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MODERNIZATION OF THE FISCAL SYSTEM: SOME REMARKS ON THE INTRODUCTION OF CAPITAL AND WAR WEALTH LEVIES IN SELECTED COUNTRIES FROM WESTERN AND CENTRAL EUROPE

This article aims to show that extraordinary taxes, introduced after WWI, performed better in Central and Eastern European (CEE) countries than in Western countries, even though they were originally a Western idea. The research reveals that these taxes generated some revenue, but their main function was to show that governments were trying to tackle the unfairness that had resulted from years of running a war economy. It is doubtful that these taxes are useful components of fiscal systems, as they are something of a paradox. They create more injustice (Adam Smith's principles of taxation were partially broken when these taxes were applied), although they should theoretically reduce the inequalities caused by war.

Keywords: War Wealth Levy of April 13, extraordinary levies, taxes, levies, tax base, valuation.

1. INTRODUCTION

Historically, capital taxes preceded income taxes because capital was always easier to monitor than income. In addition, wars were the exact reason why taxes were collected at all (Scheve, Stasavage, 2016). Things changed in the 20th century when welfare states with modern fiscal systems appeared (Mehrotra, Martin, Prasad, 2009). After World War I (WWI), income taxes became the primary source of funds for national states and their needs. These needs were most pressing in the first period, right after the war. Both Western and Central and Eastern European (CEE) countries experienced high inflation and growing internal and external debt caused by WWI. The situation repeated after World War II (WWII). Because of that, Polish and Czechoslovakian cases will be compared with Italian and German examples. Four of the five cases presented in paper stem from a period right after WWI. Other cases from this period cannot be included due to insufficient data. The inclusion of the War Wealth Levy of 13th April 1945 is motivated by the fact that this typical increment tax is missing in the classical analysis (Robson, 1959) of WWII cases

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and demonstrates the rarer situation of extraordinary tax usage in CEEs² (adoption of fiscal solution originating from Western Europe in a country belonging to the Soviet bloc is a surprising fact itself). It seems interesting to find out how countries coped with difficulties by employing new, extraordinary fiscal measures – capital levy (CL) and levy on war wealth (WWL). The use of the word “modernization” in this paper is somewhat artificial as, generally, the notion is vague in the context of fiscal systems. It is used simply to mean that the idea of CL and WWL were new kinds of taxes. The idea was born in the United Kingdom. Italy and Germany were the first to use them in practice. However, CEE countries also tried them. The article aims to answer two specific research questions:

Q1. Are extraordinary (CLs and WWLs) taxes just?

Q2. Are extraordinary taxes effective and easily feasible? Do their efficacy and feasibility differ between Western Europe and CEE countries?

To address questions Q1 and Q2, the following hypotheses will be verified:

H1: Extraordinary taxes can be considered (un)just in regard to three empirically testable ideas (channeled through discourse): the ability to pay, treating people as equals and compensatory arguments (Scheve & Stasavage, 2016)

H2: Historical examples provide rich evidence that such taxes are not easily feasible and, contrary to Piketty’s view (2014), they do not solve the problem of national debt in the best possible way. Qualitative factors (institutional/cultural) cause big differences among countries striving for extraordinary taxation.

2. LITERATURE REVIEW

The philosophical aspect of tax justice has rarely been subject to scientific investigation; however, two authors raised it (Daunton, 2007; Scheve, Stasavage, 2016), mostly commenting on the results of the British debate after WWI. This debate reached its peak in 1918, in the summer volumes of “The Economic Journal” (Arnold, 1918; Hook, 1918; Mitchell, 1918; Pigou, 1918, 1919; Scott, 1918). It was started though by the great David Ricardo himself (Roberts, 1942), and one can find more detailed arguments concerning fairness in texts from the 1920s (Gini, 1920; Jastrow, 1920b; Rašin, 1923). Later papers (Comstock, 1928; Singh, 1970; van Sickle, 1926) contained economic reasons for and against CLs and WWLs (Q2/H2).

Four historical overviews showed the development path of the whole idea of extraordinary taxation (Eichengreen, 1989; Hicks, Hicks, Rostas, 1942; Robson, 1959; Rostas, 1940). However, the growing body of literature also had drawbacks. New notions were invented to express well-known concepts, like “capital levy” in place of the simple “wealth tax” (Pethick-Lawrence, 1920), and WWL was called an “Increment Tax” (Robson, 1959)³. Current papers reveal a strong renewal of interest in extraordinary fiscal measures, especially due to the COVID-19 pandemic (Daunton, 2021; O’Donovan, 2020, 2021) and, more recently, the war in Ukraine. Nick O’Donovan (2020, 2021) has reported on Ireland, Iceland and Cyprus, where modern, but different, forms of extraordinary CLs were introduced after 2000.

² Simple expropriation was more often used in USSR countries.

³ It should be noted that it was called that way for a good reason – it taxed increments of wealth arising from war.

