons for keeping large stocks of raw tobacco, which in Continental countries appear to vary from one to three years' supply, are: To avoid running out of stock and having to change formulas; To avoid having purchase at a time when prices are high.

The easiest way to prevent stocks from becoming exhausted is to keep a large supply on hand, but this increases the investment. The same results can be accomplished with a reasonable investment if there is careful planning over a long period of time. For instance, if the variety of kinds and grades is reduced to a small number, if the formulas are stabilized, if the sales of individual brands are planned two years in advance, and if accurate inventories in chart form are maintained, the amount of investment can be considerably reduced.

Recommendation No.10.

Determine the quantities of each kind and grade of raw tobacco which are likely to be used during the next two years.

Compare by means of charts actual receipts and usage at monthly intervals and purchase raw tobacco on this basis.

CHAPTER III

MANUFACTURING TOBACCO PRODUCTS

The Polish Tobacco Monopoly operates 22 factories and employs 11,600 workers, 500 executives and office employees in factories and storehouses, and 180 executives and employees in the Administration offices in Warsaw. The principal items manufactured are:

cigarettes
cigars
cut tobacco
chewing tobacco
snuff
tobacco extract

There were in the Monopoly factories on July 1, 1926, the following machines:

tobacco cutting machines	172
paper forming machines	660
filling machines	551
forming and filling machines	107
Total	1490

In addition there are many machines in storage which were bought when the Monopoly was established but have not been in use since that time.

Number of Factories

When the Monopoly became effective in August, 1924, there were approximately 100 factories for tobacco products in Poland. The Monopoly has wisely reduced this number to 22, but the reduction should go even further. Cigarettes and

cut tobacco are products to which the methods of quantity manufacture are particularly well adapted. The sales of some brands are so large that machines can be kept running without interruption through the year. In industries of this kind great economies can be secured in large manufacturing units.

Recommendation No.11.

Reduce the number of Monopoly factories to 10 or 12. The production of several of the smaller plants can be absorbed by the larger plants which are not now being operated at capacity.

Types of Factory Buildings

The factory buildings visited by a member of your Commission may be classified in three types:

Remodeled apartment houses
Rebuilt tobacco factories
Newly constructed buildings

Remodeled Apartment Houses

Due to the fact that cigar and cigarette businesses have often grown up from small home industries, some of the Monopoly factories are now located in apartment houses. In these buildings ceilings are low and windows small and as a result ventilation and lighting are poor. Rooms are small and it is impossible to locate machines so that material can move from one operation to another without going back on its own track. In these buildings it is not possible to use trucks for moving material and it must be carried by women up and down stairways and through long corridors. The difficulties in moving materials and the poor working conditions are not conducive to the manufacture of products of good quality at low cost.

Recommendation No.12.

Do not remodel any more apartment houses for use as tobacco factories.

In reducing the number of Monopoly factories, close first the remodeled apartment houses.

Rebuilt Tobacco Factories

The factories of this type which were visited had very thick walls, small windows and rooms of such width that light could not reach their entire area. Manufacturing in such buildings cannot be efficient or economical even if the property does belong to the Monopoly. The reconstruction of such buildings as those at Winniki, which were destroyed by the Russians would be rery costly because of the amount of material which would have to be used in the massive walls and foundations.

Recommendation No.13.

Do not rebuild any more old factory buildings.

Additions and New Buildings

There are two types of buildings well suited for the manufacturing of tobacco products: (1) Two story buildings with large floor areas and „saw-tooth" of "Monitor" roofs, and (2) Multiple story buildings not more than 40 feet wide with windows on both sides covering at least 75% of the exterior of the walls.

The former type is probably best suited for Poland where the price of land is not high. The first story of such a building should be used for storage of raw tobacco, fermenting of tobacco after it has been cut, seasoning of cigarettes before they are boxed, seasoning of cigars in boxes, box-making shop, machine shop for grinding blades and repairing machines and storage of finished product. The second story should be used for manufacturing operations. In a cigarette factory these operations would consist of sorting, mixing, cutting, paper forming, filling, packing and boxing. There should be gravity chutes for sending materials from the manufacturing floor down to the storage floor and hand or motor-driven lifts to send materials up again.

Saw-tooth or Monitor roofs will provide sufficient light and air and reduce the expense of artificial lighting.

Recommendation No.14.

Make a thorough investigation of the type of building best suited for the manufacture of tobacco products and standardize on that type.

Ventilation

Exhaust fans are installed in Monopoly factories, but there is little uniformity in the results obtained in the work rooms. Many of these rooms are badly ventilated even in Summer when windows are open. Exhausters are located alongside most of the cutting machines to take away the dust, but many of these rooms continue to be dusty and injurious to the health of the workers.

Recommendation No.15.

Employ an experienced ventilation engineer for a limited period of time to improve the ventilation of factories. Provide this man with the necessary apparatus for testing and give him authority to make the improvements he considers advisable.

Artificial Lighting

The artificial lighting in the Monopoly factories is far below the modern American standards for similar factories and there is no doubt that this condition has a marked effect on the quality and quantity of output. Much electric current is wasted by the use of lamps which do not concentrate the light on work spaces. The inadequate lighting is particularly noticeable in the sorting and inspecting operations, where the colours of the leaves or of the finished cigars demand the most careful attention. For work of this character the Gamain day light lamps (made by Eppler, Paris) which are used extensively in France, give very good results with an economy of current.

Recommendation No.16.

Install artificial lighting in accordance with modern standards in all Monopoly factories including daylight lamps for inspecting and colour-matching.

Shipping Facilities

Many of the factories visited do not have railway sidings and some are located far from freight stations. Consequently both raw tobacco and finished stocks must be transported by trucks, which is expensive and slow.

Recommendation No.17.

Provide railway sidings for all factories which are to be continued or to be built in future.

Lay-out of Factories

In the cigarette factories which were visited machines are grouped accorging to kinds, that is, all cutters in one room, forming machines in another, and filling machines in a third. The tendency in the United States in recent years has been to locate machines in such a way as to secure a continuous flow of material. For example, a forming machine and a filling machine are run at the same speed and a moving belt is provided to carry the formed paper to the filling machine and to carry the filled cigarettes to an automatic packing machine. In accordance with this method a plant as a whole is so laid out as to make possible an uninterrupted flow of materials through it with resulting reductions in the time of manufacture and in costs.

Recommendation No.18.

Study the layout of American plants and standardize on one plan of arrangement for all Monopoly factories.

Improvements in Operations

The operation of the automatic machines now used in making cigarettes appears to be efficient, except as to the speed of the machines. However, the hand operations which precede and follow these machine operations are slow and unnecessarily expensive. The methods of filling boxes of cut tobacco are particularly inefficient, but your Commission understand that new machines are being designed for this operation.

In the various Monopoly factories there are many different methods of accomplishing the same result: filling machines of the same make are run at diffirent speeds; the time that the tobacco is kept in the humidor after being cut varies in different plants from 2 to 14 days; a certain brand is toasted in one plant but not in others. "Machorka", one of the grades of cut tobacco which is sold in the largest volume, is packed into wrappers at tables which in one factory require 5 women,

in another 4 and in the third 3 women. Obviously, one of these methods must be better than the other and should be used in all factories.

Recommendation No.19.

Design or purchase machines for all operations now done by hand where the volume of output justifies the investment.

Study the various methods of operating these machines, determine which is most efficient and instruct operators in al Monopoly factories to use these standardized methods. Do the same in all hand operations and in humidifying or drying.

Handling Materials

The wages paid for the handling of materials probably comprise one of the largest items of expense in connection with the operation of the Monopoly factories. It is an item in which great savings are possible. The use of trucks in place of boxes and trays carried by women and the installation of gravity chutes, moving belts, lifts and other devices would be economical in Monopoly factories because the volume of output would justify the capital expenditures entailed by such improvements.

Recommendation No.20.

Install modern equipment for the handling of materials in Monopoly factories.

Maintaining Uniform Quality of Output

Changes in formulas of cigars, cigarettes and cut tobacco have been due principally to shortages of raw tobacco and the substitution of lower grades. A single brand is often made in six or eight different factories and since the operations in these factories differ (see Recommendation No. 19), the finished products often vary considerably in quality. These changes in formulas and variations in the quality of the product of different factories would seem to account for the apparent dissatisfaction of consumers with the instability of Monopoly products.

Recommendation No.21.

Rigidly enforce a rule that no formulas of tobacco mixtures are to be changed without the written consent of one of the directors of the Monopoly.

Confine the manufacture of each brand to a single factory.

Uniformity of quality will do much to reestablish the confidence of consumers in Monopoly brands. If the stock of a certain raw material becomes exhausted, it is better to discontinue the manufacture of the brand in which it is used until a new supply is received. Consumers will buy some other brand in the meantime and their confidence in their favourite brand will not be destroyed.

In the selection of factories in which certain brands are to be made, it will be advisable to secure accurate statistical records of the parts of the country in which those brands are consumed, for such data would obviously be an important factor in determining the place of manufacture. Winniki, near Lwów, now ships most of its cigars to Poznań and Upper Silesia.

When the entire quantity of one brand is made in one plant, the output will be so increased as to justify the installing of special machinery for its manufacture and packing and the result will be lower production costs.

Manufacturing Boxes and Printing Labels

Your Commission were advised that the Monopoly Administration was considering the advisability of remodeling its Poznań - Jeżyce factory and equipping it for the manufacture of boxes and the printing of labels. The technical processes of printing are complicated and the personnel of such a plant learns the trade only after many years of experience. Moreover, the equipment of a plant for colour printing requires a larger investment than would seem to be justified by the amount of printed matter which is used by the Tobacco Monopoly.

Recommendation No.22.

Do not equip or organize a plant for the printing of labels or boxes.

When a brand is manufactured in only one factory, in accordance with Recommendation No. 22., the increased quantity of boxes for that brand used in one plant will often justify the installation of special machines for making those boxes and attaching the labels. Transportation charges will be saved by making these boxes in the plant in which they are used instead of in one central plant.

CHAPTER IV

DISTRIBUTION OF TOBACCO PRODUCTS

Storehouses for Finished Product

The Monopoly has about 18 storehouses for finished tobacco products. These are located in the various large distributing centers of Poland. Stocks of most of the brands of Monopoly products are kept in these storehouses from which they are delivered to wholesalers, who usually take their purchases away in their own wagons.

None of the storehouses visited by your Commission had railway sidings or the equipment necessary for the most economical handling of goods. A new storehouse is being built in Katowice which has better facilities for handling materials but it is located at some distance from a freight station. It is in the center of one of the best apartment house districts in the city and only one block from the new building which is being erected for the Diet of Upper Silesia. The property must therefore be more expensive than is necessary and the trucking of goods from the railway will be slow and costly.

Recommendation No.23.

Provide railway sidings for storehouses of finished products as far as possible.

Equip all storehouses with modern devices for handling materials.

Retail Stores

The Monopoly has recently opened about 8 retail stores in the large cities of Poland. The reason given for the purchase of these stores is that they are needed to secure records of consumers preferences and to increase the income of the Monopoly by securing for it the wholesale and retail profits on the sales made in these stores.

These reasons are inadequate. The records of eight stores will not provide sufficient date to serve as a dependable basis for preferences of customers who now purchase from over 39,000 retail shops. If the Monopoly retains the goodwill of its retailers, it should not have much difficulty in securing accurate information in regard to consumption.

The small profits realized on these eight stores would not seem to justify incurring the resentment of retailers on whom the profits of the Monopoly so largely depend. The attitude of retailers is indicated by the following incident. In one city the Tobacco Monopoly chose a site for its retail store, but the tobacco dealers in the vicinity, whose business would have been injured by the opening of this store, secured an option on the property and made it impossible for the Monopoly to buy it except at an exorbitant price.

Recommendation No.24.

Sell all of the Monopoly retail stores and do not enter into competition with retailers of tobacco products.

Reduction of the Number of Brands

There are now about 37 brands of cigarettes manufactured by the Monopoly. This seems to be a greater variety than is necessary and a statistical analysis of sales would indicate which brands are not sold in profitable quantities.

Recommendation No.25.

Reduce the number of brands of tobacco products manufactured, retaining a line in which each brand is distinct as to quality.

This will obviously increase the manufacturing quantities of the remaining brands and will simplify stores keeping and selling.

Revising Prices

A consumer has no incentive to purchase in large quantities for he pays the same price for cigars or cigarettes whether he buys them one at a time or in boxes of one hundred (see price list of April 29,1926). Selling in larger quantities increases consumption, reduces the Monopoly's cost of packing and the retailer's cost of selling.

Recommendation No.26.

Revise prices of tobacco products so that consumers will pay lower prices per piece when they buy in larger quantities.

The present prices for boxes containing 20 cigarettes are as follows:

Zl. 0.40
0.50
0.60
0.70
0.80
1.00
1.10
1.20
1.40
1.60
1.80
2.20
2.40
3.20
4.00

A simpler and more efficient price range would be:

Zl. 0.40
0.50
0.70
1.00
1.50
2.00
2.50
3.00
4.00

Prices of cigars could bo similarly simplified. There is no cigar which is sold at 1.00 zl. each and prices of 90 gr. and zl. 1.15 are awkward for making change.

Recommendation No.27.

Develop a range of prices which will be more simple and follow more closely the purchasing power of the consumers.

Do not have more than one brand of a certain type of cigarettes and cigars at one price.

Advertising

What little advertising is done by the Monopoly is confined to new brands and the issuance of price lists. Expenditures for advertising have been as follows:

1924	—	19,758 zl.	
1925	—	23,136	
1926	—	50,000	(second half year estimated)

Judicious advertising of the higher grades of the tobacco products would create a greater demand for those grades on which the margin of profit is larger. This advertising should call the attention of the public to special characteristics of the brands advertised.

Recommendation No.28.

Make an appropriation each year for the advertising of specific brands of tobacco products.

Advertising which features the name of the Tobacco Monopoly, the Polish Eagle or such expressions as "pro patria" is of doubtful value at any time and is harmful at a time when consumers feel that prices are too high and the quality is too low.

Recommendation No.29.

Discontinue the displaying of the Polish Eagle, the name of the Tobacco Monopoly and any patriotic expressions in advertising matter or on boxes or wrappers.

The boxes and wrappers now used for cigarettes and cut tobacco are unattractive in design and not well printed.

These containers are effective means for advertising tobacco products and better designs printed in attractive colour would be likely to increase the sales of the higher grade products.

Recommendasion No.30.

Offer prizes for the best designs for boxes and wrappers.

Improvement of Formulas for Mixtures

Although it is difficult to summarize public opinion accurately, the impression gained from somewhat limited contacts with users of Polish tobacco products is that the quality is not good enough for the prices charged and that comparisons with the tobacco products of other Continental countries are not favourable to Poland. In order to establish a reputation for good quality it will be advisable to make careful investigations of the preferences of the Polish smokers and to revise many formulas for mixtures now in use.

Recommendation No.31.

Equip a laboratory and retain an expert tobacco taster to revise present formulas, substituting better grades and developing new formulas, so that the entire line of products of the Monopoly will be more satisfactory to the Polish cousumer and become known as one of the best lines of Tobacco products in Europe.

CHAPTER V

CONTROL AND POLICIES OF THE TOBACCO MONOPOLY

Methods of Control

The control of a business which is as varied as that of the Polish Tobacco Monopoly is a complicated and difficult problem. There are many varieties of raw materials the manufacture of an extended line of products is done in a number of factories and stocks are kept in many storehouses. It is necessary to measure the rate of consumption of each brand and to arrange for the flow of material through warehouses, factories and storehouses as nearly as possible at that same rate.

Recommendation No.32.

Organize a combined planning and statistical department in the offices of the Monopoly Administration which will draw up plans in detail for the various phases of the business, secure prompt reports of the work that has been done and the material that has been moved, and compare its movements with the plan.

One aspect of this method is shown in charts A and B on which the actual sales of a storehouse are compared with the sales quotas determined by the Directors. It will be seen that one of these storehouses, that of Lublin, had exceeded its quotas, but that the other, that of Rzeszów, had fallen behind. This method of charting draws attention to the classes of product which are most in need of some action to stimulate their sales.

Charts C, D and E show the sales of all storehouses compared with their quotas and, at the top of chart C, the sales of the Monopoly as a whole. Chart F shows the same total and below it the sales of the various products which go to make up the total. This chart makes it clear that the sales of cigarettes and cigars have fallen considerably below the expectations of the Monopoly but that the shortage was made up by increases in cheaper products.

General Policies

The Administration of the Tobacco Monopoly has been under increasing pressure to remit larger amounts to the State Treasury. The experience and training of the Directors has not enabled them to see the possibilities of increasing revenues through simplifying methods and reducing costs of manufacture. They have therefore taken another course and have attempted to increase remittances by decreasing expenditures for raw tobacco. Chart F shows that the sales of cigarettes and cigars have already begun to fall off and it is probable that the above policy is responsible at least to a certain degree for this decline.

The Tobacco Monopoly has produced good revenues for the State and it can undoubtedly produce even greater revenues in the future, but its success in this direction will depend upon the good will of the public and a continued lowering of quality is likely to react unfavourably not only for the Tobacco Monopoly but for all the other monopolies of the Polish Government.

Recommendation No.33.

