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**INFORMATION REPORT INFORMATION REPORT**

**CENTRAL INTELLIGENCE AGENCY**

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**C-O-N-F-I-D-E-N-T-I-A-L**

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REPORT

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[Redacted]

COUNTRY Poland

DATE DISTR. 28 Sept 1955

SUBJECT Underground Economy

NO. OF PAGES 10

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[Large Redacted Area]

General

1. [Redacted] anybody who studies the Polish economy and the standard of living of the Polish people should not overlook the existence of what he called the underground economy. By underground economy, [Redacted] all those deliberate activities, procedures, dealings, and manipulations, including thefts, which were practiced by individuals or groups of citizens in all walks of life and were aimed at the increase of their private income through the evasion of the existing laws, rules, and restrictions imposed by the Communist regime in Poland. [Redacted] the underground

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economy was very successful in fighting against the control system of the Communist regime, and [redacted] since it was a mass phenomenon, it would probably continue for several years to come. It involved almost every phase of the Polish economy, but its main activities were based on two main channels:

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- a. The illegal, private sales of agricultural products to the town inhabitants after a certain amount of illegal selling between the farmers.
- b. The illegal supply of consumer goods and materials for the rural population by the urban population outside the official governmental home trade system, although a good deal of illegal selling was done between urbanite and urbanite as well.

In general, the underground economy slowed down the pace of the development of the state economy by interfering with the turnover of goods and the cost of production planned by the regime and increased the income and purchasing power of the citizens.

2. During World War II, it was known in Poland that the German administration of occupied Poland estimated that the legal earnings of the average Polish citizen during the years 1943 and 1944 covered only circa 15% of his total expenses. The illegal turnover of consumer goods for the Polish population during this period was several times higher than the turnover of supplies planned by the German administration. In spite of the fact that the controls imposed by the Communist administration were tighter than they were during the German occupation of Poland, [redacted]

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[redacted] the activities of the underground economy resulted in such large diversions from the official economic plans that they almost doubled the regime-planned purchasing power of the population. However, it was obvious that most of the activities of the underground economy were not properly organized. They were carried out mainly for individual profits and did not contribute toward raising the general standard of living of the entire population, since some of the population did not participate. A great percentage of these activities was nothing more than thefts committed by one part of the community and damaging the other part of it.

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### Agriculture

3. The private farmer in Poland was confronted with the problem of taxation and obligatory deliveries of agricultural products and livestock. It was planned by the regime that after the fulfillment of his duties to the state, that is, the grain and livestock deliveries, the private farmer was not to be left with a large amount of money nor any great quantity of surpluses. The farmer was to have just enough to survive until the next harvest after buying the bare necessities. Meanwhile [redacted] the situation in the villages was quite contrary to this respect. The average, medium, private farmer was, to some extent, better off than he had been in the prewar days. He and the rich farmer as well, sometimes had more money than they could spend because of the shortage of consumer goods and materials necessary for the upkeep of their farms. This was so because all the farmers generally deceived their regime directed administration in the following ways:

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- a. Somehow obtaining a low classification of their arable land.
- b. Reporting a lower acreage of cultivated land.
- c. Reporting a lower number of crops collected per hectare than was really collected.
- d. Reporting false losses of crops and livestock due to cattle and pig plague, hail storms, etc.
- e. Reporting false and higher deliveries of grain and cattle than were really delivered.

4. All those manipulations and false statements were made possible only with the full cooperation of the village administration, members of the Village National Council, employees of the sales and purchasing offices and warehouses who received their deliveries, and the employees of the veterinarian services. These methods were practiced almost everywhere.

5. The Communist regime was aware of these activities but was almost powerless and did not have much success in trying to prosecute the offenders. [redacted] one typical case which was brought to the court of justice in Lowicz County in 1954, wherein the employees of a purchasing office (urząd skupu) were accused of issuing receipts for deliveries of grain which were never or partly delivered and for which they were paid bribes. The employees were sentenced to prison but the farmers from several villages who appeared as witnesses and who were in possession of the false receipts were not even accused in spite of the fact that it was evident that they had paid bribes for those receipts and did not deliver the stated amount of bread grain.

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[redacted] another court case in 1953 where employees of the Establishment for the Disposal of Dead Animals in Piotrkow (Zakład Utylizacji) were convicted of issuing false certificates for the deliveries of dead cattle and pigs. Not one of the farmers who was in possession of these certificates was ever prosecuted.

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6. Similar illegal manipulations were carried out by the State Farms (Państwowe Gospodarstwa Rolne - PGR). In one way or another the administration and employees of State Farms managed to collect all the difference between the real and declared amount of crops and livestock for themselves. This was not done in an organized fashion but rather through individual or small group operations which were winked at up and down the line. The State Farms also made additional profits by falsely reporting higher costs for cultivation, maintenance and repair of buildings and machinery, and from illegal sales of construction materials, as well as reporting fictitious payments for work which was never done.

