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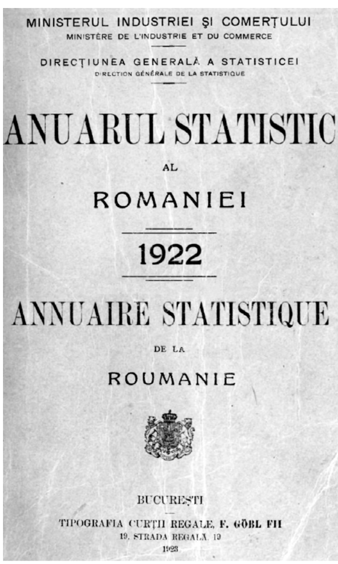
Direct Taxation Reform in Romania After the Great Union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Premises

THE CONSEQUENCES of the Great Union of 1918 were far-reaching and covered a broad spectrum of political and economic aspects, whilst raising pertinent questions which remain, to a certain extent, unanswered, especially when it comes to the contribution of the newly-acquired territories to the country's economic output. The premises are easy to comprehend, if only from an empirical standpoint, given that the territory of the country more than doubled, and so did its population, which rose from roughly 7.5 million to a staggering 16 million.[1]

This also changed the nature of the economy, given the increase in the industrial potential of the country, a route that was to be followed by the successive governments in the interwar period, amid the modernization that would turn Romania from a chiefly agrarian state into an agrarian-industrial one. The contribution of Transylvania to this latter phenomenon was undeniable, given its greater industrial development, compared not only to the Old Kingdom, but also to Bessarabia and Bukovina. Due to the former's annexation the country acquired new industries, chiefly in the field of metallurgy, while other branches, such as chemical industry,[2] developed considerably also due to Transylvania's contribution.

The higher level of economic development of Transylvania, as compared to the Old Kingdom, along with its infrastructure and considerable surface area and resources, were merely the more obvious elements accounting for its role in the configuration of Greater Romania. This aided in the recovery efforts after the losses and destruction of the First World War, albeit amid internal fears regarding Transylvania's place in the new economic context. For instance, in mid–October 1919, the Romanian National Party, in its political program, insisted that the new Constitution should provide for the protection of small businesses and trade, both of which were significant for the Transylvanian market.

With regard to the rural population, predominant in all parts of the country at the time of unification[3] and comprising, in 1920, 77.8% of the total population,[4] the data shows that Transylvania was home to the wealthiest settlements, with an average revenue per village of 251,635 lei, compared to 51,095 lei in the Old Kingdom, 140,482 lei in Bessarabia and 229,680 lei in Bukovina.[5] It is also noteworthy that Transylvania held 59.1% of the country's combined forest areas, along with numerous other resources, such as iron ore.[6]

Research Methodology

WITH REGARD to the materials we have used in this research, the most important are Statistical Yearbooks of Romania, published in the aftermath of the First World War, i.e. following the Great Union, as well as before the Great Depression. This has enabled us to resort to a comparative analysis, chiefly focusing on the configuration of the national budget of Romania, in order to comprehend the nature and extent of the contribution of its provinces, as well as to understand the principles guiding the distribution of the budget. We have also performed a literature review, in order to assess the most prominent contributions made by Romanian scholars with regard to the topic at hand, selecting the texts according to their reliability, time of publication, and the reputation of their authors. We employed both qualitative and quantitative methods, with comparative approaches attached to both endeavors, within a multidisciplinary approach entailing a historical and an economic outlook and methodological focus.[7]

The use of qualitative methods chiefly refers to the analysis of the nature of Romania's economy in the period envisaged, namely the first decade after the Great Union, with a particular focus on its industrial branches, underpinning our assessment of the configuration of the national budget. The same techniques have been useful in explaining the principles according to which such budget allocations were made, in keeping with a considerable number of factors, from the political to the social and even the geographical. A comparative outlook comprised within the broader qualitative methodology takes into account the indicators that pertain to the historical provinces, with special emphasis on Transylvania. Moreover, a different comparative approach is connected to the timeframe, with two key moments taken into consideration, i.e. the period immediately following the key moment of 1 December 1918 and the period preceding the Great Depression in the Romanian space.