Do not sacrifice the quality of the product of the Tobacco Monopoly and the good will of its customers in order to secure temporary increases in revenues for the State Treasury.

Summary

In this report your Commission have recommended:

A change in the method of purchasing imported tobacco from the present bid system to a system of buying from growers in foreign markets.

A reduction of the stocks of imported tobacco until new standardized formulas are adopted.

An increase in the prices paid to native growers in order to encourage domestic production.

The relocation of warehouses for raw tobacco.

A reduction of the number of factories and the continuance only of those suited for modern quantity production.

An improvement of manufacturing operations and the handling of materials.

A rigid maintenance of quality of output.

The improvement of shipping and handling facilities in storehouses for finished goods.

The discontinuance of all retail selling.

The establishment of a laboratory and the employment of an export to improve formulas for mixtures.

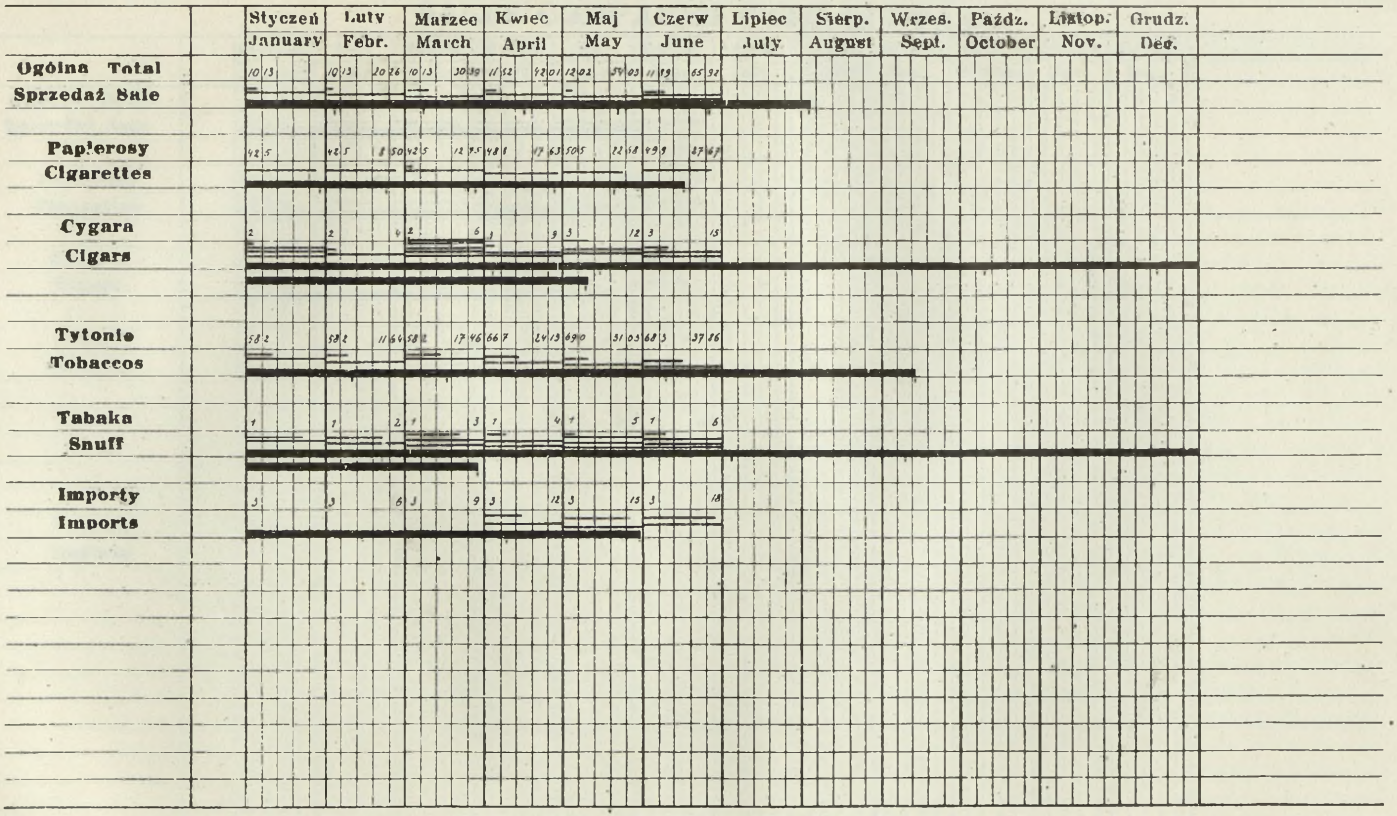
The installation of more effective methods for the control of the Monopoly.

A change in the policy of the Monopoly in regard to the quality of products.

LUBLIN

SPRZEDAŻ W PORÓWNANIU Z PLANEM
SALES COMPARED WITH QUOTAS

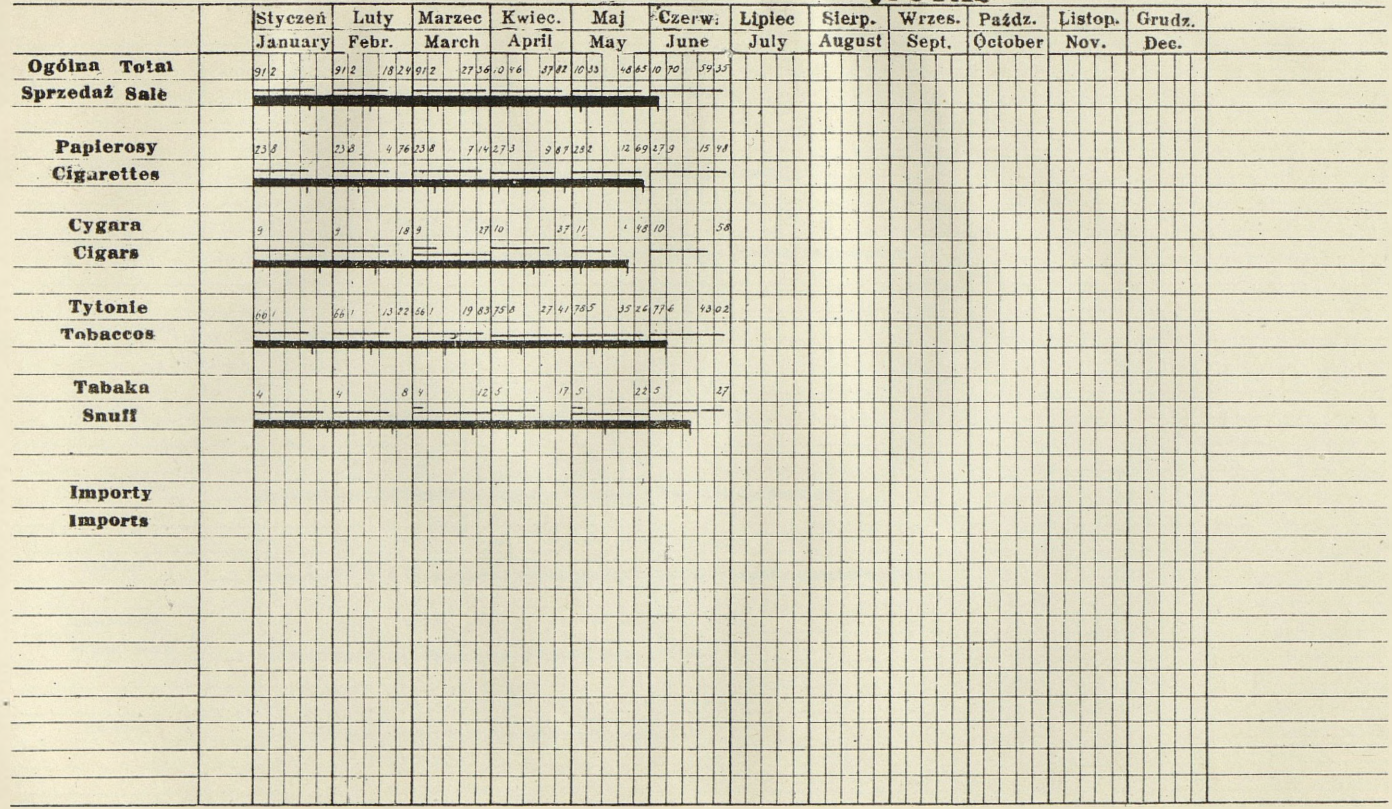
A.



RZESZÓW

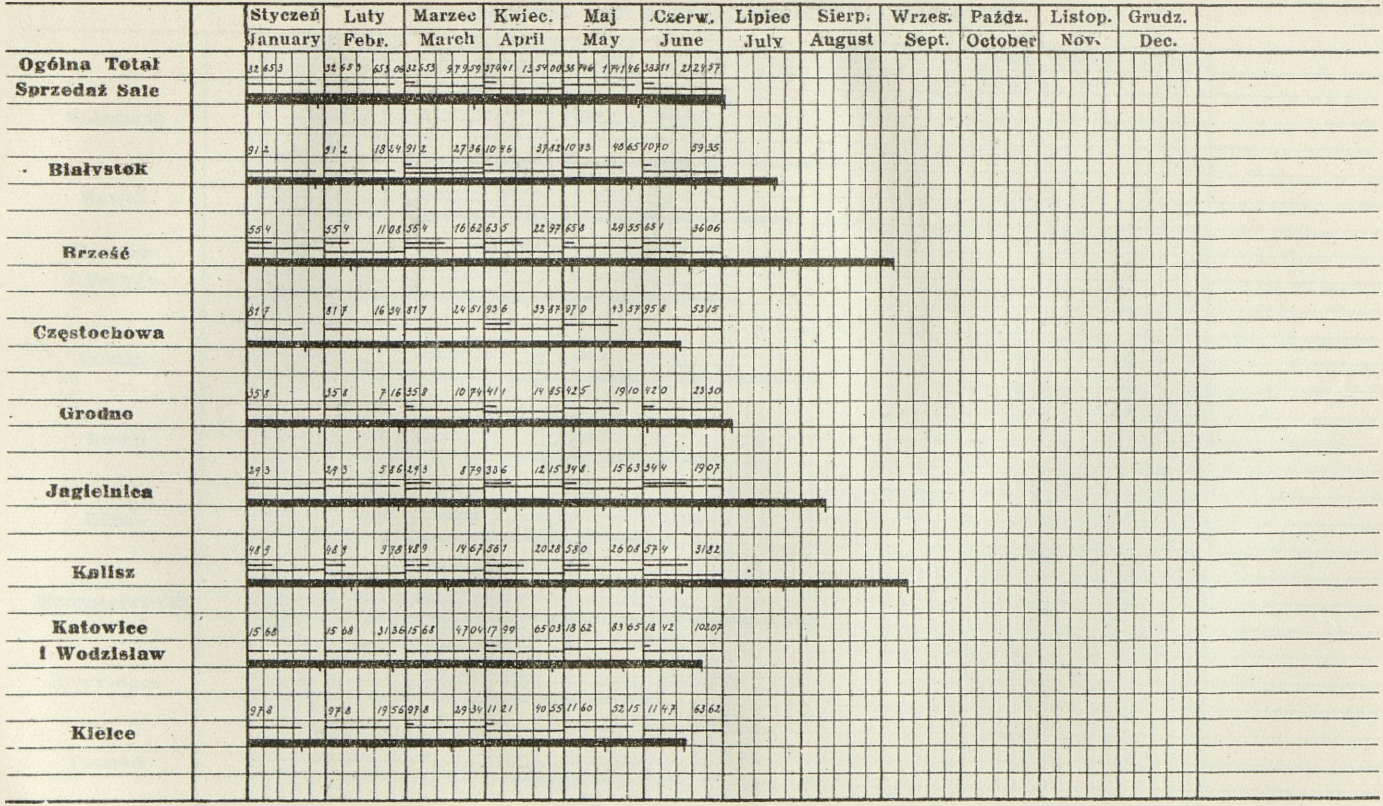
SPRZEDAŻ W PORÓWNANIU Z PLANEM
SALES COMPARED WITH QUOTAS

B



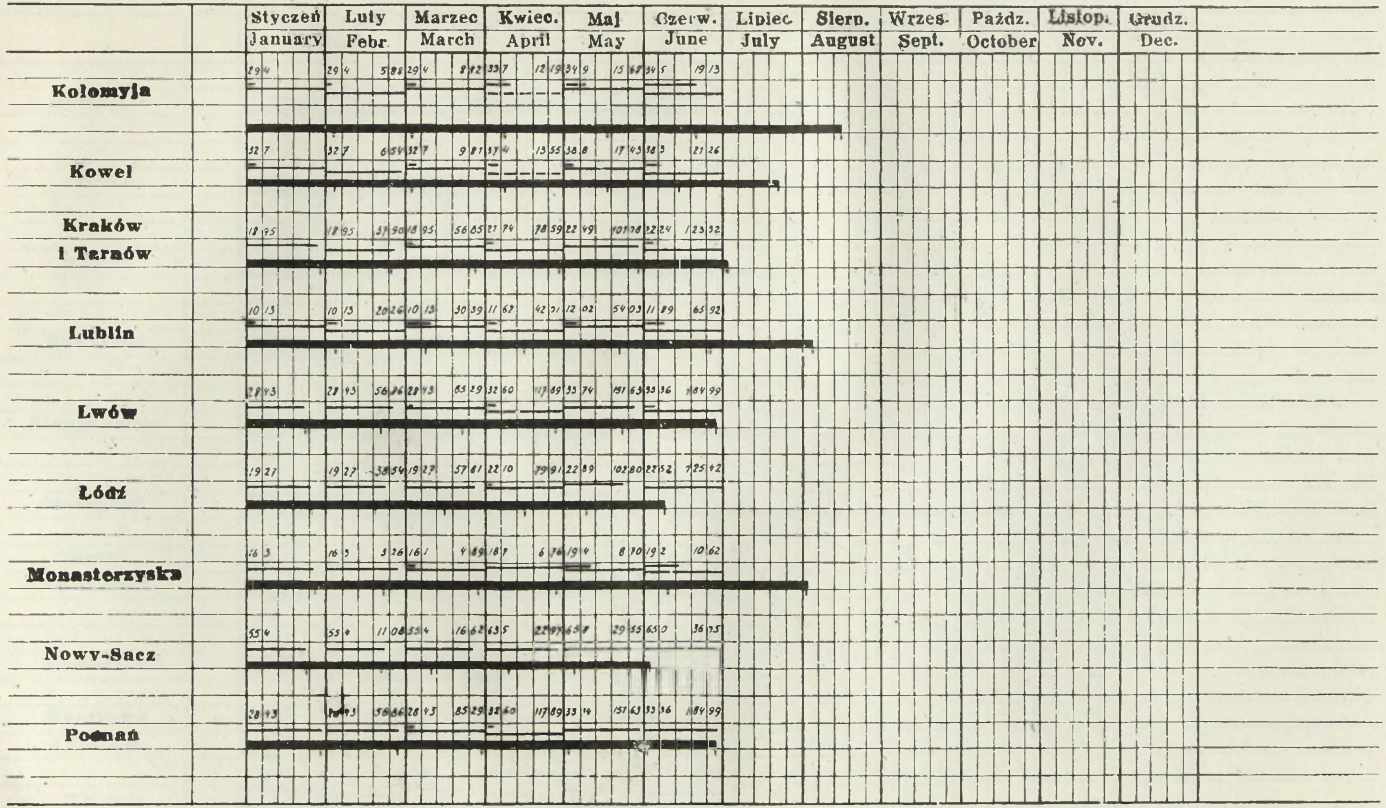
SPRZEDAŻ Z MAGAZYNÓW ZA ROK 1926
SALES OF STOREHOUSES IN 1926

C.