3. THEORETICAL FRAMEWORK

CLs and WWLs are not the only ways to reduce the national debt. There are sensible alternatives to these solutions, e.g., bond issuing, expropriations, compulsory loans, cutting government spending (*austerity policy*), inflation, privatization, or simply bankruptcy⁴ (Piketty, 2015). Within solely fiscal solutions, there is still room for more diversity (capital gains tax, excess profit tax/duty, wealth taxes). People convinced of the concept of justice, understood as equal treatment, will opt for a flat tax. Those who prefer the ability-to-pay doctrine would usually choose progressive taxes as the optimal solution, while those who care most about liquidating the unfair advantage of the rich would opt for extraordinary taxation, similar to the WWLs and CLs analyzed in this article (Scheve, Stasavage, 2016). To debate the ethical aspect, I chose the interdisciplinary approach proposed by Kenneth Scheve and David Stasavage. Its main advantage lies in its empirical nature. They discussed justice in taxation by comparing arguments that were raised by politicians and the public after WWI, when the first CL and WWL were introduced. They took the United States, Great Britain, Canada, and France as examples; this article expands this approach to include Poland, Czechoslovakia, Germany and Italy. They appropriately emphasized that compensatory arguments are the strongest in the specific context of the postwar situation. It was impossible to lead a purely economic, rational discussion about financial sacrifice in the form of WWL and CL when so many young people had died “on the altar of motherland”. Another advantage of suggested approach is that this framework avoids heavy theorising which would necessarily involve deep and arduous task of analysis of works of Amartya Kumar Sen, Robert Nozick and John Rawls (Kwarcinski, 2011; Nozick, 2010; Rawls, 2013). For debating effectiveness, one has a plethora of options, but for the purposes of this article, Robson's purely economic classification presents the highest level of usefulness as it was directly used for WWL and CL analysis.

Framework for justice analysis (H1):

- 1) equal treatment arguments;
- 2) ability to pay arguments;
- 3) compensatory arguments (Scheve, Stasavage, 2016).

Framework for efficiency analysis (H2):

- 1) Anti-inflationary purpose;
- 2) Compensation aim;
- 3) Financing ordinary budget needs (Robson, 1959).

4. WESTERN CASES – ITALY AND GERMANY

4.1. Italy

In Italy, the name of the postwar tax was the Italian Royal Decree of November 24, 1919, and it consisted of both CL (*imposta straordinaria progressiva sul patrimonio*) and WWL (*imposta sugli aumenti di patrimonio derivanti dalla guerra*). After WWI, Italy found itself in difficult circumstances as the war had strongly influenced the development of industry. It also accelerated the concentration of capital in the hands of a few people who took advantage of the increased demand for certain goods. Profits in the steel industry increased by approx. 10 p.p. and in the automotive industry by 22 p.p. (Gierowski, 1985). Italy had an unfavorable trade balance and massive foreign debts. Enterprises went bankrupt, and inflation continued to rise. The election of November 1919, which preceded

⁴ This solution should not seem silly as Argentina regularly declares bankruptcy.

the introduction of the tax, was won by the Socialist Party. In the context of the growing power of left-wing parties, it is easier to explain the understanding of WWL and CL as a just solution. The reasons why the authorities felt they were obliged to introduce heavy taxation were, above all, social discontent and the rapidly growing public debt. The government's goal in the entire undertaking was to collect 20 billion Italian lire (ITL) for the state budget, although none of the available sources indicates that the final result was even remotely close to this number. This step was meant to improve the state of the budget by reducing both the debt and excessive liquidity in the markets (Gini, 1920).

Regarding the origins of the tax, in August 1919, an agreement was reached that the tax would be of a dual nature – both WWL and a compulsory loan to the state related to the value of the taxpayer's private property. Ultimately, the idea of the compulsory loan was abandoned, and it was decided to use four other public finance instruments:

- 1) Royal Decree No. 2168, with which the issuance of voluntary 5% bonds began;
- 2) Extraordinary tax on dividends, interest, and bonuses;
- 3) Extraordinary wealth tax (Royal Decree No. 2169) [CL];
- 4) Tax on war enrichment (Royal Decree No. 2164) [WWL].

The most effective tool of wartime public finance of those listed was the bonds, although a disadvantage is that they generate growing internal public debt. The effectiveness of the bonds is presented in Table 1:

Table 1. Issues of Treasury bonds and budgetary revenues in ITL during the war, according to Edwin Seligman's data

Year	APY (Annualized Percentage Yield)	Single bond price	Budget income
1915 (<i>Mobilization loan</i>)	4.5%	97	1,000,000,000 ITL
1915 (<i>First war loan</i>)	4.5%	93–95	1,146,000,000 ITL
1916	5%	97.5	3,014,000,000 ITL
1917	5 %	90	3,985,000,000 ITL
1918	5 %	86.5	6,120,000,000 ITL

Source: (Seligman, 1919).

Internal loans were a much more important way of financing the state's current short-term liabilities⁵ than WWLs and CLs. Bond emission was so crucial that experts (Seligman, 1919) usually considered them to be a much better source of extraordinary financing in the never-ending "taxes versus loans" debate (Pigou, 1919). In this way, the Italian government collected more money than CL and WWL combined. It was decided that both the CL, and WWL will be charged from natural persons and legal entities. Taxes were not mutually exclusive, but complementary – one could become the subject of both. The tax allowance was up to 20,000 ITL (the same tax allowance for both charges).

In the case of CL (Royal Decree No. 2169, 1919), there were three phases: the Draft from the end of September, the Act of November, and the Amendment of April 1920. In the first stage, CL was planned as a one-off tax burden, and According to the September draft, the payment deadline was set for January 1, 1920, when the entire amount had to be paid. However, the taxpayer could demand that the amount be spread over a period of four

⁵ Also known as *floating debt*.

to six or eight annual installments. The tax rates of the extraordinary property tax were progressively scaled from 5%, based on 20,000 ITL, up to 40% on the biggest capitals. The November decree fundamentally changed the essence of the tax – the top rate of CL was reduced to 25%. It basically became an addition to the income tax (Einaudi, 1920). The value of the property remained the benchmark (*ad valorem*), but the repayment was spread over 30 annual installments, which made it possible to satisfy the state's claim from income generated by taxed capital.