As to the quantitative methods, it is our view that their use in this study enables us to make pertinent comparisons and observe evident trends with regard to the configuration of the national budget of the Kingdom of Romania and its overall economic prospects. The data, mostly extracted from Statistical Yearbooks and the reputable literature, is utilized based on logical deductions and analyzed in the light of the broader economic and political context of relevance for the interwar period.

Literature Review

Some of the most relevant sources in Romanian literature focusing on topics similar to the one proposed by our study include Nicolae Păun's *Viaţa economică a României 1918–1948: Dezvoltare, modernizare, europenizare* (The economic life of Romania, 1918–1948: Development, modernization, Europeanization), which provides a comprehensive assessment of Romania's potential in the interwar period, in the light of its quest for economic development, amid the integration of the new provinces and the political projects devised by the parties governing the kingdom. The special focus on reforms and their effectiveness or shallowness, along with the presentation of the state's institutions as points of contact between the economy and Romanian society, have enabled us to develop the necessary tools for outlining the economic and political background against which our analysis has been set. The thorough documentation employed by this author has also made available to us useful archive materials and statistical data.

Another interesting perspective in the Romanian literature on the economics of the interwar period is that of Bogdan Murgescu, who, in his book entitled *România şi Europa: Acumularea decalajelor economice (1500–2010)* (Romania and Europa: Accumulation of economic gaps, 1500–2010), performs an interesting adaptation of the economic gap theory to the broader Romanian context. While the focus of this research is inherently broad and our interest lies in a minor portion of the timeframe taken into account by the author, we agree with his findings pertaining to the interwar period and have resorted to some terminological clarifications proposed by him.[8]

With regard to the industrialization of Greater Romania, we note the useful contribution to the Romanian literature of this topic represented by Eugen Ghiorghiţă's book, *Industrializare şi comerţ exterior în România interbelică* (Industrialization and foreign trade in interwar Romania). Through a remarkable collection of documents, the author traces the roots of the social-agrarian nature of the Romanian economy after the Great War and establishes some connections between the latter and the international economic flows that Romania interacted with during this period. Although our focus is narrower, revolving around the nature of the country's budget and allocations tailored according to its provinces, we do acknowledge the validity of the data sets and analyses on the nature of the interwar economy provided by Ghiorghiţă.[9]

As for the historical and juridical nature of the events that shaped Romania's interwar economy, it is our view that Gheorghe Iacob's book, *Economia României (1859–1939): Fapte, legi, idei* (The economy of Romania, 1859–1939: Facts, laws, ideas), has the merit of highlighting the continuity and discontinuity of the measures implemented by the rather unstable political spectrum before and after the Great Union, enabling us to comprehend the nature of the reforms proposed by the political groups deciding on Romania's modernization. The reforms conducted in this context played a significant role not only in the configuration of the country's economy, but also in the allocation of revenues based on the sectors that were deemed as priorities in the process of development that Romania underwent throughout of the interwar period.[10]

Not least, for a comparison between Romania's monetary regime and that of a country finding itself in a somewhat similar economic situation in the interwar period, namely Bulgaria, we deem particularly relevant the historical part of a study written by Nenovsky et al., entitled "Monetary Regimes, Economic Stability, and EU Accession: Comparing Bulgaria and Romania."[11]

Transylvania's Integration into the Romanian Economy After the Great Union

Although modernization in the 1920s was somewhat slow, even compared to most central-European neighbors, and showed modest qualitative and quantitative progress, it did enable Romania to become part of the international exchanges in areas such as raw materials, manufactured goods, and the capital market.[12]

A special case in this respect pertains to the situation of ironworks, a type of industry which was better developed in Transylvania than in the Old Kingdom, while being complementary to the latter, and whose inclusion in the national economy yielded favorable results. The State Ironworks of Hunedoara and Titan-Nădrag-Călan are two of the most pertinent examples of Transylvanian industrial centers in which foreign capital would also play an important role.[13]

To these we shall add several factories emblematic at the time not just for Transylvania, such as the Wire Factory of Câmpia Turzii, Copşa Mică, Cugir, IAR Braşov, Astra Wagons Arad, Gazul Metan etc.