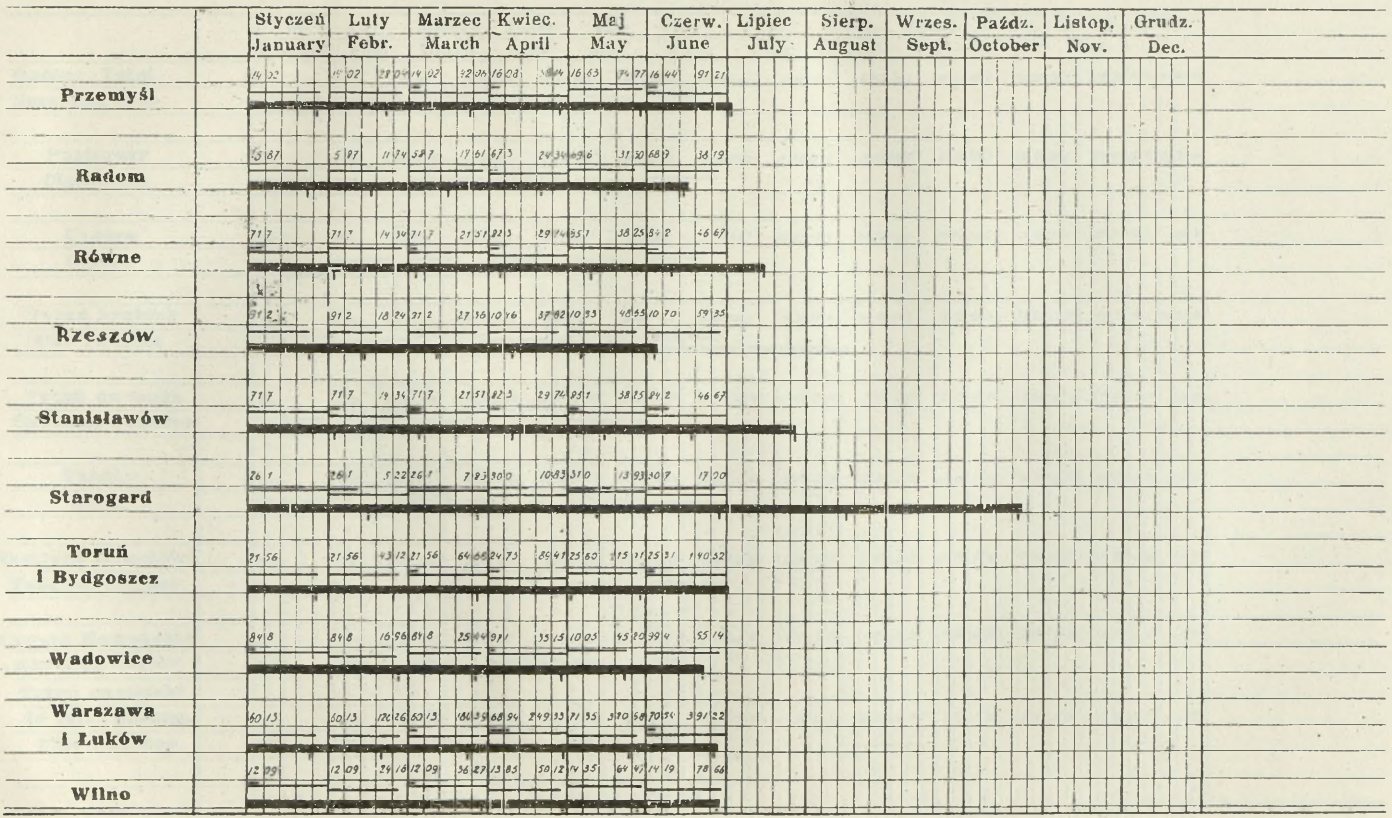
SPRZEDAŻ Z MAGAZYNÓW ZA ROK 1926
SALES OF STOREHOUSES IN 1926

D.



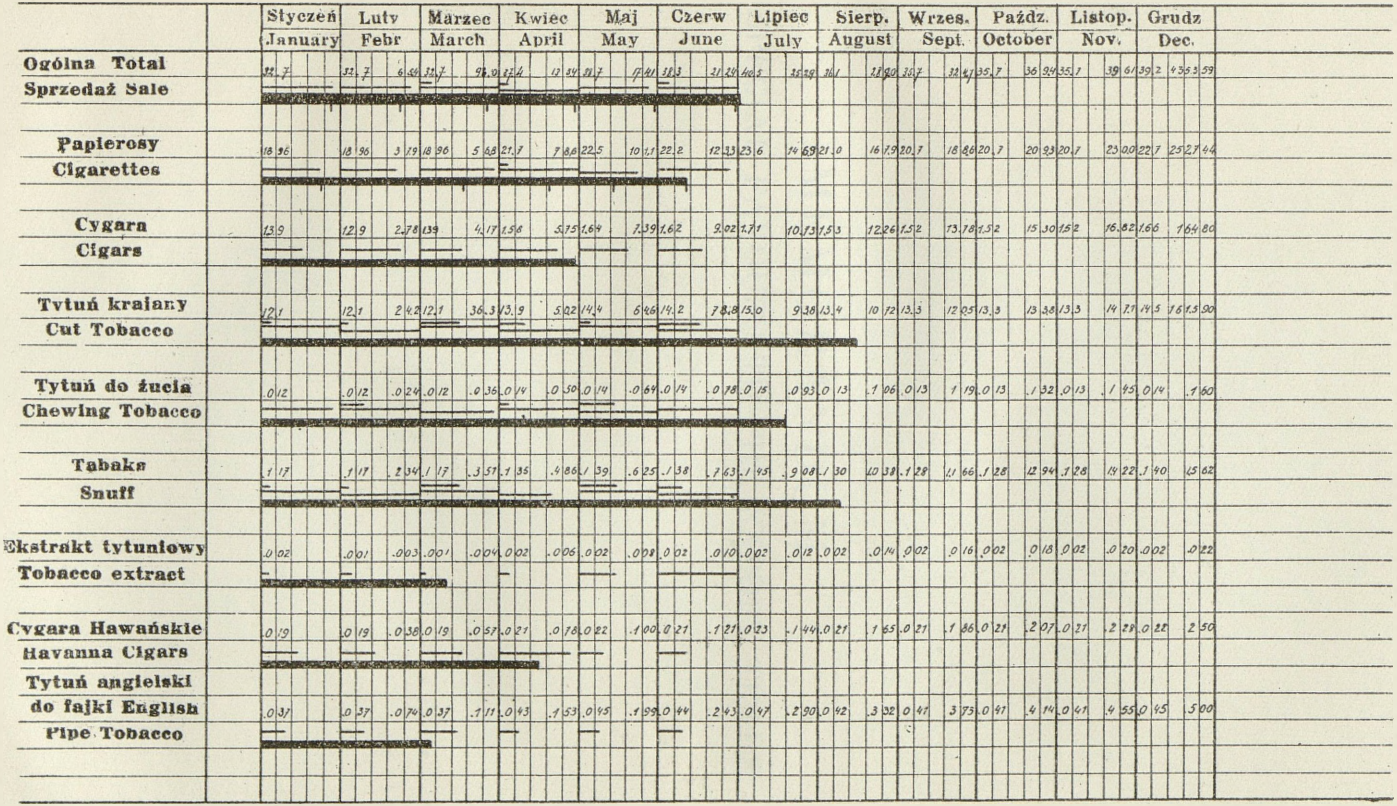
SPRZEDAŻ Z MAGAZYNÓW ZA ROK 1926
SALES OF STOREHOUSES IN 1926

E.



SPRZEDAŻ ZA ROK 1926 PG. GRUP WYROBÓW TYTUNIOWYCH
SALES OF VARIOUS PRODUCTS IN 1926

F.



MEMORANDUM
ON SPECIAL FAVOURS TO THE EXPORT TRADE

MEMORANDUM ON SPECIAL FAVOURS TO THE EXPORT TRADE

Special Favours to the Export Trade Popular but the Presumption is Against Them

Both in Polish law and public opinion your Commission have found a strong bias in favour of export trade in general and in favour of the export of manufactured goods in particular. This bias shows itself in the exemption of export industries from taxation, in discriminatory freight rates, and in other ways. Opinion seems to be dominated by the phrase "a favourable balance of trade" and by Mercantilistic notions the fallacy of which has long been recognized by all competent economists. While your Commission admit that, for one reason or another it may be considered desirable to grant favours to specific industries which the Government elects to encourage, it should be clearly understood that such favours involve an expense which must be borne by the country at large. The presumption is against all favours of this sort and the burden of proof should be placed strongly on those who advocate them.

The Case Against Attempting to Stimulate Export Trade in General

No sound case can be made for a permanent policy of attempting to stimulate exports in general. There is nothing essentially desirable in a so-called favourable balance of trade. The prosperity of a country is dependent, not upon the existence of an export excess, but upon its per capita productivity and the rate at which it exchanges its exports for its imports. The function of exports is to furnish the means of procuring such imports as are more valuable in

the importing country, (because they are harder to produce there), than the exports with which they are procured. If one visualizes the annual products of a nation as a great heap of goods, its prosperity can obviously not be enhanced by an abstraction of goods for export unless those goods are exchanged for imports which in that country exceed the exports in value by an amount at least adequate to cover the costs of transportation both ways. The important thing therefore is not to have a large excess of exports but to get as large a volume of imports as possible in exchange for a given volume of exports. A country may have just as large an excess of physical exports as it pleases if it is willing to give its goods away. It may have any excess short of this amount if it is willing to sell them at bargain prices. This is what tends to happen when special privileges are granted to exporters, such as exemption from a tax which is laid upon their fellows, special railroad rates and the like. The exporter can then sell at low prices and the physical volume of exports is increased but a heavier burden of taxes or of railroad charges must, in consequence, be borne by the rest of the country. This is not only an unjust distribution of taxation or of railroad charges, but it often means further that such trade is carried on at an actual loss, inasmuch as the direct cost to the producer of the commodity plus the costs which are indirectly borne by the rest of the community will probably be greater than the sum realized from the exports and available for purchases of imports. In other words the community heap of goods is smaller and less valuable after this process of artificially stimulated export and import than it was before, and much of the labour and capital which has gone into the process of producing such goods has been wasted. To send out goods which actually cost more to produce than the goods obtained in exchange are worth is a first class way to bankrupt the country.

A Balance of Payments is Automatically Achieved by Fluctuations in the Price Level

Under ordinary circumstances the Government needs to give itself no concern about the relation between exports and imports and any attempt to regulate the relationship is

likely to prove costly. The view that such regulation is necessary, is based on the fallacious notion that the price level is a relatively fixed fact and that the trade balance is dependent thereon. The true view is that the price level is flexible and that the variations in the trade balance are an important factor in determining it. In every country some prices, (measured in gold which is the international money), are higher and some are lower than in other countries. In any country those commodities are relatively high in price in the production of which that country is less well adapted or is less expert than it is in the production of other commodities, and they are lower on these other commodities. For example: nitrate is relatively cheap in Chile, on account of natural advantages, and in Poland on account of technical developments, but it is relatively dear in Cuba. But tabacco is relatively cheap in Cuba, and relatively dear in Poland. The general price level cannot long remain in any country at a point either higher or lower than the point at which equilbrium in its international accounts, that is to say an exast balance of total exports and imports, both merchandise and other items, is attained. If its price level is higher, imports will exceed exports until, if it is on a gold standard, an efflux of gold brings prices down and promotes an increase of exports and a diminution of imports, or until, if it is on a paper standard, a rise in foreign exchange produces the same result. If its price level is lower, exports will exceed imports until the consequent influx of gold or fall in foreign exchange rates checks this process and restores equilibrium. By the mechanism of international payments the price level in any country tends to be kept in such a relation with price levels in other countries as will produce equality in its total exports and imports, merchandise and non merchandise. Except when the investment of capital abroad is involved, on which comment will later be made, a policy of promoting an export excess is therefore self defeating. If it has any success whatever it soon raises the level of prices in the exporting country and exports again decline to their former level and the chief effect of such a policy is to promote the export of goods on which the country suffers a loss, rather than the export of those goods on which, in the absence of such a policy, it would make a profit.

Under Some Circumstances These Forces May Operate Too Slowly and a Policy of Stimulation of Exports in General May be Justified

There is, however, one case in which it may be desirable to adopt for a short time a policy of special favours to exporting industries in general. When the gold standard is abandoned and a country is unable to meet a temporary excess of imports by exporting gold and thus keeping the exchange value of its monetary unit stable the exchange value of that unit may move downard, (i. e. foreign exchange may rise) far below the true purchasing power of the currency. Such a movement will eventually check imports and stimulate exports and will thus restore equilibrium but this process takes time and meanwhile there is urgent need of facilitating the immediate, outward movement of any commodities which are on the margin of export, in order to prevent so precipitous a rise in foreign exchange as will result in a practical donation of goods to foreigners. For, if this rise takes place, exports at the current home prices will produce but a small amount of foreign exchange, that is of means of payment for imports, and the net result will be that a larger physical volume of exports must be exported to furnish means of payment for a smaller physical volume of imports. If for instance, Poland had been exporting coal when exchange was at par with the Swiss franc at a price of 10 zlotys per ton, and with the exchange so obtained importers of oranges had been meeting their obligations to foreign growers, the export of a ton of coal would, let it be assumed, have provided means of payment for 3 dozen oranges. But if foreign exchange should rise precipitously so that the home exchange became worth only half as much as before, it would take two tons of coal, sold at the same zloty price as before to pay for the import of 3 dozen oranges, or, what is the same thing; one ton would now pay for but a dozen and a half. Similarly over the whole import and export schedule the rise in exchange means that a greatly restricted volume of imports can be purchased for a given outgo of exportable merchandise. Even if Polish exporters should demand higher zloty prices it very seldom happens that prices in a depreciating currency are advanced as rapidly as foreign exchange rises.

Facilitation of Exports in General an Emergency Policy Only.

Your Commission believe that the Polish penchant for an export excess is derived in part from the desire to prevent some such debacle in the exchange value of the zloty and it sympathizes with this feeling. But any measures adopted with this aim in view should have been temporary and should have been abandoned as soon as an export excess developed. The policy may have been justified as a preventive of a worse evil but once that evil has been obviated the continuation of the policy defeats its original aim in that, far from preventing a sacrifice of goods to foreign buyers, it perpetuates that sacrifice in a somewhat lesser degree.

Unfortunately, in the process of preventing a ruinous rise in foreign exchange the means become confused with the end and presently a permanent excess of exports is set up as the ideal of economic life. When exports increase, the supply of foreign exchange increases and the resulting fall of foreign exchange or, what is the same thing, the rise of the home currency immediately puts a damper on the export trade. Under the circumstances which have by this time developed, this is an entirely desirable consummation but the psychology of the so-called favourable balance has meanwhile captured men's imaginations and it comes to be believed that the prosperity of the country hangs upon the preservation of the excess of exports. The cry goes up that the home currency must be prevented from rising in order that the export trade be not depressed. The complete circle in this reasoning is obvious. First exports must be stimulated for the sake of the exchange and then the exchange must be sacrificed for the sake of exports.

A Continued Excess of Exports Undesirable.

Your Commission have elsewhere stated (Report on the Stabilization of the Zloty) that they believe an attempt to raise the value of the zloty beyond its present level would be unwise but they are led to this view by no peculiar regard for an export excess. On the contrary they feel that the present excess of exports is likely to be diminished with time and that this is a phenomenon to be welcomed. If, as seems,

to be the case at present, the value of merchandise exports plus any other international credits that Poland may have, exceeds the value of merchandise imports plus any other debits in Poland's international account, the result is an accumulation of foreign credits by exporters in excess of the requirements of the import trade. Within limits this is at the moment desirable. For the exporters will probably eventually sell most of these credits (which are convertible into gold) to the Bank of Poland in exchange for Polish currency, and the Bank of Poland's reserve ratio will be increased thereby. But when that ratio is sufficiently high to ensure effective stabilization of the zloty along the lines elsewhere recommended the further accumulation of such credits is unwise. For these credits two uses are open. They may be invested abroad or they may be brought back home. If they are invested abroad Poland will be lending capital to foreign nations at low rates of interest while attempting to borrow in those markets at much higher rates. This will be done at a time when there is urgent need at home for all the capital that can be obtained and when the domestic interest rate is ruling very high. This is obviously poor economy. If, on the other hand, these credits are brought back in the form of gold one of two things will happen. Polish bank will either (1) increase their reserve ratios to an excessively high figure and Poland will be devoting its energies to the export of productive capital or its equivalent (merchandise) in exchange for useless capital (excessive gold supplies), or (2) they will use these gold supplies as a basis for extending money credits which will not meet the very real need for actual productive capital but which will cause a rise in domestic prices and a consequent cessation of the export excess. In the latter case the policy of stimulation of exports will have ended vainly, so far as an excess of exports is regarded as an end in itself, and Poland will have deprived itself of the use of the capital during the period when the credits were being accumulated and returned. This policy amounts to lending capital abroad not merely at low interest but for no interest at all.

It is true that an excess of exports provides money, but money is useful only for what it will buy. Your Commission have heard frequent complaints of the lack of circulat-

ing capital in the country and the idea is prevalent that what is needed above all things is money. The fallacy of this notion is apparent in the fact that the difficulty mentioned has been most acute in those countries where money has been issued in excessive quantities and that further issues only accentuate the trouble. Nor would the evil be cured by copious supplies of gold unless there were confidence in the stability of the monetary unit. The trouble is not that there is lack of money but that people who have it, either in Poland or abroad, are unwiling to lend it in Poland except at prohibitive rates of interest. This they naturally demand as insurance against the extreme risk to which they are subject in the prospective depreciation of the unit in which the debt is contracted.

Aside from a certain amount of gold credits necessary to assure stability to the zloty, Poland does not now require more money, but is badly in need of productive capital. If loans are floated abroad the desirable form for the receipts from these loans to take, aside from a credit to the Bank of Poland for use as reserves, is imports of merchandise with a corresponding import excess. The best use of a foreign loan would be the importation of machinery, materials, tools etc. With or without such loans it is clearly unwise for Poland to pursue a permanent policy of an excess of exports which means either the sending out of the country of capital goods or the fruitless use of labour and resources which might be devoted to increasing the supply of capital in the nation.

The present price level in Poland is obviously low enough, if the zloty is stabilized at nine to the dollar, to provide an adequate temporary excess of exports without discriminatory legislation in favour of the export trade, and exporters are more than justly treated by the rate selected for stabilization. Your Commission, therefore, recommend the immediate abolition of discriminatory legislation in favour of exporters in general and especially the abolition of tax exemptions. They do so on the grounds that such legislation will not promote total exports in the long run but will affect their composition adversely to the country's interest, and that it is not desirable to promote an excess of exports even if it should prove possible. If exporters are compelled to bear their fair

share of taxation the position of the fisc will be considerably improved and in addition a more healthy economic situation will be promoted in the country at large.