On the other hand, the Royal Decree of April 22, 1920, significantly changed some of the regulations. Among others, the tax-free amount was increased from 20,000 to 50,000 ITL, and the progressivity of the tax scale was increased. Additionally, the time for payment was shortened from 30 to 20 years (for landowners and the real estate industry, as it was more difficult for these people to sell their property quickly) and to 10 years for entities relying on individual capital in over 60%. The key modification was increased tax rates, up to 50% (Einaudi, 1920).

In the regulation of WWL (Royal Decree No. 2164, 1919), the rates were as follows (art. 7–8): for an increment in wealth in the range of 5–10%/in normal income in the range of 50–100%, the tax rate was 10%; for 10–20%/100–200%, the tax rate was 20%; for 20–30%/200–300%, the tax rate was 30%; for 30–40%/300–400%, the tax rate was 40%; for 40–50%/400–500%, the tax rate was 50%; for 50%+/500%+, the tax rate was 60%. Discounts were provided for men over 50 and women over 40, as well as for married couples. The tax was not paid by parents, grandparents, or the children or grandchildren (up to the age of 25) of taxpayers, as long as they were financially dependent on the taxpayer and living with him, and if they were not themselves obliged to pay. For equity reasons, the unfit for work, war invalids, widows, and parents and orphans of people killed during the war were also granted relief. The tax was to be paid in three installments.

A tax declaration had to be submitted by March 31, 1920, estimating the entire property, including war enrichment. Payment in very different forms was allowed – money, securities, treasury bonds, and checks. Enterprises that suffered as a result of the war were given relief. The State Treasury reserved the right to audit the value of the taxpayer's property “if his style of life should appear not in accordance with the ascertained amount of his estate” (Gini, 1920). Consulates and embassies were asked not to facilitate the concealment of assets by foreigners. However, it did not help much. Corrado Gini reported that the vast majority of foreign estates were quickly exported at the end of 1919 (Gini, 1920). After the amendment of April 1920, increases in wealth between 1st August 1914 and 31st December 1919 were taxed up to 80% (Einaudi, 1920).

Correctly calculating the tax was not simple since different values in percentages applied to different parts of wealth, constituting enrichment (tax rates were marginal; it meant that the rate was different for every tax bracket). The difficulty might also have been due to the complexity of the whole fiscal system, which made it challenging for the fiscal administration to act effectively. In order to camouflage the failure of WWL, the government added a clause that ensured that foreign deposits within Italian banks would not be subject to taxation. After this decision, the return of foreign capital to Italy was almost immediate. According to Gini, the parliament adopted not the extraordinary CL but a simple property tax, while Einaudi called it simply a super-tax on income. The name of the regulation (*imposta straordinaria*) remained the only thing from the idea of the extraordinary nature of the tax. It is difficult to talk about the extraordinariness of a tax that is paid out of current income for 30 years (Gini, 1920).

Gini saw the main disadvantage of CL in the gross injustice between the generations. Citizens living between 1914 and 1918 would lose a significant portion of their property, and the beneficiaries of the war would be their children and grandchildren. This is quite an unusual point of view because it could very well be argued that it would be just as inequitable to burden future generations. Other defects of the regulation included current difficulties in meeting tax obligations and the consequent disruption of the natural process of establishing market prices, the depreciation of property caused by the inability to use it for tax payment, the excessive increase in the value of insurance, and the debt crisis. The reason why the authorities had to withdraw from the CL/WWL idea was obvious to Gini. He described it as “the impossibility of carrying out with celerity a valuation of wealth” (Gini, 1920). His only positive recommendation boiled down to proposing provisional estimates of the value of assets.

Gini's arguments for the good side of the tax are sarcastic: “The advantage, as has been shown, is essentially due to the fact that the levy on capital had to be abandoned” (Gini, 1920). Still, the most natural solution was simply a super-tax on income. And this recommendation is the conclusion of his judgments (Gini, 1920). Nevertheless, one cannot draw final conclusions from Gini's assessment – the lack of statistical data from this period is the obstacle. The Italian case can be recapitulated by a reflection by Walter Scheidel: “high taxes and sharp progression were born of the war effort” (2017).

4.2. Germany

The title of the German law that introduced property tax, *Reichsnotopfergesetz* (which can be translated as “sacrifice for a homeland in need”), was not accidental – it referred to ethical values such as patriotism and social solidarity (Gesetz über das Reichsnotopfer, 1919). It reminded citizens that they were all equals in Germany and that there was severe war damage that had to be compensated for. In order to understand the German case, it is necessary to briefly present the situation of the Weimar Republic after the Treaty of Versailles, which imposed war reparations on Germany. Ignaz Jastrow explained the disturbances of the period after the Treaty: “the Treaty contains provisions so severe that it is difficult to find terms in which to characterize them [...]” (Jastrow, 1920b). John Maynard Keynes, in turn, prophetically saw in the Versailles regulations the seeds of WWII as early as 1919 (Keynes, 2009).

The government was made up of Social Democrats, Centrists, and Democrats. As in Italy, the growing popularity of socialist ideas may partly explain the perception of the CL as a just solution. The reasons for applying CL could be equated with the motivations of Italian politicians, e.g., social discontent and a willingness to reduce public debt. The only significant distinguishing feature of the Weimar Republic from the rest of Europe was the problem of war reparations, which constituted an additional reason for introducing CL.

According to Jastrow, *Reichsnotopfergesetz* was definitely belated. The regulation did not enter into force until December 31, 1919, although he suggested introducing CL as early as 1916. It was signed by the President of the Reich, Friedrich Ebert, and Finance Minister, Matthias Erzberger. The term defining the name of the tax that Jastrow proposed was incorporated into the Act, although he lamented that only the name remained of his idea. On the other hand, one can still point out that his compensatory argument for the tax was preserved through the provision of art. 1 (Act *Reichs...*, 1919. art. 1): “Ownership [...] makes a sacrifice to the extreme need of the nation by a large contribution from property [...]”.