It would be interesting to perform an analysis of the contribution of Transylvania to the Romanian economy, in the first decade after the union, so as to assess its extent, compared to the other historical regions, amid the complex debate on the regional dimension of the country which still remains open.[14] To achieve this, it becomes important to comprehend the fiscal policy of the country, after the union of 1 December 1918. Following a transition period, in July 1921 the Romanian Parliament adopted the tax reform package proposed by Finance Minister Nicolae Titulescu, relying on a progressive system. It provided a minimum of 2% and a maximum of 50% tax, on individual revenues exceeding 20 million lei, along with a tough policy of state involvement in any privately-owned company. Vintilă Brătianu's Law of 1923 on direct taxation and the proportional taxation of global revenues reduced the fiscal burden previously imposed on the population and completed the unification of the fiscal systems of the new provinces. Industry was also favored by the new code, to the detriment of agriculture,[15] trade and the banking system, while direct taxes increased their weight in the overall basket prior to the Great Depression, even creating a budget surplus during this interval. Taxes on luxury goods, cigarettes and alcohol, along with fines and stamp fees, were increased. At the same time, customs duties were introduced so as to ensure the necessary protection for the main industrial branches of the country, chiefly metallurgy, chemicals, ceramics, textiles and lumber.[16]

The effects of the Great Union are equally noticeable in the statistical data available, showing an increase in the number of joint-stock companies throughout the country from 922 in 1919 to 2,799 in 1927, as well as in capital, from

1.9 bn. lei in 1919 to 34.2 bn. lei in 1926, approximately two thirds being allocated to agriculture.[17]

The Great Union enabled Transylvania to gain prominence, as opposed to its previous status, that of a peripheral province of the Austro-Hungarian Empire, chiefly treated as a source of raw materials.[18] After 1918, it benefitted from a broad range of conditions so as to enhance and turn to good account its potential, through a synergy of human, material, financial and organizational resources, to name but a few.

With respect to industrial companies alone, in 1920, in the Old Kingdom there functioned 297 such companies, while in Transylvania and Banat their number was roughly half of the aforementioned figure, namely 93 and 49, respectively.[19] The other two historical provinces exhibited a lower degree of industrialization, however, with a mere 6 industrial companies functioning in Bukovina and only 2 in Bessarabia.

Furthermore, in 1920, the number of banks in Transylvania, in the form of joint-stock entities, surpassed that of the Old Kingdom. More precisely, in Transylvania there were 214 banks, compared to 212 in the Old Kingdom. Banat had an additional 113, which accounted for a far larger number of banks in Transylvania and Banat as compared to the Old Kingdom. Such figures reflect the higher degree of development of the banking sector in Transylvania and Banat, as opposed to that of the Old Kingdom, even if in terms of capital the banks in the Old Kingdom were significantly richer: 1,489,533,084 lei compared to merely 446,130,829 lei for the capital of banks in Transylvania and Banat.[20] By contrast, the other two historical provinces, Bukovina and Bessarabia, only had two banks each, with a total capital of 20,000,000 lei and 11,000,000 lei, respectively, according to the same Statistical Yearbook.

The Budgetary System in the First Years After the Union

THE DATA on which we have based our research, pertaining to the budgets of interwar Romania, have been calculated with the support of the country's Statistical Yearbooks. These publications appeared rather late and sometimes did not show coherence and continuity. Thus, the first Romanian Statistical Yearbook was issued in 1902, followed by another in 1912. A long pause followed, on account of the First World War, which made it impossible for another Statistical Yearbook to be published until 1919, although it only covered the period between 1915 and 1916.