#### Industry

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7. [redacted] it could be assumed that as a result of these activities of the underground economy, the statistical data concerning crops and livestock collected by the government from the farmers was falsely reported from 10 to 20%; the surpluses of agricultural products obtained by false reports, deliveries, and unlawful manipulations increased the home food consumption; and the money obtained by private farmers and the personnel of rural government administrations and sales offices formed the basis of their standard of living. According to the rough calculations of source, the government lost over 20 billion zlotys yearly in these illegal agricultural deals.

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8. [redacted] the following illegal activities were commonly practiced in factories and production cooperatives: 50X1

- a. Thefts of raw materials and products by the workers.
- b. Artificial and false increases of production, repair and maintenance costs.
- c. The secret manufacture of goods which was not officially planned.

The thefts were committed by the workers on a large scale, mostly by individuals. The underground economy came into action after the stolen raw materials and products were taken over by the organized illegal trade. The illegal production which took place in large state factories, as well as in small cooperative workshops, was made possible only through careful and efficient organization and the participation of large groups of employees and workers. The raw materials issued for the main planned production were used for the manufacture of the secretly produced goods and the cost of the labor was partly, in some cases entirely, included in the cost of the normal main production. At the same time, the records of efficiency for the main production were lowered and the use of raw materials falsified. 50X1

[redacted] It should be mentioned that the small private industrial enterprises and shops which still existed in Poland, as well as the small production cooperatives, often concealed their true turnover and falsified their costs of production. [redacted] it was very difficult to estimate the quantity and value of these illegal activities in industry without the necessary statistical data, but he was convinced that they provided an additional and very large amount of income for almost all employees and workers in almost all industries. 50X1

9. The state construction enterprises, unions and cooperatives probably had the best opportunities for illegal earnings. The following were the most common irregularities:

- a. Illegal selling of building materials on the private market.
- b. Submitting false reports on the amount of work necessary and the amount of work done in completing a particular project and, consequently, false higher payments and labor costs.
- c. Using labor and materials for private constructions. All these illegal dealings increased the real costs of construction and at the same time decreased their value and durability. 50X1

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[redacted] It was known that the construction engineers lengthened the time planned for the construction of a building by submitting false reports stating that the soil was difficult to work with or that extra work was necessary, such as protecting walls, stronger foundations against underground water, additional excavation and transportation of earth, etc. These manipulations increased the earnings of employees and at the same time permitted the use of labor and materials for private 50X1

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buildings. The organization of this racket was very efficient and embraced almost all the technical personnel, a number of administrative employees, and the employees of the building inspection service. As a result of this, the manual workers of the building trade earned from 1,500 to 2,000 zlotys monthly as normal wages and received additional payments for private constructions and a percentage of the illegal sales of raw materials.

The individual wagon owners and small transportation cooperatives who transported the building materials and hauled earth were usually involved in this racket and earned from 25,000 to 30,000 zlotys monthly after they divided up to 50% of the earned amount with the management. In this way, the construction engineers also earned about 30,000 zlotys monthly above and beyond their regular salaries. Source estimated, from all he had heard and read in the daily press, which very often contained articles about the rackets, that the sums of money earned illegally amounted to several billion zlotys yearly.

### Home Trade

11. The state conducted domestic trade carried on through the wholesale and retail shops and cooperatives was also involved in illegal dealings, manipulations and thefts. Domestic trade was always very much criticized by the press; [redacted] the Party did this on purpose in order to appease public opinion. The main deals consisted of:

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- a. Illegal sales of goods of private or unknown production.
- b. Selling privately owned goods in the shops and keeping or sharing in the profits.
- c. Reporting fictitious losses and unexplained deficiencies, e.g., falsified reports of damages caused during the transport of the goods, and falsified inventories.
- d. Lowering the classification and prices of goods when accepting them from factories and selling them later according to their true value or as a higher quality product and keeping the difference in price.

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The scope of those illegal manipulations was very large. [redacted]

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[redacted] the control commissions checked on different shops found unexplained losses, deficits in goods, and commodity wares of private production which were not entered in the books in about 80% of the shops. The number of people involved, such as managers and sales attendants, was so large that in 1954, the authorities just ordered that the deficiencies and damages be paid for, and the employees were not released from their jobs and were not prosecuted. In most cases, it was impossible to find the person responsible for the damages and losses which were recorded in the balance sheets.