With the end of the war, the public's enthusiasm for making a common "sacrifice" on the "altar of the Fatherland" disappeared (as Scheve and Stasavage put it, powerful compensatory arguments lose their full force). Due to the delay, the levy lost its initial sense, and payments were spread over a very long period (30 years; in the case of agriculture, 50 years). With the tax designed in this way, it transformed the idea of severe CL into a small project, similar to a surtax on income/normal wealth tax.

The reform package included instruments that were far more important than CL: harmonization and an increase in corporate tax, personal income tax, and inheritance tax. Indirect taxation was also increased. These changes shape the foundations of Germany's public finances to this day.

The tax was to be paid by natural and legal persons. A broad catalog of exemptions broke the principle of universality, i.e., everyone has to pay taxes since we are all equals. These exemptions included communes, local government institutions, religious associations, universities, banks, political parties, charity organizations, and loan offices. One can also argue that these organizations have different status and therefore the rule of equality was not endangered. Some allowances also applied to natural persons. Under the condition of "economic threat", it was allowed to postpone the payment of the tax practically until death; in addition, there was no interest. Elderly people benefited from a rate reduced by 20–33%. A married man could write off 5000 marks (*M*) on the amount of the liability "on the wife", as well as another 5000 *M* for every child, except the first. This example of a tax preference irritated Jastrow to such an extent that he accused his government of wanting to please the electorate (Jastrow, 1920b).

The adopted tax rates did not satisfy Jastrow, who wanted each citizen to sacrifice 25% of their property (he meant an effective tax rate of 16.5% for the first four brackets). He also argued that other authors proposed as much as 33%. Ultimately, in accordance with the tariff contained in Section 24 of the Act (*Act Reichs...*, 1919. art. 24), the tax rates varied from 10% to 65% (Jastrow, 1920a). Conveniently for taxpayers, payments in non-cash forms (e.g., bonds) were allowed. The tax allowance was 5,000 *M*. For married couples it was increased to 10,000 *M*. At that time, it was two and a half times the average salary. For selected entities, i.e., capital companies and foundations, a flat preferential tax rate of 10% was available.

As in Italy, CL in Germany triggered tax evasion. Property "fled" abroad before it was taxed – hence Jastrow's final appeals for international cooperation to prevent this phenomenon. His appeal was formalized in the provision of Section 4 (*Act Reichs...*, 1919. art. 4).

On the issue of tax justice, Jastrow spoke differently from Gini. He asked rhetorically: "The opponents of the tax are right: why should children and grandchildren pay taxes till 1950 or 1970 on a property as it was on December 31, 1919 (the day of the assessment)?" (Jastrow, 1920b). His question contained a hidden compensatory argument that tells us that during WWI, young people were forced to fight. This was equivalent to their labor being conscripted. Therefore, the elderly should, at least, suffer the conscription of wealth. Jastrow also admitted that the tax broke Adam Smith's ethical principles. Perhaps this was why he was reluctant to call it a tax, but instead a kind of "sacrifice". According to Jastrow, tax reliefs, exemptions, and the tax allowance were all unfair solutions. Shifting the debt onto the next generation was inequitable (Jastrow, 1920b). An extraordinary tax that breaks the classic rules of taxation can only be justified in exceptional circumstances, such as Germany's situation after WWI. Jastrow did not consider it justified to apply the exemption

for small estates: “the exemption of small properties up to 5000 marks is economically unjustifiable, as I believe to have demonstrated in detail” (Jastrow, 1920b), which differed significantly in this matter from Gini. In his opinion, the size of the property does not affect the ability to pay, and the eventual exemption of these small amounts from wealth taxation revealed the misconceptions of the rulers.

Jastrow also mentioned a multitude of other taxes (e.g., capital gains tax, war taxes, and local and agricultural taxes) that were supposed to support budget revenues in addition to CL. It is not surprising that the German government reached into the pockets of its citizens in every possible way. In 1921, war reparations accounted for 32.4% of all budget expenditure, and in 1922 as much as 35.7% (Baltensperger, 1998). The expected tax revenue stood at 70–90 bln \mathcal{M} , while the actual revenue reached just about 15 bln \mathcal{M} . However, due to the lack of reliable statistical sources for this period, the estimated amount should be approached with caution. In any event, this amount only partially covered the inflation-induced increase in the nominal value of the debt. The total debt at the end of 1919 was over 200 bln \mathcal{M} , exceeding 150% of the annual GDP (Bach, Buggeln, 2020).

It is also necessary to look critically at Jastrow’s negative judgment of the tax. He may have assessed the introduced regulation with a strong bias. The article he wrote appeared in May 1920, while data on the revenue from the *Reichsnotopfer* for 1920 was not published until 1924. These revenues exceeded the plan by nearly 300%. If Jastrow had written the text from a long-term perspective, and not just a few months after the announcement of the act, he probably would not have underestimated nearly 10 bln \mathcal{M} for 1920 (almost 20% of the total budgetary income). The exceptionally good result of the *Reichsnotopfer* in 1920 (Statistisches Jahrbuch, 1922), together with the negligible fiscal result for the following years, also means that despite the plan for the long-term payment of ordinary property tax in installments, the realities of the tax assessment action reduced this project to its original, one-off character.