Special Favours to a Restricted Number of Industries may be Justified for a Limited Period

So much for a policy of special favours to exporting industries in general. With respect to favours to a limited number of industries subject to special condition your Commission recognize that the case for abolition is not so strong. Two types of such industries may be distinguished. There is, first, the industry to which Poland may be well adapted but which is subject to unfair competition in export markets. Wherever such competition is supported by any kind of governmental bonus it may be the part of wisdom to fight it with retaliatory measures. The purpose of aid to such an industry should be to compel, if possible, a revocation of the bounties given by foreign countries and to make it clear that such an attack on the principle of fair competition will not be quietly endured nor a competent industry be permitted to succumb. But, even in this case it is unwise to persist in a policy of bounties for an indefinite period. It is customary to regard trade as analogous to war, a struggle to be continued to victory or death. This is an erreneous idea. Trade is simply and solely a method of obtaining goods more cheaply than they could otherwise be secured. If goods must be sold at a price which, after the subtraction of bounties, is less than the value which the capital and labour which has gone into them could produce in other lines, perhaps in some of the very lines which under such conditions figure in the import schedule, a policy of valiant persistence, whatever its dramatic virtues, is quixotic in the extreme.

Severe competition may necessitate for a time the taking of low prices all round but if it is necessary to subsidize any industry permanently in order to enable it to sell its goods, the employers and workers in that industry are being paid more than they can earn, at the expense of the public, including employers and workers in other industries, who are consequently paid less. Let the latter be paid what they can

earn without any deductions for the support of their less productive fellows and the higher wages and profits which will then prevail in the more competent industries will attract workers from those which are depressed and the country as a whole will become more productive and prosperous.

The same argument applies even more strongly to the second type of industry to which temporary aid may possibly be justified. This is the industry which has been built up under conditions which have ceased to exist, which can no longer maintain itself in the new environment, and has no prospect of doing so. Such aid as is given to an industry of this sort should be calculated to alleviate the distress of a violent death but it should prepare the way for a gentle demise rather than seek to keep alive a chronically deseased patient by persistent transfusion of blood. The ultimate result of the latter policy will be to produce anaemia in the sound as well as the sick.

There is strong evidence that many highly inefficient producing establishments are being maintained in certain industries by a policy which, through limiting domestic sales and facilitating exports, raises home prices to a level which enables these inefficient plants to cover their costs. The more efficient establishments are presumably satisfied with such a condition since it gives them high profits. But from the point of view of the country at large this is a most undesirable state of affairs. If the present policy were abandoned and free competition allowed to work out its results the inefficient establishments would be eliminated and the production concentrated in the better ones, which could offer employment on far better terms than now prevail in the industry as a whole. The saving in cost of production could be utilized to lower prices to the domestic consumer or to give a larger tax yield if the Government should so prefer. The lower costs which would be so obtained would in all probability enable exports to be made without any special favours being granted, and if not, the industry should be allowed gradually to contract to the size at which it could maintain itself without governmental aid.

Poland has a special problem in that a considerable part of its industry was built up behind the very high Russian tariff wall. Russia provided it with an ample market and Polish

industry was not called upon in any very large measure to meet world competition. The result is that in the new situation in which it finds itself Polish industry is probably over rather than underdeveloped in relation to agriculture and raw material production. Poland's greatest opportunity would now seem to lie in the production of agricultural products and raw materials for industrial markets. There is a tendency to regard agricultural and raw material production as in some way inferior to manufacture and to speak of a nation devoted to such pursuits as a hewer of wood and drawer of water for other nations. There is no sound basis for such a view. Agricultural and raw material producing nations are in no way subordinated to their industrial neighbours. Industralization has apparently already gone so far in many countries and has produced such keen competition among them with resulting low prices for their products, that they would be fortunate if it were possible to return to pursuits which were earlier in time and which therefore erroneously tend to be regarded as technically inferior. The gradual exhaustion of the world's raw materials is pushing up the prices of raw materials relative to those of industrial commodities and it would seem to be the part of wisdom to give unhampered play to forces which are leading to the expansion of extractive industries in Poland. Poland has few special facilities for manufacturing but she has very extensive natural resources. The question is not one of a better or worse industry but rather of what type of industry will offer the highest yield per unit of labour and capital involved.

All Aid to Special Industries Should Further Rather than Retard the Operation of Natural Forces.

If governmental aid therefore is to be given to distressed industries to prevent transition to new conditions from being unduly violent it is important that the measures taken should not operate to retard for any great length of time the adjustment which is necessary to prosperity. The Government should be sure that is working with and not against economic laws. If those laws, when left to operate freely, would increase the ratio of agricultural and raw material production to that

of manufacturing industry, the attempt to promote the latter by special favours is ill advised. The most profitable utilization of the country's productive powers will be attained more quickly if the Government permits trade to find its own channels than if it seeks to direct it by bestowing benefits here and imposing restrictions there. Industries which are relatively effective will then be able to offer better wages than those which are not so competent and they will expand as the others contract. There is no prospect that any government can allocate the productive powers of a nation as effectively as they will group themselves under the stimulus of the search for profits.

Recommendations

In addition, therefore, to the recommendation that all discriminations in favour of exports in general should be at once removed, your Commission would urge that discriminations in favour of selected industries subject to special disadvantages should be confined to the very few cases in which such an industry gives promise of shortly making its own way in a fair field with no favours, or in which predatory competition must be met or too abrupt a transition to new conditions prevented; that even in these cases any favours given should be temporary; and that the policy of steadily reducing their number and extent be at once inaugurated.

MEMORANDUM
ON THE
PUBLIC DEBT POLICY OF POLAND

General Observations

For some years in the future it is probable that Poland will be a borrower of money in foreign financial markets. For a country with rich natural resources as yet not fully developed, it is advantageous to secure the capital for such developments from abroad, from those countries where the accumulations of wealth in the past have reduced the interest rate below the level prevailing in the borrowing country. Even before the destruction caused by the World War and the Bolshevik War most of the territory now comprising the Republic of Poland was in a stage of economic development in which a large part of the financing for the exploitation for its resources was obtained from outside sources. In view of the great destruction of material wealth during the years from 1914 to 1920 the considerations in favour of financing through foreign borrowings the reconstruction of the factories and other productive equipment destroyed, and a considerable part of the further capital improvements, are even stronger than they were in 1914.

Large amounts of foreign capital, as in the past, will undoubtedly continue to flow into Poland through the channels of private investments in its industries through the ownership of stocks and bonds. But for many purposes, particularly public improvements, foreign capital must be obtained through government loans.

The development of Poland will to no small extent depend upon the wisdom with which these foreign loans are floated and the purpose for which they are used. The statement that „a public debt is a public blessing" is seldom true, and the unwisely contracted public debts of some countries are evidences of the facts that a public debt may prove a public

curse. Whether or not a public debt is to prove a curse or a blessing will depend in no small measure upon the wisdom with which it is contracted and upon the purpose for which its proceeds are expended. In this Memorandum your Commission wish to lay down some general principles in regard to public debts, principles which are supported by sound theory, and which have been well tested by the experience of other countries. An observation of these principles, many of which have already been followed in Poland's financing, will in the opinion of your Commission, contribute much to the attainment of a maximum of benefit to Poland from its future public borrowings.

Present Situation of the Public Debt of Poland

In many ways Poland suffered more than any other country from the war time ravages of 1914 to 1920. No other country was so trampled by a succession of armies, devastating the country, and destroying or crippling its mills and its factories.

In one particular, however, Poland was more fortunate than many countries which suffered from the material ravages of the War. Poland began her national independence with a relatively small public debt, amounting at the present time to about $12.00 or 108 zlotys per capita. The total foreign debt excluding a few short time bank credits, secured mostly for purposes of currency stabilization and not shown in the budget, amounted on July 1, 1926 to about $312,000,000. Of this amount about $245,000,000 consisted of debts to foreign governments, largely for advances made during the trying period at the beginning of Poland's independence. (This figure does not include that part of the old Austro-Hungarian debts, which is to be assumed by Poland, as this amount has not yet been definitely settled.) The 70 odd million dollars owed to private creditors is in the form of four loans from foreign organizations, and three foreign bond issues, namely, the 6% dollar loans of 1920, the 7% Italian loan, and the 8% Dillon loan. All of these foreign obligations to private creditors, except the Italian loan, are payable in the United States in American dollars. With the exception of the consolidated debt to the United States Government which is not completely

paid off until 1984, all of Poland's foreign debt matures by 1950. The external debt is shown graphically in the two accompanying charts. There is little in the way of consolidation or refunding of the existing debts other than the consolidation of the debts to foreign governments as yet not consolidated that seems possible or desirable at this time. All of these consolidated debts to foreign goverments bear a rate of interest much lower than Poland is paying on current financing, and in view of this fact any attempt to pay them off in advance of maturity would be an unwise policy.

The internal debt of Poland, exclusive of the non-interest bearing debt, although represented by twelve different bond issues and fourteen issues of short term money treasury bonds, amounts to only a little over 260,000,000 zlotys, or less than 10% of the external debt. The Government has an outstanding uncovered issue of circulating treasury notes amounting to 285,000,000 zlotys and a non-interest bearing debt to the Bank of Poland of 50,000,000 zlotys.

An exact analysis of Poland's internal debt situation is difficult because of the fact that a number of the issues outstanding were originally issued in terms of Polish marks. The bonds of these issues are convertible into the 5% conversion loan, and the exact rate of conversion is dependent upon the value of the mark, at the date of purchase. Several issues of the bonds payable in zlotys and in gold are outstanding in very small amounts. The conversion of the mark bonds and the retirement of the several small issues outstanding will greatly simplify the internal debt structure which will be a desirable step.

Purpose for which a Public Debt should be contracted

The purposes for which a public debt may be wisely contracted are limited. Borrowing to meet deficits in the annual budget is something that can be justified only under extraordinary circumstances, such as war, a public calamity or some unavoidable event which temporarily causes a deficit in the government's finances. Frequently a minister of finance finds himself faced with a dangerously large floating debt which is a heritage of a previous administration and under

such conditions the consolidation of this debt, even though it was the result of budgetary deficiencies, may be sound financial policy. In the chapter on "Equalization of the Budget" in the Commission's Report on "The Revenue System of Poland" the possibility of cleaning up the existing floating debt by some such measure is suggested. As a general principle, however, the present generation of taxpayers should pay the expenses of today and not burden the future with obligations contracted as a result of the financial mismanagement or extravagance of the present.

Even those who admit in principle the validity of this axion of public finance are frequently inclined to enlarge unduly the field of loan operations. When additional funds are desired, borrowing is usually a line of less political resistance than increased taxation. For a country in Poland's present economic situation, whose credit standing is as yet not firmly established in the minds of foreign investors, a public debt contracted for a purpose that does not directly or indirectly yield a revenue out of which the service of the loan may be met, except in the case of a limited number of loans urgently needed for such purposes as sanitation and public health, is to be considered as a luxury to be indulged in very sparingly, if at all. The purchase of equipment for the army and navy, the widening of city streets, and the construction of public parks may represent highly desirable public expenditures, and yet under ordinary conditions they do not warrant the pledging of the nation's credit over a long period of time for the purpose of obtaining the funds with which to pay for them.

There are a number of public improvements of a productive nature which the economic situation of Poland makes desirable during the next few years. The completion of the port works which the Government has under construction, the building to a reasonable extent of good roads, the making of permanent agricultural improvements, and the installation of water works and sewage and drainage systems in many of the cities of Poland are all purposes for which public debts in moderate amounts may be legitimately contracted or for which debts may be wisely guaranteed by the National Government.

Policy of Loans for Public Works

A comprehensive program of expenditure for public works should extend over a considerable period of years. Money borrowed for this purpose can be spent to much better advantage if the Government, should map out a program for expenditures on such projects, after making a careful study of its needs, than if a haphazard policy of development is followed. Unless the Polish people are very different from people in other countries there will be much sectional and local prejudice and much "playing of politics" in connection with any program for public improvements. If, as is likely the stabilization of the Polish currency and the general betterment of economic conditions now in progress result in an improvement in the country's foreign credit, there is the danger that this situation may cause the Government to attempt the immediate borrowing of excessive amounts. The public debt record of a number of countries is a sad monument to the unfortunate results of hasty and ill considered construction of public works, and more than one country is today burdened with interest and amortization payments on loans floated many years ago, the proceeds of which were largely wasted.

Your Commission suggest that the Government of Poland make a careful study of its probable needs for public works, so that it may have a well planned construction program, and may apportion its expenditures more or less evenly over a substantial period of years. It would be wise to appoint a technical commission, assisted by competent experts, to study the situation before any extended operations are undertaken.

Many of the improvements will be made by the municipalities and other political subdivisions of the Government and most of the loans for such purposes obtained abroad will have to be guaranteed by the National Government. It is questionable whether at the present time any substantial loans of political subdivisions could be floated abroad on satisfactory terms without the guarantee of the National Government. This makes it advisable that the Government's construction and loan program embrace as far as possible any of the political subdivisions that will be borrowers in

the near future and that these borrowers cooperate with the National Government in the mapping out of a program nation-wide in its scope—both as to public work construction and public borrowing.

Long Term Loans for Agricultural Purposes

The bonds of the Polish land mortgage associations and land mortgage banks enjoyed a particularly high credit standing in Poland previous to the War. These bonds issued on a very conservative basis against the guarantee of agricultural land by long established and coservative land mortgage associations were universally regarded as gilt edged investments. The chaos created by the inflation period with its accompanying and subsequent extremely high rates of interest almost completely paralyzed the activity of these institutions and stopped further issues of their securities. At the present time they are slowly resuming operations chiefly by issuing a very limited number of securities payable in American dollars.

From conversations with the officials of these land credit associations and banks, your Commission understand that these organizations are anxious to float loans abroad if satisfactory arrangements can be made. Your Commission are thoroughly in accord with the aims of such a program, but as has been intimated to the officials of these organizations, a number of technical points must be worked out if such financing is to be done with the maximum of benefit for Poland. In addition to the general postulates laid down later in this Memorandum for all foreign loans, the following features should be incorporated in any program for foreign financing of this nature.

1. Unified Issue. The people of Poland know the standing of these securities, but they must recognize the conditions in the New York market and the prejudices of the American investor. Although Poland has scrupulously met the obligations on her foreign debts it is an unfortunate fact that must be faced that her present credit standing is low due to a combination of circumstances, among which may be mentioned the losses resulting from the inflation which culminated in 1924, the recent domestic economic depression, the fall of the zloty in the latter part of 1925 and early part of 1926, and the political disturbances of May 1926. Furthermore, the American

investor has had in the past some disastrous experience with American land mortgage bonds issued by speculative organizations. Moreover, he is not very familiar with bonds issued by long established organizations of the European type. Contrary to a widespread popular belief, the money for a foreign loan, whether floated in the United States, Great Britain, or any other lending country, comes chiefly in the last instance not from the banking house that negotiates the loans, or from a few millionaires but from the great mass of the investing public, which includes persons from all walks of life and of all scales of income. Few investors in foreign securities have any very intimate knowledge of the condition of the organization or of the country whose securities they purchase. They depend on the advice they receive from their banker, on their own popular fears and prejudices, and on the information, often incorrect, which they get through the press.

If four separate issues of Polish land mortgage bonds were being placed on the New York market the difficulties of selling those issues on favourable term would be much greater than if the same volume of bonds represented by only one issue was being placed. Separate publicity would be required for each issue, the fact that the investor was offered several competing issues would injure the sale of all and in many cases the prospective buyer of land mortgage bonds would be confused and would decide to make his investment in some country other than Poland. At present there is a great wealth of foreign bonds being offered for sale on attractive terms both in New York and London markets and the investor interested in foreign bonds has a large variety of such bonds from which to choose. An effort to market more than one issue of such bonds at one and the same time would jeopardize the success of all issues. High grade banking houses realize this danger and would be very reluctant to undertake flotations under such conditions. Recently land mortgage bonds of a number of countries, including Chile, Colombia and Hungary, have been floated on the New York market and in all cases a single issue has been made for each country.

If, as is unlikely, the separate organizations were able to sell their bonds on the New York market, these bonds would

be much more subject to fluctuations due to technical market conditions, to economic troubles in Poland, and to political disturbances, even in other European countries, than would a single consolidated bond issue. The vicissitudes of each of the issues, moreover, would affect the values of all, so that it would be difficult for the different issue houses satisfactorily to support the market for their respective issues.

2. **Guarantee of the National Government.** Any issue of the land credit associations should carry the unconditional guarantee of the National Government, both as to interest and as to principal. It is doubtful whether extensive financing of this sort could under present conditions be done without such a guarantee which has been carried by all of the recent foreign land mortgage bonds floated in New York. In the case of Poland there is an additional reason for such a guarantee. Although the American investor might have strong faith in the solvency of the land credit associations under existing conditions the possible effects that Poland's parcellation activities might produce would make him chary about loaning on the security of the landed estates of Poland unless he were assured that land parcellation developments here would not whittle away his security.