The first Statistical Yearbook for the period after the Great Union, which provides essential material for this research, is the one from 1923, with data covering the year 1922. After this moment, such publications appeared regularly, until 1940, even though some comprised a period of two consecutive years.

In fact, the first elaborate budget of Greater Romania calculated in lei was applied only on 1 April 1921, after a difficult monetary union, achieved through the conversion into lei of the Austrian crowns, Hungarian forints, and Russian rubles that circulated in the historical provinces prior to the union.

As it was the first Yearbook covering the enlarged territory of Romania, the one from 1923 failed to provide sets of comprehensive data regarding public finances separated according to historical regions. There is, nevertheless, a general presentation of the state budget with details concerning the main categories of revenues and budget expenditures. Therefore, it becomes apparent that the total revenues covering the 1922/1923 period amounted to 10,498,283,482 lei. The budget was drafted according to the principle of balance, with the same amount appearing under the section dedicated to total expenditure.

The principal revenues of the state were generated by the following sources (not necessarily in the order of their weight): direct taxes, indirect taxes, registration and stamp taxes, state monopolies, domains of the state, and revenues stemming from various ministries (industry, finance, communications etc.). The largest portion of the budget was unsurprisingly attributable to indirect taxes (40% of the total budget), followed by direct ones (19%), monopolies (19%), and registration and stamp taxes (9%).

Expenses were, as expected, distributed according to ministries, with the Ministry of Finance receiving the most consistent share (38%), followed at a distance by the Ministry of War (20%), the Ministry of Education (12%), the Ministry of the Interior (5%), the Ministry of Religious Denominations and Arts (3%), the Ministry of Health (3%), the Ministry of Justice (3%), the Ministry of Communications (2%), the Ministry of Industry and Commerce (1%), the Ministry of Labor, Cooperation and Social Insurance (0.6%) and other ministries with lower allocations.

After the four difficult years following the war, in which budgets were implemented with enormous deficits (sometimes amounting to more than 100%), there was a period of consolidation and balance with regard to budgets, beginning with 1922, as we have previously stated. For several consecutive years, until 1928, the country had a budget surplus, as it becomes apparent from the table below.

The artisan of such a balance in the national budget was Vintilă Brătianu, minister of finance between 1922 and 1926 and, then, for a short period of time, between 1927 and 1928. In keeping with the classical liberal theory, Vintilă Brătianu was in favor of balanced, carefully drafted budgets, in which potential supplementary revenues were only utilized to the extent that they were achieved.

Table 1. General budget of Romania, implemented between 1922/1923 and 1928

Years	Prognosis (mill. lei)	Revenues (mill. lei)	Expenses (mill. lei)	Surplus (mill. lei)
1922–1923	10,498	15,113	10,032	5,081
1923 (9 months)	15,406	18,792	13,639	5,153
1924	24,000	27,747	21,403	6,344
1925	31,750	33,978	29,440	3,538
1926	28,250	31,224	28,499	2,725
1927	33,390	36,008	33,137	2,871
1928	38,350	32,768	35,224	-2,454

Source: Statistical Yearbooks of Romania, 1922–1929.

Such additional revenues compared to the estimates did not fail to appear also due to the fiscal reform initiated by Nicolae Titulescu, in 1921, through the Law on direct contributions, followed by Vintilă Brătianu's 1923 Law on the unification of direct contributions and the creation of the tax on global revenue. This latter law was aimed at unifying the fiscal systems of the four Romanian provinces, operating prior to the Great Union, as well as at simplifying and clarifying the provisions of the aforementioned law of 1921.

Following economic growth and fiscal reform, in a period of no more than six years, until 1928, i.e. just before the Great Economic Depression, Romania's budget grew almost four times, which was a notable performance even when taking into account the inflation.