In Germany, the cause of the tax failure was inflation and, later, hyperinflation. As early as the turn of 1919/1920, prices had increased significantly, while the act did not include any indexing clause. Attempts were made to amend the act (*Gesetz zur beschleunigten Veranlagung und Erhebung des Reichsnotopfers*, 1920) to ease the provisions and accelerate tax enforcement. However, these actions did not significantly improve the results of the tax assessment action. Once again, the destabilization, which was caused by hyperinflation, meant that tax installments ceased to have any economic significance. Analysis by the German Institute for Economic Research (DIW) indicated several short-term effects of the regulation, i.e., the financial authorities’ inability to comprehensively estimate assets, political outrage, social resistance, and tax evasion (Bach, 2012).

The long-term effect of the CL is that it had been replaced from 1923 with ordinary wealth tax, which was levied until 1996. It can therefore be concluded that the *Reichsnotopfergesetz* did not play a great role in itself. However, it was still important, permanently co-shaping the development path for German wealth taxes. In general, the post-WWI Erzberger fiscal reforms (of which CL was only a small part) substantially increased all taxes – they would then never fall back to their original levels.

5. CEE CASES – CZECHOSLOVAKIA AND POLAND

5.1. Czechoslovakia

Czechoslovakia already differs when it comes to historical and political background, although it experienced the same postwar struggle with economic conditions as Western

countries. By the end of 1919, there were several problems: high inflation, problems with tax administration, a growing budget deficit, currency depreciation, and a production crisis (Oleksiuk, 2021). However, unlike most countries involved in WWI, their history was shaped not by the Treaty of Versailles but by the Treaty of Saint-Germain-en-Laye, signed on 10th September 1919 (Rašín, 1923). Czechoslovakia was constituted on the remnants of the Austro-Hungarian Empire, which is very important to understand some fiscal reforms that helped make CL and WWL possible. The printing of banknotes, a census of all types of wealth, the recording of all bank deposits and an embargo on 50% of them (later lowered to 20% of deposits) seem draconian without realizing that Czechoslovakia inherited its currency problems from the Austro-Hungarian Empire. The Austrian-Hungarian krone had to be withdrawn, although much of it was still in circulation (Novokmet, 2018).

These measures were undertaken by the end of August 1919 (Rašín, 1923). However, CL and WWL were not introduced until 8th April 1920 (Act no. 309, 1920) by the left-wing government of Vlastimil Tusar. Nevertheless, the finance minister, Alois Rašín, paved the way for CL with his strict reforms. He was a right-wing politician, representative of conservative liberalism. Thus, he combined free market ideas with a slightly conservative look on the social sphere and cultural aspects, similar to Adam Smith, Alexis de Tocqueville and Friedrich August von Hayek. He opted for deflationary politics (Oleksiuk, 2021). CL had moderate rates: 1–30% (for natural persons) and 3–20% (for corporations). WWL, as usual, had a slightly higher top rate: 5–40% (WWL was applied only to natural persons). Still, rates were high enough to satisfy compensatory claims. Such claims were voiced both literally: “new cry for shifting the burden onto the wealthy” (Rostas, 1940) and metaphorically: “the aim of the Republic [...] is to heal the injuries inflicted by the burden of bank notes. But these steps alone will not suffice [...]” (Rašín, 1923, p. 55). The second quote shows that Rašín, who was not only a politician, but also a well-educated economist, freely mixed ethical motives with economic concepts.

What is remarkable about Czechoslovakian case is that the whole package of reforms preceded extraordinary tax, making it truly feasible. Without those additional steps, extraordinary taxes in Czechoslovakia would have failed as hard as they did in Western Europe. The Czechoslovakian authorities collected 45 bln Kč (Czech koruna), equivalent to about £45 mln in 1929. Laszlo Rostas compared this partial success to CL’s fiscal effects in Austria (30.06.1920) and Hungary (1921) – they collected an amount equivalent to £3 mln and £15 mln, respectively (Rostas, 1940). A positive side effect of the whole story is that nowadays, census data from the period of Czechoslovakian CL and WWL allow us to measure the historic levels of inequality in the country (Novokmet, 2018).

5.2. Poland

The Property Tax Act of August 11, 1923 (Act nr 94, poz. 746, 1923) displayed many signs of an extraordinary nature. The first words hide an ethical compensatory argument: “for purposes related to the repair of the Treasury of the Republic of Poland” (Act, 1923. art. 1). In Poland, the war economy lasted longer than in the West because of battles for borders and the Polish-Bolshevik war. There was extreme damage that had to be compensated for. The strength of compensatory arguments in this particular case might have been caused by high inequalities in Polish society (Wroński, 2022). Additionally, although inflation never reached extreme levels, like in Germany, inflation was still accelerating greatly in the period preceding the tax. The tribute was, therefore, a response to the economic crisis. The tax was also introduced because of the political will to rebuild the country, reduce public debt, and strengthen the army (Taylor, 1929).

The Act was jointly signed by different Polish politicians, but the initiator and active executor of the regulations was Władysław Grabski, a strong figure who, accidentally, for a short time, did not hold any function in the government. The regulation of CL was one of the elements of the stabilization policy package (Grata, 2008; Koryś, 2018; Wroński, 2022). In this case, it was aimed mainly at the wealthy part of society (Bukowski, Novokmet, 2019). It was agreed that an amount equal to 1 bln Swiss francs (CHF) would be collected from the tax. Having achieved this amount, the tribute was not to be collected any further. Thus, an atypical combination of progressivity and a quota (or, as Marcin Wroński (2022) proposed, “a so-called ‘contingent’”) was used.