3. **Small Inttial Issue.** The first floatation of land mortgage bonds abroad should be small. The ability of the New York or London market to absorb such bonds in substantial quantities is as yet untested. If the attempt were made to float a large initial issue, and if for any reason, perhaps a reason in no way related to the credit standing of Poland, the market should not be able to absorb the entire issue the result would be unfortunate to Polish credit in general, while the part of issue which the bankers would be forced to carry on their shelves until a time favourable to their sale should arrive would have a depressing effect on the whole market for Polish securities.

Advantages of Connection with a Strong Banking House

For a country intending to do any extensive borrowing abroad it is a great advantage to select a single strong banking house as its banker and fiscal agent, and, as long as

it renders satisfactory service, to continue to do all of its financing through that organization.

The attempt to deal through several banking houses almost invariably reacts unfavourably on the country that attempts to pursue such a policy. Some Latin American countries that have done financing in New York have tried the policy of "shopping around" getting an offer from one bank and then using that as a lever to pry better terms out of a competing bank. On the well known principle that "competition is the life of trade" it might seem that much could be said for this practice, but the professional standards prevailing among investment bankers are such that this practice usually operates unfavourably on the borrower. Although there is the keenest sort of competition between investment houses, the heads of these houses are in close contact, and any approaches which a foreign government makes to one banker are almost immediately known to all. Your Commission are neither criticizing nor defending this situation: they are merely stating the facts. Although they are not intimately in touch with the situation in the London market, they understand that the practices there in this regard do not differ essentially from those in New York. In the long run a country cannot obtain more favourable terms by this "shopping around" policy than it could obtain from tying up exclusively to some one highly responsible banking house. Quite the country, the attempt to do so hurts the country's credit standing, and makes it the butt of much unfavourable criticism. The recent action by the Polish Government in securing from one New York banking house an option for a loan and in carrying on negotiations with its present banker at the same time, has been unfavourably commented on in New York financial circles. Furthermore, there are a number of very definite, positive advantages to be obtained by doing all of the financing through a single strong banking house. Viewed as a long run proposition, the service of an investment banker to a borrower, be that borrower a business house or a nation, consists of much more than selling bonds to the public. A high class banking house is more than a salesman of securities. It is a financial friend, adviser, and representative, and the services it renders the borrowing country are often extremely valuable in building

up and maintaining the credit of that country in the financial centers of the world. Among the services it renders the following are deserving of particular mention.

1. **Collection and Distribution of Information about Poland.** A banking house which handles all of the foreign financing of a country becomes of necessity a center of information in regard to economic conditions in that country. It becomes familiar with financial and business conditions, and is constantly informed of investment opportunities in the country's private business. It is in a position to furnish interested business concerns with full information that will help to promote trade relations. A good banking center abroad is a strong center of propaganda of the right sort. It is but natural that the banking house feels that its own interests are closely connected with those of the borrowing country, and it follows that anything that it can legitimately do to further the interest of that country will be to its own interest.

2. **Protection of Polish Securities.** A banking house which expects to do further financing for a country has a strong interest in maintaining the credit of that country — an interest that a banking house which holds no such close relationship to the Government does not feel. The market for foreign securities is an extremely sensitive one. It responds not only to varying conditions within the borrowing country, such as crops, industrial activity and the vicissitudes of politics, but also to conditions entirely outside of the country. Even the bonds that have suffered a substantial depreciation may recover to their former level within a short time as soon as the flurry which caused their decline is over, the fact that they were so unstable in time of emergency leaves a bad impression and tends to discourage their purchase by the more conservative type of investor, which is just the type of investor that Poland wants most to interest in her securities. Connection with a strong banking house which stands ready to support the securities of its clients at all times enables a country to come through such events with its credit uninjured.

3. **Assistance in Case of Emergency.** Connection with a strong banking house frequently proves a grest assistance to a country in times of emergency. A temporary deficit in

the budget due to unexpected events may often be tided over by short time borrowings from the country's foreign banker, whereas a country without established banking connections would be unable to secure any financial assistance. Loans for special emergency purposes may be floated on short notice through such banking house and other special services may be obtained that would not be rendered except for regular clients.

Your Commission do not mean to recommend that Poland commit itself to do all its foreign financing through a single banking house, under all conditions. It does believe, however, that in the long run Poland will act wisely if it does its foreign financing through one banker rather than to try to get several banking houses bidding against each other and to change bankers at frequent intervals and for small reasons. Your Commission make this statement without any thought of referring to any particular banking house. Providing that a banking house deals honestly and fairly with a Government there is always a strong presumption in favour of continuing with that house. If, however, the Government feels that relations have not been satisfactory and that it is impossible to expect as good terms and as fair treatment with its existing banker as it could get from another banker of equal financial strength and credit standing, then it should shift all of its business to another banker rather than to try to operate with two or more houses.

Even if competing bankers are willing at times to offer slightly better terms on new financing, it is very questionable whether it is good policy to change bankers in order to secure slight advantages as for example a fraction of a per cent difference in terms. A banking house of high standing which has obligations to a Government expects scrupulously to meet those obligations, and the expense and trouble necessary to protect issues on the market are among the factors that enter into the bids that it can offer. One cannot expect something for nothing, and the assistance that comes from connection with a banking house that scrupulously protects the interest of its clients is well worth an additional expense to the Government. A short sighted policy of economy in this manner will not only leave the Government without a pro-

tector in time of emergency but it will give it a bad reputation among international bankers — a reputation that will, in the long run, react to its disadvantages in foreign borrowing.

Postulates of Foreign Loan Contracts

In all foreign loans that are floated the following fundamental principle should be adopted and consistently followed by the Government:

1. **Medium of Payment.** All bonds floated abroad should be made payable in gold coin, both as to principal and interest. This will be necessary even after Poland has placed her currency firmly on the gold basis. The American and British investors have had a number of unfortunate experiences with investments payable in the currency of the issuing country, and in the United States it is today almost impossible to find any extensive investment market for securities of this type. Furthermore, the psychology of the investor makes him partial toward securities payable in the currency of his own country, even though such a provision may not add to their fundamental security.

An excellent provision, which has been inserted in the bonds of some Latin American countries, is that the bonds be payable at the option of the holder in gold coin of several countries, including the issuing country, at a fixed rate of exchange. For example, a bond might be issued in terms of United States gold dollars, with the provision that the principal and interest be payable if the holder wished, in Warsaw at the rate of 9 zlotys (assuming that the zloty is stabilized at that rate to the dollar), in London at the rate of $4.8665 to the pound, or in Berne at the rate of 5.18 francs to the dollar. In this way, at practically no additional expense to the Government, the market for Polish bonds would be widened and the danger of fluctuations in their price, due to conditions in a single country, would be reduced. A situation very similar to this already exists in the case of the Polish 6% dollar loan. This loan is payable in dollars in New York but it is also freely traded on the Warsaw exchange, and the interest coupons are cashed by the Bank of Poland at the current rate of exchange on New York.

2. **Maturities**. As Poland will probably be a borrower for some years to come, and a debtor for many more years, her loans, aside from the exceptional ones necessary for meeting temporary deficits, should be contracted for substantially long periods. Since most of these loans will presumably be for productive purposes, the sound policy of private finance should be followed, namely, that the life of the loan should not exceed the shortest estimated life of the improvement which it is to finance.

On the other hand Poland should avoid the mistake of making capital loans for short periods merely because the conditions of the market at the time seem to offer advantages for short time loans as against long time loans. The expense of refinancing at the end of a short period often eats up the savings expected to be realized even when the refinancing is made on more favourable terms than those on which a long time loan have been floated in the first place.

As long as Poland is in the position of a borrower constantly maturing obligations should be avoided as much as possible, because refunding operations are annoying, they tend to disturb the market for outstanding issues, they involve additional expense in the form of commissions, and there is always the possibility that the conditions of the loan market at the time the refunding becomes necessary may compel the acceptance of unfavourable refunding terms. There should be a carefully planned distribution of maturities and amortization payments.

3. **Prepayment Rights.** If Poland desires to take advantage of declines in the market rate of interest that are likely to take place during the life of her respective long time loans (and it is highly desirable that she should do so) she should reserve liberal prepayment privileges at the time of floating the loan. During the last decade, largely as a result of the destruction of material wealth caused by the World War, interest rates throughout the world have been much higher than they were before. For some time in the future as the process of saving throughout the world replaces the great stores of accumulated wealth which were destroyed it is probable that there will be a steady decrease of interest rates. Already there has been a movement in this direction, and

many of the soundest government securities are today selling on a basis to yield from 1 to 2% less than they yielded five years ago.

In addition to this downward trend of interest rates due to the world wide conditions, it is likely that there will be a still further decrease in the interest rate that the Government of Poland will have to pay on its securities. The credit standing of Poland has yet to be firmly established in the minds of the great mass of foreign investors. As the foreign investors come to have greater confidence in the stability of political conditions in Eastern Europe, and as economic conditions in Poland improve, as they almost certainly will, Poland's foreign credit will improve and the interest rate of Polish securities will probably fall relative to the interest rate of the securities of other counties.

This probable decrease in interest rates as a result of world wide conditions and as a result of particular conditions in Poland makes it desirable that all loans floated by Poland in the future contain the provisions that the Government may, at any time after a short initial period, pay off its bonds at par or on the payment of a small premium above par. This would make possible under favourable conditions their refunding into new issues paying a lower rate of interest. Such provision is found in the bond issues of a number of countries. Because of the recent decrease in interest rates, and the expectation of further decreases, investors show a preference for bonds that are not callable immediately and on which a premium must be paid in case of call before maturity. Everything that enters into a loan contract in some way influences the price of the bonds, and if the Government wishes the right to call its bonds before maturity, it must be prepared to pay something for the privilege.

4. **Amortization Provisions.** It is customary at the present time to provide for the extinction of the capital sum of foreign government loans by annual amortization so that a major part of the loan is paid off before the maturity date. Although the Polish 6% dollar loan of 1920 may be cited as an exception, the general statement is true that at present it is difficult to float a foreign government loan without such amortization provisions. There are, however, several possible alternative

methods of amortization. The four most important methods used may be described as follows:

a) The issuing bankers purchase or draw bonds at semi-annual or annual intervals for the account of the sinking fund, and these bonds, although withdrawn from the market, are kept alive in the sinking fund. They are thus technically still outstanding and are not legally retired until the maturity of the entire issue. The issuing bankers hold them in their possession, usually receiving from the Government a commission for this service. Your Commission believe that the adoption of any such plan would be extremely unwise. It involves additional expense and there is always the danger that these bonds may pass into the market again. Irrespective of the other details of the amortization plan, when the Government of Poland has paid the money for the amortization of its bonds it should demand that they be promptly cancelled and destroyed.

b) Bonds may be drawn for retirement at regular semi-annual or annual intervals at some fixed price, either at par or at a premium, by lot, and the drawn bonds are then retired and cancelled. This is the method for the amortization of the Republic of Poland 8's, which are drawn at semi-annual intervals at a price of 105. This plan is open to two objections. In the first place it involves an additional expense when, as is the case with Polish 8's, the market price is below the call price. For example, on July 1st of this year the Polish Government paid $ 735,000 for the amortization and premium of $ 700,000 par value of bonds withdrawn and cancelled. Had the bonds been purchased in the open market at the price prevailing at that time they could have been obtained for approximately $ 600,000. Of course the possibility of having one's bonds drawn at a substantial premium may be an attractive feature for some investors, and may thus make possible a slightly better price for the bonds, but it is very doubtful if the slight advantage here gained is worth the cost.

In the second place, drawings by lot are not as effective in supporting the market for securities as are

purchase in the open market. In each case the same amount of bonds is withdrawn from the market but they do not come from the same persons under the two plans. If the purchases are made in the open market the bonds are taken out of the hands of marginal holders, that is, those who are most anxious to sell, and who would be the first to offer their bonds for sale should there be any unfavourable development in the market. On the other hand, when the bonds are drawn by lot the holders of the drawn bonds have no choice as to whether or not they wish to dispose of the bonds. Many of the persons whose bonds are drawn may have bought them as permanent investments with the intention of holding them regardless of the temporary fluctuations of the market, but when their securities have been drawn there is no reason to believe that they will reinvest in the same kind of securities.

c) A third method of amortizing a loan is by the serial bonds. Under this system, a portion of the bonds mature each year and when the last bond matures the debt is entirely wiped out. For example, if a loan were floated for twenty-five years, one twenty-fifth of the bonds might be made to mature each year or one-fifth of them each five years. This system is used widely in the United States, particularly for the bonds of American municipalities and for certain types of railroad obligations, but it has been little used for foreign government bonds floated on the American market.

Strong arguments may be advanced in support of this system. In the first place, by offering bonds of different maturities a wider group of investors is reached than when all the bonds have the same maturity. An investor may wish to tie up his funds for only one year, for 5 years or for 10 years, when he would not be interested in the purchase of a twenty-five year bond. Of course, any bondholder may sell his bond before maturity if he wishes his money, but there is always the possibility that he cannot sell it at par due to conditions which have nothing to do with the credit standing of the bond.

In the second place this method cuts down the amounts that must be paid in connection with the retirement of the bonds. When a bond is paid at maturity there are no expenses for advertising, as when bonds are called by lot, or for brokers commissions, as when bonds are purchased in the open market.

As an argument against this system is the fact that there are no purchases made in the market for amortization purposes and this means of supporting the market is removed. A practical argument against serial bonds for foreign government issues in the American market is that the American investing public is not educated to them.

d) It may be provided that a stipulated amount of bonds are to be withdrawn from the market and cancelled at regular intervals, and the question as to whether the bonds are be called at the call price fixed in the contract, or to be purchased in open market is left to the decision of the government. The government can then retire the bonds by the method which is more advantageous for it. Frequently the call price for amortization is fixed lower than the call price for the retirement of the entire issue. If the system of serial bonds is not used your Commission believe that this last mentioned method is the most advantageous method of amortization for the Government, and recommend that the Government reserve for itself the option of making amortization through purchases in the open market.

5. **Security for the Loan.** The fundamental security for any government loan is the credit of issuing government. No pledging of particular revenues for the service of the loan will insure the prompt payment of the service charges if the government does not intend to meet its obligations fully and promptly. Although the pledging of revenues adds little to the security of a government loan, as a concession to the demands of investors many governments with a credit standing not fully established in the minds of the investment public have pledged definite revenues for the service of their bond issues. This was done in the case of the Polish 8% dollar loan, and under the conditions then existing it was probably the only

way in which such a loan could have been floated on satisfactory terms. It is probable that it will be necessary for Poland to pledge additional revenues for other loans that it may float in the immediate future. As a general proposition, however, it is an undesirable policy, for a government to pledge specific revenues for the service of its loans, thus restricting its freedom to alter its fiscal system as regards the pledged revenues, and the policy should not be continued any longer than is necessary. The best guarantee that Poland or any other country can give for its loans is the record of having always met its obligations fully and promptly and after such a record has been established over a considerable period of years the necessity of pledging specific revenues for foreign loans will disappear.

6. **No Obligation to buy Supplies from a Particular Country or Concern.** In some recent government loan contracts the bankers have inserted a provision requiring the borrowing government to use the proceeds of the loan for the purchase of supplies in the country where the loan was floated, or from specified concerns. Your Commission strongly recommend that Poland should not become a party to any such loan contracts. Borrowing money is one thing and buying supplies is another. The Government should borrow in the market where it can obtain the best terms, and, having borrowed the money, it should keep itself absolutely free to spend it in the market or markets where it can purchase to the best advantage. A banking house might lend money at very low rates of interest, or might even profitably pay a government for borrowing from it, if the borrower would agree to spend the money in the purchase of supplies from specified concerns in which the banking house was directly or indirectly interested. What the banking house sacrificed in interest it might recoup several times over in the profits arising from the sale of supplies at high prices.

Your Commission do not mean in anyway to criticize in the above statements the policy which Poland has followed of paying for construction work by bond issues. In that case a definite job was agreed on and a provision was made for payment in bonds at or near the market price. This is very

different from making a blanket provision in a bond issue to buy supplies from a particular concern or country.

7. **Full Exemption from Polish Taxes.** In order to float bonds in foreign markets it is practically necessary that the bonds held abroad by foreigners be exempt from all taxation, present and future, in the issuing country. Foreign investors insist on this provision, for without it they have no assurance that the issuing government, by a high tax on its bonds, may not reduce materially the net income from the bonds which the holder will receive. The Polish 8% dollar loan, as well as most other recent foreign government loans floated in the American market have contained such a provision, and it should be inserted in future Polish loan contracts. There is no reason, however why the interest payments on such bonds, if held by Polish citizens residing abroad, who are subject to the Polish income tax or if held by any person residing in the Republic of Poland, should not be subject to the regular Polish income tax.

Internal Loans

For reasons that were set forth earlier in this Memorandum it will be sound public policy for some years to come for the Government of Poland to float the major part of its bonds abroad. There will always be some funds however, available within the country for investment in the public debt, and as the economic reconstruction of the country progresses the funds within the country seeking such investment will probably increase. For this reason it is important that the fundamentals of a sound internal policy be clearly understood.

The economic advantages of encouraging saving among the great masses of the people are so well known that a discussion of them is hardly necessary. The Polish people have the reputation the world over for thrift and saving. One of the best ways of encouraging the habit is to make available to the small investor high grade securities in small denominations. The success of France before the War in marketing its securities among the great masses of the French people is proverbial, and in the United States the Liberty Bond issues during the War did much to popularize the purchase of securities by small investors.