Direct Tax Reform and Fiscal Unification

The 1923 Law on the unification of direct contributions and the creation of the tax on global revenue provided six types of income tax:

- a tax on revenues from agricultural properties;
- a tax on revenues from built properties;
- a tax on revenues from mobile assets;
- a tax on revenues from trade and industry;
- a tax on income revenues;
- a tax on revenues from professions and occupations not found among the other tax categories.[21]

These taxes applied to individuals and companies that had such revenues, regardless of their nationality and location. Apart from these six tax categories, a subjective tax was introduced, namely the tax on global revenue, which, as one would expect, applied to all the revenues accumulated by an individual.

Before, the fiscal sources of direct taxation were the personal taxes, along with those levied on income, property, patents, licenses (alcoholic beverages), salaries and mobile assets.[22] Feudal or obsolete taxes were gradually eliminated, such as the personal, land or patent-based ones. The tax reform of 1923 introduced new taxes, like the ones on the revenues of industrial and commercial enterprises, or on revenues stemming from non-commercial professions, thus reflecting the wish to further the modernization and industrialization of the country.

Apart from the fact that it was meant to unify direct contributions in the four regions, the law drafted by Vintilă Brătianu was quite modern for its time. Moreover, it was clearer and more concise than the intricate law of 1921 and it aimed to solve the thorny matter of fiscal unification among the four Romanian provinces after the historic moment of the Great Union. This new law also included fiscal elements deemed to be advanced at the time: fiscal deductions, progressive tax etc. Fiscal deductions, or decreases, as they were also referred to, were of miscellaneous types: on mortgage burdens, insufficient revenues, or family duties. Furthermore, taxation quotas were small, so as to stimulate the economy and support the accumulation of Romanian capital, in keeping with the liberal "through ourselves" doctrine. Also in this respect, there was a genuine difference in taxation affecting Romanians residing outside the country or living abroad for more than 182 days a year. In this case, their revenues were taxed at a larger quota, generally double the one applied to similar revenues of residents.

Another modern fiscal element was the tax on annual global revenue, in a progressive system, with a minimum non-taxable value of 10,000 lei and small tax quotas (as shown above), from a minimum of 1% to a maximum of 20%, depending on revenues, while an amount in excess of 10,000,000 lei was to be taxed at 36%.

A particular merit of this law is the fact that the share of direct taxes gradually increased from 12% to 40% (in merely ten years; see table 2), to the detriment of indirect ones, which have a greater fiscal yield, but are less socially just. Direct taxes are known to ensure higher fiscal equity, compared to indirect ones, as they can take into account the personal situation of the taxpayer and grant various deductions and exemptions. Moreover, this form of taxation is more visible and transparent to the taxpayer than indirect taxation, and is appropriate for setting a minimum non-taxable amount. Direct taxes have another merit, i.e. the fact that they do not become regressive with the increase in revenues, as it happens in the case of indirect taxes. Not least, the progressive nature of taxation quotas applied to direct taxes supports the aforementioned premises.

TABLE 2. DIRECT TAXES VS. INDIRECT TAXES

Years	TOTAL (million lei)	Direct taxes (% of total)	Indirect taxes (% of total)
1921/1922	4,242	17.3	83.7
1922/1923	8,517	13.7	86.3
1923 (9 months)	11,193	12.2	87.8
1924	16,140	19.9	80.1
1925	17,003	24.8	75.2
1926	20,337	24.1	65.9
1927	25,605	29.3	70.7
1928	21,994	34.3	65.7
1929	24,090	36.9	63.1
1930	22,427	40.5	59.5

SOURCE: calculations based on Axenciuc, 3: 629.

Perhaps the most evident merit of this law was to have unified and standardized direct contributions among the historical provinces, so that after the Great Union one may speak of a unitary fiscal system across the country. Hence, a few years after the law came into force, the Statistical Yearbook managed to compute fiscal contributions in the form of direct taxes collected from each historical region of Romania (see table 3).