Regarding the scope of the regulation, natural and legal persons had to pay the tax (Act, 1923. art. 2). Pursuant to art. 5, the tax was applied to “all immovable and movable property of a taxable person (art. 2) after the deduction of debts and burdens, which reduce this property, as of July 1, 1923.” (Act, 1923. art. 5). The tax-free amount was 3,000 PLN (Act, 1923. art. 3. par. 4). A characteristic feature of the regulation was the large number of tax thresholds – 33. CL was progressive to a lesser extent than the corresponding Western European solutions (the range was 1.2–13%). These rates were not set at an extremely high level (Act, 1923. art. 9). Crucial distinct feature of Polish rates was that they were applied to total wealth. They were not marginal as in Czechoslovakia, Italy, and Germany (Wroński, 2022).

The sources from which the 1,000,000,000 CHF was to be raised were divided: half was to be provided by agriculture and forestry, 3/8 by industrial and commercial enterprises, and 1/8 by “other” categories of property (Act, 1923. art. 8). This regulation discriminated against farmers by placing a disproportionately heavy burden on them. However, Roman Rybarski clarified that not all farmers were disadvantaged, only the large-scale ones: “property tax did not follow the universality principle; especially in agriculture, where it applied very lightly to small agricultural property” (Rybarski, 2015).

Richer citizens sometimes reacted by providing the authorities with underreported tax statements. However, such practices were very risky as CL was designed in a very transparent and efficient manner (Wroński, 2022). Art. 26, which describes the shape of the tax declaration, explains what was included in the tax base: land, buildings, enterprises, capital, and property rights, as well as household appliances and everyday objects (Act, 1923. art. 26). Such a varied tax base was difficult to grasp. Rybarski accused the authorities of arbitrarily estimating the tax base, arguing: “it is known, for example, that the value of farm livestock and buildings is not in constant relation to the value of land” (Rybarski, 2015). He also stated: “the valuation committees had quite a lot of freedom in this respect” (Rybarski, 2015). He also accurately pointed out a weaker reference to the standard of valuation according to market value than in the West. In its place, more questionable and overly complicated methods, typical of income taxes, were used (e.g., classifying lands according to distance from a city or type of cultivation).

As in Italy and Germany, this tax also partially failed, which was reflected in the tax commission's proposal from January 1926 to reduce the target amount from one billion to 407 mln CHF. In place of the missing 593 mln CHF, a permanent (no longer extraordinary) low property tax was suggested. This suggestion was put into practice. The effects of the tax assessment action were summed up by Edward Taylor, who estimated that almost 40% of the planned 1 bln CHF was raised (Taylor, 1929). The tax assessment action was so long that the extraordinary tax became a fixed tax. This change was proposed by Grabski

himself, who claimed that the tax in the form enacted in 1923 unfairly⁶ treated people on equal grounds (Skodlarski, 2015).

After WWII, Poland found itself in the zone of influence of the Soviet bloc. Two political camps emerged: the right-wing government in exile and the communists in Poland. The authorities, based on The Decree of the Polish Committee of National Liberation (PKWN) of September 6, 1944, carried out the land reform, which can be seen as the beginning of nationalization. Back then, WWL could have been seen as part of the process of nationalizing capital. The fact that CL and WWL idea emerged in the Polish People's Republic⁷ is surprising. The main reasons for introducing WWL included war losses (Kłusek, Luterek, 2022) and the need to slow down inflation and stop the growth of public debt, which was significantly exacerbated by the costs of the war. Officially, the WWL of 13th April (Act nr 13, poz. 72, 1945) was aimed mainly at entities that got rich illegally during the war. However, in practice, it simply hit the wealthier part of society. The explanation for the introduction of WWL was fake. The tax allowance of up to 100,000 PLN was meant to exclude the poorer strata of society from heavy taxation. The ethical reasons for introducing the tax, i.e., the fight against collaborators, looters, and blackmailers, like the fiscal target, were "smoke screens" aimed at justifying the fundamentally unjust fiscal measure.

Its true motives can be found in the implementation of the Marxist ideology and caring for the interests of the state administration, i.e., more jobs in the tax administration. Before WWL, in August 1944, the communists decided to carry out money exchange in such a way that people were simply robbed of their money to a much greater extent than with WWL (Dziewanowski-Stefańczyk, 2015). Despite all the unfairness of this decision, it must be admitted that economically it had the desired anti-inflationary effect after the war by drawing excess liquidity from the market (unlike WWL, which totally failed as an anti-inflationary measure).

On the other hand, stronger arguments than for the alleged pressure from the East (the "Eastern" hypothesis of tax genesis) support the hypothesis about the "Western" genesis of WWL. The first draft of the tax on war enrichment was created by the circles of the Polish Home Army in 1943, calling it "The Act on Tax on War Profits" (AANA). The decree of April 13th, 1945, describes the subject of taxation almost exactly like the draft of 1943. The hypothesis about the "Western" provenance of the tax is also confirmed by Karol Dąbrowski (Dąbrowski, 2016):

It should be emphasized that the draft tax on war enrichment was developed (...) around Czesław Klarnier – the head of the Treasury Department of the Government Delegation of the Republic of Poland. The later decree of April 13, 1945, was essentially identical to the draft act on the tax on war profits by underground activists and contained similar provisions. The main difference was that the Treasury Department's project treated taxpayers who had suffered losses

⁶ After some time, he realized the pointlessness of his own solution, according to which the declarations of the amount of property from 1923 legally bound taxpayers for many years – a few years later, a taxpayer could have already lost the formerly declared property, and in the meantime, new proprietors could arise who would no longer be taxed as they had made no statement of wealth in 1923.