The use of small denominations in addition to large ones in the issue of high grade securities not only provides a wider market for the bonds, but also is a desirable thing from a political point of view. The ownership of a small amount of government debt tends to give to the holder a close and immediate interest in the management of his own government and particularly in its financial stability.

1. **Purposes of Internal Loans.** Because of the attitude of foreign investors it will be wise policy to obtain as far as possible the funds for certain purposes from internal loans. As was stated earlier in this Momerandum, the fundamental security of any loan is the good faith and credit of the government. The particular purpose for which the loan is used, and the particular revenues which are pledged for the service of the loan are small matters in determining the fundamental security of the loan, as compared with the integrity of the government issuing it. Nevertheless there is a prejudice on the part of the foreign investor in favour of loans, the proceeds of which are used for direct revenue producing purposes. It is easier to float a foreign loan for the purchase of railroad equipment than for the construction of school houses. Similarly, the securities of municipalities and other political subdivisions are rarely regarded by foreigners as highly as those of the national government. Hence it will be advisable as far as possible to confine the long term internal loans to those for school buildings, roads and similar projects that do not yield a direct revenue.

2. **Denominations of Internal Bonds.** It is desirable to offer domestic securities in denominations that will appeal to investor of limited means. It is possible, however, to carry this too far, and issue bonds in such small denominations that the administrative expenses mount up to an unreasonably high figure. The difficulties of handling bonds of such small denominations hurt rather than help their sale among investors: There are some Polish bonds on the market in denominations as small as 10 Zlotys, with semi-annual interest coupons of 25 grosz. The handling of coupons in such small amounts is not only annoying to the holder of the securities but it involves considerable administrative expense to the Government. A large share of the lottery bonds that one sees in Warsaw are in

denominations of $ 5, with interest coupons of 12 and 1/2 cents. Even in such denominations the expenses of handling are unreasonably large.

Your Commission would suggest that the Government consider very seriously changing the minimum denomination of its zloty bonds, to not less than 200 złotys and of its internal dollar bonds to $ 25. In any case, small denomination bonds should not be outstanding in greater amounts than are necessary to supply the needs of the small investor. It might be desirable to make the coupons on the small bonds payable annually, thus reducing the administration expense of paying interest on such bonds.

3. **Tax Exemption.** As previously explained, in order to float foreign loans it is practically necessary to make the bonds floated abroad exempt from all Polish taxes. Such tax exemptions, however, should never be given to internal bonds. The additional advantage that it offers is too small a price to pay for the bartering away of the State's right to tax its own citizens on the income from such bonds. Furthermore tax exemption results in great injustice in countries like Poland where there is a progressive income tax, for the richer classes by buying tax exempt bonds escape the payment of the higher rates contemplated by the law. This tends to discourage the holding of such bonds by small investors, and to cause their accumulation in the hands of the rich.

The United States, during the World War, in the effort to add to the attractiveness of the Liberty Bonds as investments, gave liberal tax exemptions to some of the issues, with the result that instead of remaining in the hands of the small investor they have largely passed into the hands of wealthy men who find the tax exemption privilege of great value to them in escaping the high supertax rates of the income tax. The opinion of American economists is almost unanimous that such tax exemptions are unwise. It would be sound public policy for Poland not to grant tax exemptions to any of its internal bonds.

Danger of Trying to Get Something for Nothing

In borrowing Poland will in the long run secure more advantageous terms if she recognizes that borrowing is a strict

business proposition, and that every element entering into a loan contract has its price. The granting of special privileges to the lender, the exact value of which cannot be calculated, in order to float the bonds at a higher price or at a lower coupon interest rate than would otherwise be possible is usually a bad bargain for the borrower. There is always a great temptation, particularly if public credit is low or the general level of interest rates high, for government to grant such privileges to further the sale of the bonds. The public at large usually sees only the apparently more favourable terms on which the bonds are floated and pays little attention to the valuable rights that are bartered away. This unfortunate situation is not confined to any one country, and even the strongest nations have indulged in such practices to their detriment. Poland will do wise to avoid them.

If the credit of the Government is weak, or if market conditions are unfavourable, it is better to recognize that fact and to pay the price openly in the form of a higher interest rate, than to pay the costs involved in the granting of special concessions or privileges the economic costs of which are usually incalculable.

Summary of Suggestions made by Prof. E. W. Kemmerer January 9 and 10, 1926 for Improving Financial Situation in Poland

1. Broadly speaking the most important thing to do is to restore confidence in the Zloty both in Poland and abroad. To this end currency stabilization is imperative.

2. Definitely decide to restore Zloty to par. It would probably be wise, however, not to make a public announcement to that effect.

3. Keep exchange value of Zloty continually rising. It would have a wholesome effect if speculators who sell Zlotys short should suffer some losses.

4. Do not stabilize temporarily at a point lower than par. If you should and if prices and wages should once become fairly adjusted to that gold value it would be very difficult, if not impossible both economically and politically, to restore the Zloty later to par. Since prices, wages and taxes have not yet risen at all proportionately to the decline in the gold exchange value of the Zloty, the restoration of the former gold value of 5.18 to the dollar could probably be effected now with less injustice and hardship than at any time in the future.

5. Get for the Bank of Poland a foreign credit of not less than $ 15,000,000 to be used for the stabilization of the Zloty. Pledge such revenues as may be necessary, under reasonable supervision on the part of the Bankers for their collection and assignment to the service of the loan. Unless the loan is a short time one the contract should contain a provision permitting its prepayment at a moderate premium after a short period of years.

6. The Bank should use its reserve not merely hold it to be looked at and talked about. The public should be made

to feel that it was easier to get gold for Zlotys than Zlotys for gold, except of course to meet the legitimate needs of export trade.

7. The Bank's discount rate should be kept high until the Zloty is restored to parity. A depreciated and unstable Zloty is worse for the country's trade and credit and, in the long run, more conducive to continually high interest rates than is a high discount rate policy on the part of the Bank during short periods of great emergency.

8. Bank credit should be rationed so that it could not be used unduly for consumption purpose, or for financing the importation of luxuries or for speculative purposes.

9. In case there is evidence that the Polish people, because of lack of confidence in the Zloty, are accumulating credits abroad and hoarding gold in the form of foreign gold currencies in Poland, it might be well to try to mobilize these funds for legitimate economic needs by means of the gold certificate plan I outlined, being an adoption to Polish conditions of a plan recently employed in Chile. Since such a plan would at best be an experiment, its adoption should be with the understanding that it was but a temporary measure and might be discontinued at any time.

The only danger I can see in the plan is the possibility that a situation might arise in which people could get their Zlotys largely through the certificate plan and buy then foreign exchange in the regular way thus continually weakening the Banks reserve position as expressed in its official reserve percentage. If such a situation should develop to a dangerous extent the certificate plan should be discontinued.

10. Continue the recently adopted wise policy of not issuing more Government notes, and retire as soon as practicable a substantial part of the Government notes already issued. As a general policy the Bank of Poland should issue all the country's paper money and the Government should limit itself to the minting of coin. Great care should be taken to prevent the issuance of an excessive amount of subsidiary coins.

11. The Government should endeavour to get a better territorial distribution of its small notes and subsidiary coins, through local treasuries, banks, etc.

12. As soon as practicable revise the legal reserve requirements of the Bank of Poland along the general lines recently adopted for the Central Bank of Chile, permitting greater elasticity of note circulation.

13. Make Bank's published weekly statement refer to average condition for the week instead of the condition on one day.

14. Thoroughly revise the country's general banking laws at earliest practicable moment.

15. Cut public expenditures to the bone and not only balance the budget monthly but get a monthly surplus for a while if at all posssible. The psychological effect of such surplusses on Poland's foreign credit would be excellent.

16. Keep trade balance favourable by finalizing through taxation and otherwise the importation and consumption of luxuries in Poland.

As Polands foreign credit improves and capital flows toward country an unfavourable trade balance for a while should be expected but in this case the excess of merchandise imports be chiefly in raw materials machinery and other capital equipment.

17. As soon as confidence is fairly restored investigate the possibility of a loan to the four land banks of Poland through the National Economic Bank secured by a) the collective land mortgages of the four land banks, b) the capital of the four banks, c) the capital of the National Economic Bank which would issue the bonds to be sold abroad and d) the guaranty of the National Government. Move slowly in carrying out such a plan as securities of this kind are as yet not very marketable among American investors.

18. Get better publicity for Poland abroad.

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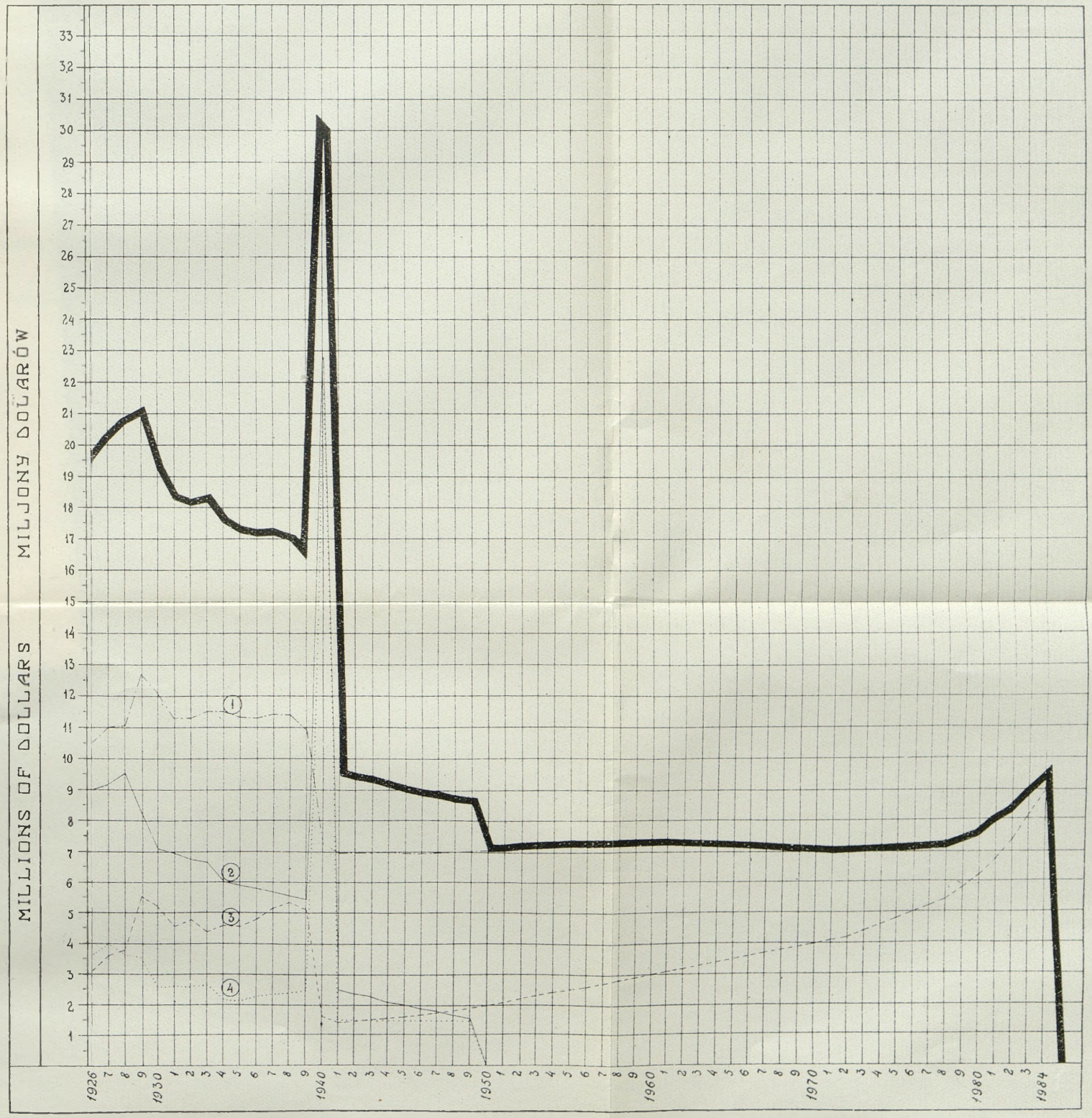

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KRZEMIENIEC
BRODY
RADZIECHÓW
SOKAL
HOROCHÓW
TOMASZÓW
BIŁGORAJ
JANÓW LUB.
ZAMOŚĆ
HRUBIESZÓW
KRASNYSTAW
CHEŁM
LUBOMLA
KOWEL
WŁODAWA
LUBARTÓW
RADZYŃ
KAMIONKA
ŻÓŁKIEW
LUBACZÓW
RAWA RUSKA
PRZEWORSK
JAROSŁAW
JAWORÓW
LWÓW
GRÓDEK JAGIELLOŃSKI
MOŚCISKA
PRZEMYŚL
RUDKI
DOBROMIL
SAMBÓR
STARY SAMBOR
DROHOBYCZ
ŻYDACZÓW
STRYJ
TURKA
SKOLE
DOLINA
KALUSZ
STANISŁAWÓW
TŁUMACZ
BOHORODCZANY
NADWORNA
KOŁOMYJA
PEREMIŚLANY
KOSÓW
ZBOROW
ZŁOCZÓW
PRZEMYŚLANY
BOBRKA
TARNOPOL
ZBARAŻ
SKAŁAT
TREMBOWLA
PODHAJCE
KOPYCZYŃCE
CZORTKÓW
BUCZACZ
BORSZCZÓW
ZALESZCZYKI
HORODENKO
CZERTIZ
MIZYŃ
SNIATYN
ZAWICHOST
OPATÓW
SANDOMIERZ
JĘDRZEJÓW
PIŃCZÓW
BUSKO
TARNOBRZEG
MIELEC
DĄBROWA
DĘBICA
TARNÓW
BRZESKO
PILZNO
KOLBUSZOWA
STRZYŻÓW
JAS-O
KROSNO
BRZOZÓW
SANOK
LISKO
GORLICE
GAYBÓW
NOWY SĄCZ
LIMANOWA
MIECHÓW
OLKUSZ
SOSNOWIEC
CHRZANÓW
OŚWIĘCIM
PSZCZYNA
WIELICZKA
BOCHNIA
MYŚLENICE
WADOWICE
MAKÓW
ŻYWIEC
BIELSKO
BIAŁA
CIESZYN
KRAKÓW
KATOWICE
KRÓLEWSKA HUTA
CZARNY
DUNAJEC
NOWY TARG
ZAKOPANE
GÓRY TARNOWSKIE
ZAWIERCIE
CZĘSTOCHOWA
BŁESZCZOWA
KIELCE
OPOCZNO
KOŃSKIE
WIERZBNIK
PIOTRKÓW
RADOM
KOZIENICE
PUŁAWY
LUBLIN
OPOCZNO
SIERADZ
ŁASK
BRZEZINY
ŁÓDŹ
GRÓJEC
SKIERNIEWICE
ŁOWICZ
ŁĘCZYCA
SOCHACZEW
KUTNO
GOSTYNIN
PŁOCK
GNIEZNO
STRZELNO
MOGILNO
WŁOCŁAWEK
ALEKSANDRÓW
LIPNO
SIERPC
INOWROCŁAW
RYPIN
TORUŃ
GRUDZIĄDZ
NOWE MIASTO
BRODNICA
WĄBRZEŹNO
ŚWIECIE
CHEŁMNO
TUCHOLA
SĘPOLNO
WYRZYSK
BYDGOSZCZ
SZUBIN
CHODZIEŻ
CZARNKÓW
WĄGROWIEC
ŻNIN
MIĘDZYCHÓD
SZAMOTUŁY
OBORNIKI
POZNAŃ
NOWY TOMYŚL
GRODZISK
WOLSZTYN
ŚMIGIEL
KOSTRZYN
ŚREM
ŚRODA
WRZEŚNIA
SŁUPCA
KONIN
KOŁO
TUREK
JAROCIN
PLESZEW
WIRSKO
LESZNO
GOSTYŃ
KOŹMIN
KROTOSZYN
OSTRÓW
ODOLANÓW
OSTRZESZÓW
KEPNO
WIELUŃ
RAWICZ
GARWOLIN
ŁUKÓW
WĘGROW
OKRĘGÓW
MIŃSK MAZOWIECKI
SIEDLCE
JANÓW PODL.
BIAŁA
BIELSK
OSTRÓW
BIELSK
MAKÓW
PUŁTUSK
CIECHANÓW
PŁOŃSK
RADZYMIN
WĘGRÓW
OKRĘGÓW
MIŃSK MAZOWIECKI
SIEDLCE
JANÓW PODL.
BIAŁA
BIAŁYSTOK
BRZEŚĆ

MIASTA WOJEWÓDZKIE

IZBY SKARBOWE. Administrowanie kasami skarbowemi. Nie wypłacają i nie pobierają pieniędzy rządowych.

KASY SKARBOWE. Tylko wypłacają i pobierają pieniądze rządowe.

KASY ZASILAJĄCE. Zasilają Kasy Skarbowe w siedzibach okręgach w okręgu oddziału Banku Polskiego i otrzymują od tych Kas nadmiarki.