TABLE 3. DIRECT TAXES IN THE FOUR HISTORICAL PROVINCES OF ROMANIA, IN 1928

Direct taxes for 1928 (lei)	Old Kingdom	Transylvania	Bessarabia	Bukovina	TOTAL
Tax on agricultural property	1,122,886,510	666,793,772	452,451,002	81,673,208	2,323,804,492
Tax on built property	862,703,291	413,262,084	112,964,842	58,847,229	1,447,777,446
Tax on merchant, industrial, general partnership and limited partnership companies	821,090,915	439,494,908	144,024,052	54,995,002	1,459,604,877
Tax on revenues from trade, industry, public limited companies, cooperatives and people's banks	223,496,437	77,305,934	6,576,853	7,141,786	314,521,010
Complementary tax	298,728,645	153,617,708	5,480,452	6,731,858	464,558,663
Tax on liberal professions	248,959,734	147,629,991	41,638,981	25,066,011	463,294,717
Tax on global revenue	736,907,579	325,551,803	64,120,092	45,264,815	1,171,844,289

SOURCE: calculations based on the *Anuarul statistic al României 1928/Annuaire statistique de la Roumanie* (Bucharest: Institutul de Arte Grafice Eminescu, 1929).

It becomes apparent from this table that the weight of the agricultural tax was significantly reduced, to a level of 30% of the total direct taxes, from approximately half at the beginning of the 20th century, which already reflected the first results of an early industrialization process as well as the contributions of the historical provinces in this regard, chiefly that of Transylvania.

With regard to the contribution of Transylvania to the share of direct taxes (which reflect, in effect, the production capacity of a state, whereas indirect taxes reflect consumption), it was roughly equal to that of the Old Kingdom in the case of each type of direct tax. As to the rest, Bessarabia and Bukovina only got close to the average in the area of agricultural taxes.

Conclusions

THE FACT that the configuration of the Romanian economy was altered in the aftermath of the Great Union of 1918 enabled it to continue its gradual transition from an agricultural country to an agro-industrial one. This approach is reflected by the fiscal reform implemented beginning with 1923, whose principal artisan was Vintilă Brătianu, aiming to unify the taxation systems of the Romanian provinces, as well as to provide the necessary protection to industrial branches, in keeping with the aforementioned strategy. The cautious approach to the design of the national budgets in the first decade of the interwar period, i.e. the subject of this study, generated frequent budgetary surpluses, amid a considerable increase, in real terms, of the number of contributors, both private individuals and legal persons. The 1923 Law on the unification of direct contributions and the creation of the tax on global revenue and the publication of Statistical Yearbooks at the time enabled us to perform analyses of the national budgets, with respect to contributors (based on types and geographical location), balance and expenditure. The implementation of this law succeeded in overcoming the effects of the war and brought balance to the national budget, through the emphasis placed on direct taxes and the application of progressive taxation. As for the historical provinces, it becomes apparent that the contributions of the Old Kingdom and Transylvania were quite similar, proportional to their size and population, followed by the input of Bessarabia and Bukovina.

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Notes

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Abstract

Direct Taxation Reform in Romania After the Great Union

This paper aims to analyze the reforms that shaped the fiscal policies of Greater Romania, amid the changes brought forth within the country after the Great Union of 1918. The addition of the new provinces, with special emphasis on Transylvania, prompted the government in Bucharest to tailor a comprehensive set of measures in the areas of direct and indirect taxation, meant to take into account the specific development of the former, as well as to further the modernization efforts emblematic of Romania's orientation in the interwar period. The data from Statistical Yearbooks published at that time provides us with an insight into the types of taxes envisaged, the manner in which budgets were executed, and the contribution of each province to the overall national budget.

Keywords

taxation reform, Great Union, national budget, direct and indirect taxes, Transylvania