⁷ Technically speaking, this was the official name of the country after the 1952 constitution. However, I use the name here to highlight that this modern, western idea somehow managed to appear in an almost purely communist land.

during the war, started small businesses, acquired an inheritance, [or] received a donation (...) more equitably.

The practical attempt to tax the war enrichment after WWI was taken in, among others, Italy, Hungary, Austria, and Czechoslovakia (Rostas, 1940). After WWII, CL and WWL were used in Austria, Denmark, France, the Netherlands, and Norway (Robson, 1959). It is difficult to indicate examples of WWLs in the Eastern Bloc, where less sophisticated solutions were used. In Bulgaria, the “People’s Court Act” legalized the seizure of property belonging to fascists and collaborators (Dimitrov, 1986). In other instances, tax revenues were increased through quotas (“contingents”), as in Bolshevik Russia (Pipes, 2006). In the GDR, as Wojciech Karpiński wrote: “in principle, the existing taxes were maintained, but rates were raised in a uniform manner” (Karpiński, 1961). Since solutions as simple as raising tax rates and confiscatory measures were used in the sphere of the USSR’s influence, the hypothesis of the “Western” provenance of the “modern” idea of WWL seems a sensible, albeit surprising, explanation of the phenomenon.

Pursuant to art. 1 of the WWL, war enrichment (defined as an increase in property between August 31, 1939, and June 30, 1945) did not have to be obtained for oneself (Act, 1945. art. 1). It was added that tax liability was also associated with obtaining enrichment in the name of substituted persons. Article 4 regulated the tax base, defining as the tax base the surplus of property value resulting for the taxpayer in the period from August 31, 1939, to June 30, 1945 (Act, 1945. art. 4). The word “surplus” suggested the existence of something that should not be there (i.e., something redundant). The provision specified that the “surpluses” were not reduced by the losses resulting from the war. An exception to this rule was made for movable property (Act, 1945. art. 2, par. 6). Rates were as follows: for enrichment in the range of 100,000-250,000 PLN, 15% of this enrichment; for 250,000–500,000 PLN, 20%; for 500,000–1,000,000, 35%, for 1,000,000–2,000,000 PLN, 50%, for 2,000,000+ PLN, 75% (Act, 1945. art. 5, par. 2).

To conclude, the WWL of 13th April exposed the war industry sector to substantial losses. In 1946, the Ministry of Justice critically assessed the attitude of lower authorities responsible for the implementation of the tax: “the tax on war enrichment did not find full understanding and interest, and its meaning [had not been] fully appreciated” (AANb). The cooperation of several types of entities (e.g., offices, tax chambers, local government, political parties, tax directors and even notaries) completely failed during the tax assessment action. There was also no sign of a civic initiative in revealing those who were war-enriched. Problems with the valuation of assets were also fundamental. The fact that the valuation was to be carried out according to the market value of the items was not enough to precisely define the method, and different methods of determining value were appropriate for different assets. Despite this, court experts managed to exercise moral independence by lowering the multipliers in the valuation process in a way that benefited citizens (Kłusek, 2017).

6. COMPARISON

Table 2 deals with the efficiency question, while Table 3 summarizes the ethical dilemmas connected with extraordinary taxation.

Table 2 displays an important regularity. Taxes with a very high top rate (Germany – 65%, Italy – 80%, Poland after WWII – 75%) failed to a much more significant extent than taxes with a lower top rate (Czechoslovakia – 40%, Poland after WWI – 13%). Thus, the table confirms indirectly that WWL and CL performed slightly better in CEEs. In general,

WWLs gave worse results (they were even rarer introduced, as Table 2 shows) than CLs as the tax base to be reached was tougher to measure. It is harder to calculate increment of wealth instead of wealth typically understood – all assets minus obligations.

Table 2. Summary of the tax rates of the extraordinary capital taxes

Country	CL	WWL (aka Increment Tax)
Italy – project 1919	0, 5–40%	–
Italy – act 1919	0, 5–25%	10–60% (enrichment level specified by percentages of prewar wealth)
Italy – amendment 1920	0, 4.5–50%	10–80% (enrichment level specified by percentages of prewar wealth)
<i>Reichsnotopfergesetz</i> 1920	0, 10–65%	–
Czechoslovakia 1920	1–30% (for natural persons) 3–20% (for corporations)	5–40% (for natural persons; enrichment level specified by percentages of prewar wealth)
<i>Grabski's Wealth Tax</i> 1923	0, 1.2–13%	–
War Wealth Levy of 13 th 1945	–	0–75% (enrichment level specified by nominal quotas)

Source: Own elaboration based on: (Rostas, 1940; Royal Decree nr 2164..., 1919. art. 7–8; Act on Property Tax..., 1923. art. 9; Einaudi, 1920; Jastrow, 1920a, 1920b; Křusek, 2017; Rašín, 1923).

Table 3. Results of the research based on the proposed theoretical framework

Country	Ethical motive	Economic motive	Economic result
Italy 1920	compensatory arguments	Financing current budget, anti-inflationary, will to reduce national debt	Small part of floating debt covered, generally failure (data problem as ISTAT ⁸ was not founded yet)
<i>Reichsnotopfergesetz</i> 1919	compensatory arguments, ability to pay doctrine	Financing current budget, will to reduce national debt	19.47% of budget income in 1920, later total failure due to hyperinflation, about 20% of planned revenue
Czechoslovakia 1920	compensatory arguments, patriotism of Alois Rašín	anti-inflationary	Partial success (\$45 mln, about 8.18% of national income, about 60% of planned revenue – more than in the case of Hungary and much more than in Austria)

⁸ Italian counterpart for Polish “Main Statistical Office”. The first comprehensive fiscal statistics (but still not detailed enough to distinguish extraordinary taxes) in Italy appeared only in 1923, thanks to the reports of the Bank of Italy (*Banca d'Italia*).