KASY ZASILAJĄCE DLA URZĘDÓW CELNYCH. Zasilają tylko najbliższe pomocnicze Kasy Celne i odbierają od nich nadmiarki.

KOLEJE PAŃSTWOWE I PRYWATNE.

GRANICE WOJEWÓDZTW.

Kolory Kas Skarbowych odpowiadają kolorom Izby Skarbowej, do której należą.

CAPITAL TITIES OF PALATINATES

HEAD TREASURY OFFICES IN PALATINATES. Administration of Cash Offices located within the territorial limits of Cash Head Office.

CASH Offices which collect and disburse only.

CASH OFFICES which are also clearing Cash Offices in the same territory covered by a Branch of the Bank of Poland.

CASH OFFICES which are also clearing Cash Offices for the nearest Customs Offices.

STATE AND PRIVATE RAILWAYS

THE BOUNDARIES OF THE PALATINATES.

The colours of the Cash Offices correspond with the colour of the Provincial Treasury Office to which they belong.

UWAGA:
W Warszawie są dwie niezależne Kasy Skarbowe, które pobierają i wypłacają fundusze. Jedna z tych Kas ma dziesięć Kas pomocniczych, które są tylko Kasami Poborowemi.
W Krakowie są trzy niezależne od siebie Kasy; we Lwowie – cztery niezależne od siebie Kasy, a w Łodzi i w Katowicach – po dwie niezależne od siebie Kasy.
Wszystkie te Kasy pobierają i wypłacają fundusze.

NOTE:
In the City of Warsaw there are two independent Cash Offices which receive and disburse funds. One of these Cash Offices has 10 Branch Offices which are receiving Offices only.
In Krakow there are three independent Cash Offices, in Lwow four independent Cash Offices. Lodz and Katowice have each two independent Cash Offices.
All these Offices receive and disburse funds.

ZESTAWIONE PRZEZ KOMISJĘ E.W. KEMMERERA RZECZOZNAWCÓW FINANSOWYCH DLA POLSKI. LIPIEC. 1926

PREPARED BY THE KEMMERER FINANCIAL COMMISSION TO POLAND. JULY 1926.

FORMAT NORMALNY
D1 (545×770)

GRAPHIC CHART

OF THE

ADMINISTRATIVE ORGANIZATION

OF THE

MINISTRY OF FINANCE

in accordance with
Existing Laws or Regulations of the Minister of Finance (July 31, 1926).

REPUBLIC OF POLAND

LEGEND:

- Departments, bureaux, sections, councils, offices or persons.
- Functional activity.
- Direct administrative Control.
- Indirect administrative Control.

Blocks showing banks and Advisory Councils are not connected with any Departments of the Ministry of Finance as there is no administrative Control exercised over the former by the latter. They are included in the chart merely to show their relation to the Ministry of Finance.

Prepared by the Kemmerer Financial Commission to Poland — July 1926.

Reorganisation of certain sections of the Ministry of Finance as shown in this chart is pending at this date.

MINISTRY OF FINANCE:

Jurisdiction in questions of financia policy of the State; administration, collection, disbursement of public revenues; accounting for and control thereof; Contrd of currency: supervision over financial Institutions, Stock Exchangis, insurance Cos. and Cooperative organizations; Preparation of innual budget project; administration in matters o foreign trade.

Financial Council.

Financial adviser to Min. of Finance.

A board of 15 persons to be nominated by the Council of Ministers on motion of the Minister of Finance.
(Inactive — No Council named in several years).

PROCURACY GENERAL

Legal Representation of the State in the prosecution of all claims and matters before the courts of justice. and legal adviser in questions of Contracts and other matters.

PRESIDENT

- Sec. of Administration & Army
- Sec. of Financial Administration.
- Sec. of Public Real Estate
- Sec. of Postand Railways
- Sec. of Industry and Commerce of Forests and Public Works
- Sec. of International Question.
- Section at Lwów
- Section at Kraków
- Deputy at Katowice
- Section at Poseu
- Deputy at Wilno
- Deputy at Danzig

Advisory Committee to the Director of the Tobacco Monopoly

Composed of:
Director of Tobacco Monopoly
Chairman
3 members appt.'d by Min. of. Fin.
1 member appt.'d by Min. of. Ind. and Com.
1 member appt.'d by Min. of. Agri.

State Spirits Council

Advisory Council in questions of spirits whether under State monopoly or otherwise composed of:

Minister of Finance — Chairman
3 members appointed by Min. of Fin.
3 " " " " " Com.
3 " " " " " Agr.
9 " " " " " Fin.
from spirits interests

VICE MINISTER

Direction and supervision in questions of taxation and fees, the collection and disbursement of Cash and the accounting and reporting thereof; in customs and tariff matters and foreign trade; Direction of State Monopolies.

Dept. of Taxes and Fees

Supervision over levy and assessment of Income, special property, inheritance, industrial and commercial taxes, revenue stamps and fees. resolving appeals from taxes. supervision and control of finances of local Self-Governments

DIRECTOR

- Section of Income Tax
- Section of Industrial and Commercial Taxes
- Section of Capital Levy
- Section of Taxes on Real Property
- Section of Taxes on Inheritances and Gifts
- Section of Stamp Taxes
- Section of Inspection and Investigations
- Section of Finances of local Self-Governments

Dept. of Excisses and Monopolies

Suspervision over inodirect taxation on sugar, salt, coal, mineral oil, beer, mead, wine, yeast and vinegar acid. Direction of Spirits, Tobacco, Match and Saccharine Monopollies and of State Lottery. SSupervision over the Exchange of monopolized and taxed goods between Poland and GGdansk.

DIRECTOR

- Section of Spirits Monopoly.
- Section of Indirect Taxes and Monopolies.
- Section of Control (Statistics and audit)
- Section of Penalties
- Section of Inspect. and Investigations
- State Lottery
- Spirits Monopoly.
- Match Monopoly.
- Tobacco Monopoly
- Saccharine Monop.
- Bureau of sale of salt.

Dept. of Cash.

Custody and Control of cash; administration, collection and disbursement of Cash, maintenance of central accounting system of the State. Inspection of the Central Cash and Branch Treasury offices, the office of stamps and stamped documents. Standardises and regulates forms and procedure of accounting in government offices.

DIRECTOR

- Sec. of Administr. and cash
- Central Bookkeeping Section (For the State)
- Section of Inspection and Investigations
- Section of Accounts
- Central State Cash Office
- Office of Revenue Stamps and Stamped Documents

Main Treasury Offices in Provvinces (12) (1) in Silesia

Assessment of joint stocks Co. taxes. Administration of the assessment and levy of other taxes and of the collection and disbursement of Cash. Chairman of Board of Appeal from ttaxes.

President (Treasurer).

- Sec. I. General.
- Sec. II. Direct Taxes.
- Sec. III. Accounting and Cash.
- District Tax and Fees Offices.
- District Treasury offices
- Sec. IV. Excises and Monopolies
- Sec. V. Stamp taxes
- District Excise and Monopoly Offices.
- Sec. of Pensions and Allowances (See note below).

Note: Four of the Provincial Treasury officers have each a section thereof in which is centralized the work of investigating pension claims and allowances for the whole state Government and of preparing the current checks in payment thereof.

Note: The broken line connecting the three departments of Taxes, Excise and Cash with the main Treasury Offices indicates only an indirect administrative control by each of the former over the latter in that activity of the main treasury offices which pertains to each department.

Dept. of Customs.

Resolves questions of tariff, customs regulations and procedure, and renders decisions thereon and on Customs Violations; Administration, operation and control of Customs houses and patrols in Poland, exclusive of Danzig; Inspection and partial Control of Customs service in Danzig.

DIRECTOR
Sub Director

- Sec. of Organization and Personnel
- Sec. of Customs Procedure
- Sec. of Tariffs
- Experimental Laboratory
- Sec. of Accounts and Budget
- Sec. of Penalties
- Sec. of Customs Guards
- Inspectorates of Customs Guards in each Customs District
- Commissary Regions
- Customs Guard Post.
- Direction of Customs, Warsaw District
- Customs Offices (20)
- Direction of Customs, Lwów District
- Customs Offices (26)
- Direction of Customs, Mysłowice District
- Customs Offices (82)
- Direction of Customs, Pozen District
- Customs Offices (79)
- Direction of Customs, Wilno District
- Customs Offices (21)
- Inspectorate at Danzig
- Direction of Customs at Danzig

Advisory Council on the Classification of Commodities.

Composed of: Director of Customs — Chairman.
Chief of Sec. of Tariffs.
1 representative of Industrial Depart. of Min. of Ind. and Com.
3 Professors from Colleges of Technology.
3 Technical Experts delegated by Textile, Mechanical. and Chemical Industries.
1 Representative from the City of Danzig.

Geral Department.

Secretarial and General Administration; preparation of da concerning international and League of Nious questions; the keping of certain ccords of personnel of the Ministry

DIRECTOR

- Sec. of Personnel.
- Sec. of General Financial Policy.
- Sec. of Organization and Administration.
- Sec. of the Committee of the Council of Ministers on Economics.

VICE MINISTER
(Dept. for monetary circulation).

Direction and supervision of Financial and Economic Policies, foreign and domestic, of public credit and debt; supervision and inspection of government and private banking and other credit institutions, control of currency circulation; supervision of Stock Exchanges and cooperative organizations, supervision and control of State Mint and State Graphics.

DIRECTOR

- Sec. of Means of Payment
- State Mint
- State Graphics
- Sec. of Foreign Exchange
- Sec. of Banks
- Office of Bank Inspections
- Sec. of the Council for Cooperative Organizations
- Sec. of Credits (External and Internal Loans)
- State Loan Office
- Sec. of Credit Policy

Council of Cooperative Organizations.

Advises and cooperates with the Government in all questions relative to cooperative organizations.
Composed of: Chief of Sec. of the Council for Co-op. organizations — Chairman.
1 delegate each from the Ministry of Finance, Justice, Interior, War, Pub. works Labor and Social Welfare, Agriculture, Industry and Commerce.
16 members appointed by Min. of Finance from representatives of the Committees of Cooperative organizations.

Dept. of the Budget.

Revision of budget Estimates and compilation of annual budget project of the State; Cooperation in preparation of Silesian budget; participation in all questions affecting the administration of the annual budget law; preparation of monthly and annual statements of budget operations. participation in questions of salaries, pensions and allowances; cooperation in purchases of Ministry of War.

DIRECTOR

- General Section.
- Sec. of Budget of Min. of Finance, of Interior, Self-Government questions and Pensions questions
- Sec. of Budget of Ministry of War
- Sec. of Budget of Ministry of Relig. Denominations and Education, of Ministry of Foreign Affairs, of President of State and Senat. Supreme Board of Control
- Sec. of Budget of Min. of Public Works and Post and Telegraphs
- Sec. of Budget of Min. of Industry and Commerce; of Labor and Social Welfare, of Agriculture, of Agrarian Reform.
- Sec. of Pensions and War Veterans Allowances

Central Office of Liquidation of war debts.

Liquidation and adjustment with other Governments of claims arising from wars or resulfting from International Treaties.

PRESIDENT

Chief of Sec. I.

- Economic Accounts Sub-Secr.
- Sub. Sec. of Personnel.
- Sub. Sec. of Liquidation of German Property (Treaty of Versailles).
- Sub. Sec. of Liquidation of Russian Liabilities (Treaty of Riga).

Chief of Sec. II.

- German Treaties Sub. Sec.
- Austrian Treaties Sub. Sec.
- Russian Treaties Sub. Sec.

Chief of Sec. III.

- Austrian Liquidation Sub. Secc.
- Sub. Sec. of Claims.

- Polish Delegation to the Indemnification Commission in Paris.
- Liquidation Sec. of Polish Legation in Vienna.
- Polish Delegation to Mixed Pol. Rhen Settlement of Accounts Commission Warsaw.
- Government Agency at the Mikxed Polish German Arbitration Tribunal in Paris.
- Section at Poznań.
- Liquidation Committees at Poznań and Warsaw.

Office of Insurance Control.

Supervision of private and public Insurance Companies of all kinds, exclusive of social Insurance.

DIRECTOR

- General Section.
- Section of Actuarial Statistics.
- Section of Legislation.

State Council of Insurance.

Advisory Council in questions relative to Insurance.
Director of Office of Insurance Control — Chairman.
3 delegates of Ministries.
2 " of the Polish Direction of Central Insurance.
6 persons appointed from among insurance experts by Ministry of Finance.

NATIONAL ECONOMIC BANK.

President is nominated by Minister of Finace and appointed by the President of th Republic. Nine members of Supervisor Board are appointed and subject to dimissal by Minister of Finance.
Te election of the Board of Directors is cofirmed by the Minister of Finance. Thre members of the Auditing Commission are apointed by the Min. of Finance.
Acommissioner, as representative of the Min. of Finance, is appointed by the latter.

BANK OF POLAND.

President is appointed by the President of the Republic on the recommendation of the Council of Ministers.
The election of the Board of Directors is approved by the Minister of Finance. A Commissioner as delegate of the Min. of Finance is appointed by the latter.

POSTAL SAVINGS BANK.

President is nominated by the Min. of Finance and appointed by the President of the Republic. Four members of the Board of Administration are appointed by Min. of Finance (two in collaboration with the Min. of Industry and Commerce one of which must be from the Direction of Posts and Telegraphs).
The auditing commission composed of five members and two assistants are appointed by the Min. of Fin.

THE STATE AGRARIAN BANK.

President is appointed by the Minister of Finance in collaboration with the Min. of Agrarian Reform and Min. of Agriculture.
Eight members of Supervisory Board are appointed by the Min. of Finance.
The General Manager is appointed by the Min. of Agrarian Reform in collaboration with the Min. of Finance.
The Auditing Commission (five members) is appointed by the Minister of Finance (one member appointed in collaboration with Min. of Agrarian Reform and one member in collaboration with the Min. of Agriculture).
A commissioner is appointed by the Minister of Finance in collaboration with the Minister of Agrarian Reform and Min. of Agriculture.

FOTOLITO W GŁÓWCZEWSKI, WARSZAWA

REPUBLIC OF POLAND

GRAPHIC REPRESENTATION OF ORGANIZATION OF POLISH STATE AUTHORITIES

STANDARD SIZE D-0/770×1090%/.

PRESIDENT OF THE REPUBLIC.

THE PRESIDENTS SHARE IN JURISDICTION

THE PRESIDENTS SHARE IN LEGISLATION

JUDICIAL POWER ADMINISTRATION OF JUSTICE.

SUPREME COURT.

4 COURT OF APPEALS.

5 COUNTY COURTS.

6 JUSTICE OF PEACE AND TOWNSHIP COURTS

SUPREME MILITARY COURTS

2 DISTRICT MILITARY COURTS

PROVINCIAL MILITARY COURTS

TRIBUNAL OF STATE

LEGISLATIVE POWER.

51 PARLIAMENT COMPOSED OF DIET & SENATE.

50 THIRTY-SEVEN OF THE DIET & SENATE.

SILESIAN DIET.

LEGISLATIVE AUTHORITY WITHIN LIMITS SET BY & AS MAY BE GIVEN BY THE CONSTITUTION.

SUPREME BOARD OF CONTROL.

CONTROL OF THE STATE & MUNICIPALITIES IN RESPECT TO FINANCES, EXAMINATION OF ACCOUNTS AND REPORTS TO THE DIET, SENATE, PRESIDENT OF THE REPUBLIC, SELF-GOVERNING BODIES AND OTHER INSTITUTIONS AS MAY BE PROVIDED BY LAW OR AT THE REQUEST OF THE GOVERNMENT.

PRESIDENT OF THE SUPREME BOARD OF CONTROL

CENTRAL ACCOUNTING

VICE-PRESIDENT OF THE SUPREME BOARD OF CONTROL

SECTIONS SITTING AS COURTS OF FIRST INSTANCE

DEPARTMENT OF PERSONNEL

DEPT. OF AUDIT OF THE ACCOUNTS OF THE LOCAL AUTHORITIES

DEPARTMENT OF AUDITING AND CONTROL OF THE STATE ENTERPRISES

DISTRICT AUDITING CHAMBERS

DEPT. OF AUDIT OF THE ACCOUNTS OF THE STATE RAILWAYS

DEPT. OF AUDIT OF THE ACCOUNTS OF THE STATE MONOPOLIES

PRIME MINISTER.

PRESIDENT OF THE COUNCIL OF MINISTERS DIRECTS THE GENERAL POLICY OF THE GOVERNMENT FOR WHICH HE IS POLITICALLY AND CONSTITUTIONALLY RESPONSIBLE TO THE DIET AND THE PRESIDENT OF THE REPUBLIC. HE HAS THE AUTHORITY TO USE HIS PREROGATIVE OF DISSOLUTION WITH THE CONSENT OF THE PRESIDENT OF THE REPUBLIC AND EXERCISES GENERAL SUPERVISION OVER THE ACTIVITIES OF THE MINISTERS. HE IS RESPONSIBLE FOR THE PERFORMANCE, INITIATION AND REFERENDUM OF THE LAWS AND FOR THE REFERENDUM WITH REGARD TO THE BUDGET AND TREATIES.

TOTAL SUBSTITUTE OF THE PRESIDENT

POLISH TELEGRAPHIC AGENCY.

PRESIDENTIAL AUDITING OFFICE.

OFFICIAL GAZETTE OF THE POLISH REPUBLIC

OFFICE OF THE PRIME MINISTER

SUPREME DISCIPLINARY COMMITTEE

SUPREME ADMINISTRATIVE TRIBUNAL.

SUPREME TRIBUNAL OF JURISDICTION

MINISTER OF FOREIGN AFFAIRS.

DIRECTION OF FOREIGN AFFAIRS AND CONTROL OF DIPLOMATIC AND CONSULAR REPRESENTATIVES. PREPARATION OF INTERNATIONAL TREATIES.

ASSISTANT SECRETARY OF FOREIGN AFFAIRS.

CHIEF OF THE CONSULAR DEPARTMENT

DIPLOMATIC & ECONOMIC DEPARTMENTS

CONSULAR DEPARTMENTS

AMBASSADOR

INSPECTOR GENERAL OF THE ARMY.

CHIEFS OF FEDERAL HEAD QUARTERS.

FEDERAL HEAD QUARTERS.

HISTORICAL OFFICE

MINISTER OF MILITARY AFFAIRS.

NATIONAL MILITARY DEFENCE AND MANAGEMENT OF MILITARY INSTITUTIONS.

SECOND VICE-MINISTER

FIRST VICE-MINISTER

DEPT.

DEPT. OF ARTICLES

DEPT. OF ARMAMENTS

DEPT. OF ARMY PAYS

DEPT. OF TEXTILES

FACTORY DEPT.

DEPT OF JUSTICE

DEPT. OF ARMY INSTITUTIONS

OFFICE OF THE MINISTER

CHIEF OF THE NAVY.

CHIEF TOWN OF THE NAVY.

BANKS: A NATIONAL BEGINNING. A POSTAL SERVICE BANK. A LIQUIDATION BANK.

MINISTER OF FINANCE.

DIRECTION OF FINANCIAL MANAGEMENT OF PUBLIC ESTATE AND ENTERPRISES. PREPARATION OF PUBLIC BUDGET. CONTROL OF THE STATE TREASURY. SUPERVISION OVER THE ACTIVITIES OF THE MINISTRIES. COLLECTING TAXES AND DUES. PUBLIC ADMINISTRATION, AND SUPERVISION OF THE LOCAL SELF-GOVERNMENT BODIES. PREPARATION OF NEW LAWS AND REGULATIONS IN MATTERS OF PROPERTY TRADE

TOWNSTILLS & TOWNSHIP TAXES. & PROVINCIAL COUNCIL TAXES. & DISTRICT TAXES. & CLASSIFICATION OF TOWNSHIPS. & TREATIES TO AVOID DOUBLE TAXATION. & CADASTRAL SURVEY.

VICE-MINISTER

DEPARTMENT TAXES & FEES

DEPT. ON THE TAXES.

DEPT. OF CUSTOMS & MONOPOLIES

TOWN-LOT TAXES OFFICE

BANKING AND TALLAGE OFFICE

EXCISE MONOPOLY

SALT MONOPOLY

TOBACCO MONOPOLY

MATCH MONOPOLY

DEPT. OF THE BUDGET.

VICE-MINISTER

TAXES AND DUES DEPT.

STATE MINT.

STATE MONOPOLIES

STATE LAND SURVEY.

GENERAL DEPT.

DEPT. OF REVENUE

GENERAL DEPT.

BRANCH OFFICES

CENTRAL OFFICE OF LIQUIDATIONS

PRESENT OFFICE

OFFICE OF INTERVENTIVE CONTROL

MINISTER OF JUSTICE

GENERAL ADMINISTRATION OF DUTIES AND TAXES. THE ADMINISTRATION OF JUSTICE AND ITS RELATED MATTERS BOTH AS OF ACTION AND NOTARIES.

JURISDICTION OF THE REPUBLIC OF POLAND

COMMISSION TOGETHER

DEPT. OF LEGISLATION

DEPT. OF ADMINISTRATION.

PENAL DEPT.

FEDERATION OF STATE ATTORNEYS

EDITION OF JOURNAL OF LAWS.

PRESS OF STATE ATTORNEYS

PRESS OF PRIVATE ATTORNEYS AND OFFICIAL PUBLICATIONS

STATE ATTORNEYS & DISTRICT COURTS.

STATE ATTORNEYS APPEALS

MINISTER OF EDUCATIONS. RELIGIOUS DENOMINATIONS.

DEPARTMENT OF PUBLIC EDUCATION SUPERVISION OF THE PUBLIC AND PRIVATE SCHOOLS. THE ENDOWMENTS AND TRUSTS. ADMINISTRATION OF RELIGIOUSNESS AND MORALITY. THE PUBLIC LIBRARIES AND MUSEUMS. THE JURISDICTION IN ELECTIONS OF DELEGATES TO THE BOARDS OF WORKERS.

ASSISTANT SECRETARY OF EDUCATION AND R.C.

DEPT. OF HIGH STUDIES

DEPT. OF GENERAL STUDIES

DEPARTMENT OF PROFESSIONAL EDUCATION

DEPARTMENT OF ARTS

DEPARTMENT OF RELIGIONS

DEPARTMENT OF ARCHIVES

STATE ARCHIVES

TRUST TRUSTEE FOR MATERIAL TRAINING AND FACILITIES IN PREPARATION

MINISTER OF AGRICULTURE AND STATE DOMAINS.

ECONOMIC QUESTIONS TOUCHING AGRICULTURE, FORESTRY AND FISHERY. THE PROMOTION OF SOCIAL-POLITICAL AND ECONOMIC WELFARE AND QUESTIONS OF MANAGEMENT OF STATE REGIONS. THE PROMOTION OF LAND IMPROVEMENTS

STATE AGRICULTURAL TRUST CO.

UNDER SECRETARY OF STATE

DEPARTMENT OF FORESTS AND STATE DOMAINS

DEPARTMENT OF STATE LANDS & FORESTS

DEPARTMENT OF GENERAL DEPARTMENT

GENERAL DEPARTMENT

ECONOMIC SECTION

DEPARTMENT OF AGRICULTURE

DEPARTMENT OF VETERINARY

AGRICULTURAL INSTITUTE

EXPERIMENTAL INSTITUTE

MINISTER OF INTERIOR

ADMINISTRATION OF THE POLITICAL AND TERRITORIAL ORGANIZATION OF THE STATE. THE SUPERVISION OF PUBLIC ORDER AND SAFETY. CONTROL OF PUBLIC HEALTH SERVICE.

STATISTICAL COUNCIL CONSULTATIVE COMMITTEE. CHIEF UNITY CONTROL

UNDER SECRETARY OF INTERIOR

I. ADMINISTRATIVE DEPARTMENT

II. POLITICAL DEPARTMENT

III. DEPARTMENT OF STATE ENTERPRISES

IV. ADMINISTRATION OF THE DPT.

V. DPT. OF PUBLIC HEALTH.

CENTRAL STATISTICAL OFFICE

NATIONAL MONUMENTS OFFICE

TOWNSHIPS OF PROVINCIAL BOARD TOWNS

TOWNSHIPS BOARD OF STATE POLICE

STATE HEALTH ESTABLISHMENTS. SUPERVISION OF THE SANITARY CONDITIONS. GENERAL ADMINISTRATION OF OFFICERS FOR WHOSE NO SPECIAL OFFICE IS ESTABLISHED.

STATE HEALTH ESTABLISHMENTS. SUPERVISION OF THE SANITARY CONDITIONS. GENERAL ADMINISTRATION OF OFFICERS FOR WHOSE NO SPECIAL OFFICE IS ESTABLISHED.

MINISTER OF INDUSTRY & COMMERCE.

PROMOTION AND DEVELOPMENT OF INDUSTRY, TRADE AND MINING. INDUSTRIAL, COMMERCIAL AND MINING LEGISLATION. ADMINISTRATION OF THE PATENTS, TRADE-MARKS, WEIGHTS AND MEASURES. THE SUPERVISION OF THE INSURANCE AND BANKING BUSINESS. THE ADMINISTRATION OF STATE MONOPOLIES. THE SUPERVISION OF THE POST, TELEGRAPHS AND TELEPHONES.

TRUST & BANKS. THE CONTROL OF THE BANKING BUSINESS. CHARTER & REGIME OF THE BANKS. & OVERSEAS TRADE. & FOREIGN EXCHANGE. & EXPORTATION OF CAPITAL. & FOREIGN TRADE. & INTERNATIONAL TREATIES. & ECONOMIC TREATIES. & ADMINISTRATION OF SERVICES & ENTERPRISES.

UNDER SECRETARY OF STATE FOR INDUSTRY & COMMERCE.

STATE DPT.

DPT. OF INTELLIGENCE

DPT. OF MINES

INDUSTRIAL DPT.

MINES AND METALLURGY

COMMERCIAL DPT.

COMMERCIAL TRADE SERVICE.

PATENT OFFICE

TRADE MARK OFFICE

MAIN ASSAY OFFICE

DIRECTION OF MINES

DIRECTION OF METALLURGY

INSPECTION OF MINES

DIRECTION OF MINING INSTITUTE

MERCHANT MARINE OFFICE IN GDANSK

POLISH TELEGRAPHIC AGENCY

GENERAL DIRECTION OF POSTS TELEGRAPHS & TELEPHONES

TELEGRAPHIC & TELEPHONE CONSTRUCTION OFFICE

TELEGRAPHIC & TELEPHONE TRAFFIC OFFICE

MINISTER OF PUBLIC WORKS.

REGULATION OF RIVERS, WATERWAYS AND HARBOURS. CONSTRUCTION OF CANALS, ELECTRIFICATION, AND CONSTRUCTION AND MAINTENANCE OF GOVERNMENT BUILDINGS. CONTROL OF BUILDING, TOWN-PLANNING AND HOUSING. SUPERVISION OF PUBLIC UTILITY CONSTRUCTIONS AND ENTERPRISES. THE ADMINISTRATION OF THE AIR SERVICE. REVISION OF TARIFFS.

COUNCIL FOR COMMITTEE ON ELECTRICAL COUNCIL. 3. POWER COMMITTEE. 3. POWER COUNTIES

ADMINISTRATIVE DPT.

GENERAL SECTION.

DPT. OF ROADS.

DPT. OF RIVER-SHIPPING CONSTRUCTION.

WATER-COURSES

MINISTER OF LABOR AND SOCIAL WELFARE.

SUPERVISION AND CONTROL OF SOCIAL POLICY IN PARTICULAR IN REGARD TO PROTECTION OF LABOR, SOCIAL INSURANCE, SOCIAL WELFARE AND PUBLIC ASSISTANCE.

UNEMPLOYMENT FUNDS.

ZONE OFFICE OF THE UNEMPLOYMENT

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TRADING FAIRS STOCK EXCHANGE RUSSIAN POLAND

DEPARTMENT OF LABOR

DEPARTMENT OF SOCIAL WELFARE

SOCIAL INSURANCE DPT.

LABOUR DPT.

SECTION

DPT. OF SOCIAL WELFARE

INSPECTION

EMIGRATION OFFICE

MARITIME INSURANCE

TEMPORARY EMIGRANTS

TERRITORIAL EMIGRANTS

SECTION

INSPECTION

EMIGRATION OFFICE

MARITIME INSURANCE

TEMPORARY EMIGRANTS

TERRITORIAL INSURANCE

EDUCATIONAL ESTABLISHMENTS. TECHNICAL SCHOOLS. & SOCIAL INSURANCE. & SOCIAL WELFARE AND PUBLIC ASSISTANCE.

STATISTICAL OFFICE

MINISTER RAILWAYS.

MANAGEMENT AND OPERATION OF STATE RAILWAYS. GRANTS PERMITS TO PRIVATE RAILWAYS AND REGULATES THE RELATIONS BETWEEN THE STATE AND PRIVATE COMPANIES.

TRUSTEE & TECHNICAL COUNCIL. & STATE LOANS ON RAILWAYS.

COMMISSION OF APPEALS ON LAND & TELEGRAPH

UNDER SECRETARY OF RAILWAYS

SECTION

DPT.

HEALTH SECTION

DPT. OF EXPLOITATION

CENTRAL INSPECTION

DPT. OF MECHANICS AND CONSTRUCTION

ADMINISTRATIVE DPT.

DPT. OF METROLOGY, MINES & SUPPLIES.

FINANCIAL DPT.

MINISTER OF AGRARIAN REFORM.

REORGANIZATION OF THE AGRARIAN STATUS RE. ISSUING OF REGULATIONS AND SUPERVISION OUT OF PLACE. RESEARCH, PARCELLATION & SETTLEMENT. ADMINISTRATION OF STATE DOMAINS AND FORESTS. ADMINISTRATION OF MINES AND METALLURGY. ADMINISTRATION OF MINING MINES.

ADMINISTRATIVE DPT.

DPT. OF AGRICULTURAL DEVELOPMENT

CENTRAL LAND COMMISSION.

EXPERIMENT INSTITUTE FOR FORESTRY IN TUCHOLA.

1 FOREIGN SERVICES: 1. DIPLOMATIC REPRESENTATIVES. 2. CONSULATES. 3. CONSULAR OFFICES. 4. DELEGATION TO THE LEAGUE OF NATIONS. 5. SPECIAL DELEGATIONS TO CONFERENCES. 6. MISSIONS. 7. THE ATTACHES IN THE EMBASSIES OF GREAT POWERS.

2 CONSULATES OF EMBASSY-TOWNS

3 TOWNSHIP RECRUITING OFFICES

7 HEAD TREASURY OFFICES

8 OFFICES OF STATE DUTY INSPECTORS

9 TOWNSHIP TAXES OFFICES.

10 OFFICES OF TREES & FEES.

11 CUSTOMS DIRECTION

12 CUSTOMS OFFICES.

13 STATE ATTORNEYS APPEALS

14 PRESENT OFFICE

15 STATE ATTORNEYS APPEALS

16 STATE ATTORNEYS & DISTRICT COURTS.

17 PRESS AND TRUSTS AS REGARDS PUBLICATIONS & PRINTING.

18 ADMINISTRATION OF STATE MINING

19 CURATOR OF ESTATES.

20 TOWNSHIP COUNCILS.

21 TOWNSHIP COUNCILS

22 REMARK SYMBOLS

23 STATE STUDS.

24 DEPARTMENT OF ARCHIVES

25 DEPARTMENT OF FORESTRY

26 STATE ARCHIVES

27 HEAD INSPECTORS.

28 DIRECTION OF STATE FORESTS.

29 COMMANDER OF PROVINCIAL POLICE FORCE.

30 TOWNSHIP POLICE & GENDARMERIE

31 TOWNSHIP POLICE & POLICE STATIONS

32 FRONTIER GUARD & BORDER ADMINISTRATION

33 GOVERNORS.

REPRESENTATIVES OF THE GOVERNMENT IN THE VOIVODSHIPS OF AUTONOMOUS TERRITORIES. GENERAL SUPERVISION OF THE ACTIVITIES AND CONDUCT OF THE SUBORDINATE OFFICIALS OF THE ADMINISTRATION. OF ALL THE GOVERNMENT AUTHORITIES. LIAISON WITH OTHER AUTHORITIES.

34 STAROSTAS HEADS OF TOWNSHIP(S).

35 SELF-GOVERNMENT OF RURAL AREAS

36 COUNCIL OF THE VOIVODSHIP

ADVISORY BODIES

37 COMMERCIAL DPT.

COMMERCIAL TRADE SERVICE.

38 COUNTY OFFICES

39 COUNTY OFFICES OF INDUSTRIAL MEASURES

40 LOCAL OFFICES OF WEIGHTS & MEASURES

41 COUNTY OFFICES.

42 SOME MINING OFFICES.

43 MERCHANT MARINE OFFICES

44 POST OFFICES.

45 COUNTY DIRECTION OF POSTS TELEGRAPHS & TELEPHONES

46 COUNTY DIRECTION OF POSTS TELEGRAPHS & TELEPHONES

47 UPPER SILESIAN MINING DISTRICT POLISH

48 OBSERVATION POSTS OF THE FRONTIER GUARD

49 EMPLOYMENT OFFICES

50 COUNTY DIRECTIONS

51 COUNTY DIRECTIONS

52 TOWNSHIP LABOUR INSPECTORS.

53 COUNTY DIRECTIONS OFFICE

54

55 DIRECTION OF RAILWAYS.

56 STATION OFFICES.

59 COUNTY LAND OFFICES.

60 COUNTY COMMISSIONS

61 CLASSIFICATION & PRICES FIXING BOARDS.

62 TOWNSHIP LAND OFFICES.

63 TOWNSHIP LAND OFFICES

64 REGISTRY OF DEEDS & TITLES TO PROPERTY.

COUNCILS & COMMISSIONS

LEGEND.

Departments, bureaus, sections councils, offices or persons.

Functional activity

Direct administrative Control

Indirect administrative Control

Blanks showing banks and Advisory Councils are not connected with any Departments of the Ministries as there is no administrative Control exercised over the former by the latter, they are interrelated in the chart merely to show their relation to the Ministries and other authorities.

NOTE: Numbers placed next to particular squares refer to the „Remarks" attached to the table.

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