Table 3 (cont.). Results of the research based on the proposed theoretical framework

Country	Ethical motive	Economic motive	Economic result
<i>Grabski's Wealth Tax</i> 1923	compensatory arguments, patriotism of Władysław Grabski	Financing current budget, anti-inflationary, stabilization	16% of budget income in 1923 (about 40% of planned revenue for period 1924-1927), failure in following years
War Wealth Levy of 13 th April 1945	fake compensatory arguments, treating people as equals	Financing current budget	Total failure (ranging between 0.06 – 0.7% of budget income in years 1946–1949)

Source: own elaboration based on: (Gini, 1920; Jastrow, 1920a, 1920b; Kłusek, 2017; Rašin, 1923; Rostas, 1940; Statistisches Jahrbuch, 1922; Taylor, 1929).

There are endless examples of such ethical arguments during the legislative procedure, including speeches from the period of proceedings in the Polish case of *Grabski's Wealth Tax*. Poniatowski claimed: “All amendments directed rightfully towards a higher level of burdening the rich and guaranteeing some exemptions and reliefs to the working class [...] were refused by you. Things definitely have a deeper sense [...]” (SSSU, 1923, p. 10). Wierzbicki responded: “We make it possible so that not only some, but most citizens are responsible for saving the Treasury because this is the only way to save Fatherland” (SSSU, 1923, p. 14). What is characteristic about such speeches is that they lack substance; they are simply emotionally loaded expressions of certain moral claims. The more persuasive political party dominates in the end by pushing through the law (all analyzed cases) or by blocking the law (Great Britain, France, Canada, and the United States after WWI (Scheve, Stasavage, 2016)).

7. CONCLUSIONS, DISCUSSION, AND POLICY RECOMMENDATIONS

Formulated research questions and hypotheses have not been fully confirmed or rejected. They remain open to further research. However, some inconclusive evidence for low levels of efficiency, feasibility and significantly unjust character of CL and WWL has been displayed. Available data was enough only to show that there are premises suggesting that CL and WWL performed better in CEE countries than in Western countries.

Since there are always better solutions (e.g., the issue of bonds (Italy), increasing indirect taxation, inheritance taxation, income taxes (Germany), and money exchanges (Poland after WWII)), it was never an economic motive that drove politicians to apply CL and WWL. Although the economic crises were real, they never created fiscal necessity (Scheve, Stasavage, 2016). The true reason beyond heavy postwar taxation was compensatory arguments. They were strengthening typical ethical argumentation based on treating people as equals and arguments about the doctrine of the ability to pay. All these ethical claims were found in papers of famous economists such as Gini, Jastrow, Pigou, and Rostas, as well as legal acts (*Grabski's Wealth Tax*), titles of legal acts (*Reichsnotopfergesetz*, *imposta straordinaria*) and parliamentary speeches. A deeper analysis of the formulations of arguments regarding justice seems to be another promising

research direction. People simply demanded justice, and politicians had to meet these expectations.

The tax assessment action was troublesome in all countries. CL and WWL had no rational reason to give better results in CEEs than in Western Europe (except for lower rates, as shown in Table 2). They did give better results, though, partly because of prominent figures supporting the tax. Both Władysław Grabski and Alois Rašín showed a true statesman's attitude, unafraid to reform their countries, even at the cost of their own popularity. For them, WWL and CL were just little pieces of a bigger reform package. One could argue that the same description applied to Erzberger, the Finance Minister of the Weimar Republic. However, history showed that he lacked the necessary discipline to fight soaring inflation (Feldman, 2007). Effective anti-inflationary politics requires extremely unpopular actions that will never bring more votes in future elections. It is always concrete persons behind the undertaking of a certain policy, e.g., in Great Britain, Lloyd George opposed CL and WWL. The impact of his individual power meant that even three years of heated discussion did not end up with the levy being imposed (Daunton, 2007). In Italy, Gini was skeptical about the tax, while in Germany, the inventor of the idea – Jastrow – expressed negative opinions on the final version of *Reichsnotopfergesetz*. The CL idea failed spectacularly in countries where notable figures did not support the idea.

To conclude, the influence of particular individuals is often underestimated when formulating conclusions about economic phenomena. Another conclusion is that political economy plays a crucial role in understanding CL and WWL. These taxes were introduced when a left/centrist party was in charge (i.e., Italy, Germany, Poland, and Czechoslovakia). When conservative MPs outnumber them, the idea usually fails in an early stage, before being pushed through. CL and WWL were introduced in democracies, but they did not succeed there. Surprisingly, they succeeded in authoritarian environments, like in Turkey during WWII (Lewis, 2002; Ökte, 1987) or Japan after WWII (Eichengreen, 1989).

Payments in installments transformed CL and WWL taxes into small super-taxes on income or ordinary wealth taxes. Installments spread over many years (Italy and Germany are extreme examples, while Poland and Czechoslovakia are moderate) lost the initial concept of these kinds of taxes being one-off taxes. The modern approach to the idea of CL (as WWL cannot really be seriously discussed outside the context of war due to its name) indicates that this feature of the tax is necessary – otherwise, taxpayers will be afraid that the tribute will be repeated, which will likely lead to more tax avoidance and evasion (O'Donovan, 2020, 2021). Low wealth taxes are nowadays commonly accepted parts of modern fiscal systems. Severe projects of CLs and WWLs constituted the central idea from which modern wealth taxes originated. In such a sense, CLs and WWLs were the beginning of the development path for modern, low-rate wealth taxation.

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