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12. [redacted] the Central Agricultural Equipment Supply Office (CZR) in the years 1951-1953, [redacted] could vouch for the fact that large sums amounting to about six million zlotys yearly were recorded as losses incurred during the transport of goods or as unexplained losses. [redacted] most of these losses were thefts organized by the management and employees of the subordinated

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regional agencies of the CZR.<sup>1</sup> In the state establishments which supplied the state enterprises only, this was the main source of income of all involved. The goods which were supposed to be supplied to the state enterprises were sold for a much higher price on the free market. The production price was paid into the bank by the enterprise that was involved in the manipulations, and there was no trace of the transaction; the extra money went into the pockets of the warehouse employees.

13. The State Motor Transport (Panstwowy Transport Samochodowy) was another offender in misusing state property. Truck drivers often transported goods for private individuals and kept the fees collected. This was done mainly with the knowledge of the management who allowed the scheduling of fictitious "empty runs," (called puste przebiegi), and shared in the profits made from transporting private goods on these runs.

#### Administration

14. An administrative higher official, as well as the lower category office employee, who had no opportunity to deal directly with customers and had nothing to do with any goods or materials had only limited possibilities for illegal earnings. However, they took advantage of whatever opportunities they had which included the following:
- a. Reporting fictitious special jobs and accepting extra pay for them.
  - b. Falsifying the norms of work.
  - c. Submitting false vouchers for expenses incurred during official travels.
  - d. Accepting bribes for assessments, opinions and decisions on official matters in their field of responsibility.

15.  it was very easy to create artificial or pre-meditated arrears in bookkeeping and office work. The employees purposely created some confusion and disorder in the office books and documents in order to justify the necessity for special overtime work.  in 1952, the Central Office of the CZR paid about 250,000 zlotys to the employees of the Spare Parts for Agricultural Machines Section for working out card indexes which should have and could have been done by those employees during their normal duty hours. Quite a lot of office work which could have been done during regular working hours was done as overtime with the consent of the management and was accordingly paid for out of special funds.

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16. The designing engineers and employees in the construction and designing offices earned quite a lot of money by working out false estimates which stated that a longer time was needed for a project than was really necessary. The difference between the true expenses and the false estimates submitted was divided between the engineer who worked out the estimate and the management of the construction enterprise entrusted with constructing the building.
17. The falsification of vouchers for official travel expenses was a common practice. This was done by submitting fictitious expense accounts. For example, some officials were entitled to travel second class on the railroads, but they went third class and kept the difference for themselves. In this way, the managers, inspectors, and employees who were entitled to official travel were making about 2,000 zlotys monthly.

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18. Employees of sales offices and supply and purchasing agencies had the biggest opportunities for earning additional illegal earnings. These people were even bribed by the customers for decisions and approvals which were correct and according to regulations.

Health and Veterinarian Service

19. In addition to their main jobs in hospitals and clinics, about 80% of the medical doctors worked in a number of dispensaries and consulting stations. They very often did this during their normal duty hours and in this way were paid for two jobs at the same time. For instance, they received patients in the factory dispensaries only twice weekly according to their agreement with the management but would submit false reports stating that they had worked the full week instead of just two days. The auxiliary medical personnel, such as nurses, ward attendants, etc., were usually paid regular sums by the families of the patients for so-called special attention.
20. The veterinarians and auxiliary personnel of the veterinarian service were privileged people. As a rule, they reported more working hours than they worked and earned additional income by issuing false certificates and reports in connection with the veterinarian supervision of the medical control of slaughtering houses and animals, and the control of dead animals.

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Summation

21. [redacted] rough calculations [redacted] of the turnover involved in the underground economy: 50X1

- a. The total approximate number of people employed in Poland in 1954 was as follows: 50X1

Agriculture	-	c. 7,100,000	people
Industry and Handicraft	-	c. 2,900,000	"
Construction Industry and Building Trade	-	600,000	"
Communication & Transportation	-	580,000	"
Home Trade	-	560,000	"
Education and Culture	-	460,000	"
Administration and Public Security	-	300,000	"

TOTAL 12,500,000 people

- b. Assuming that the average individual wages and salaries or income amounted to circa 10,000 zlotys yearly for all employees, including farmers, this would represent a yearly income of 125 billion zlotys which represents the purchasing power of the entire population. The following rough analysis of the agriculture and building industries alone will show that the volume and value of goods and services operated by the underground economy amounted to several billion zlotys yearly and helped very much to raise the standard of living of the people in Poland in spite of the restrictions and efforts of the regime.

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22. The situation of the farmers and the rural population was indicative. They represented the most absorbent market and also had the greatest opportunities for deception in their own production and sales. They sold a considerable part of their farm products illegally and, in addition, participated in illegal operations for their own profit, like the manufacture of handwoven materials and the operation of tanneries. They were also forced to purchase illegally all kinds of consumer goods and materials for repair and construction which were not supplied to them by the regime. It was known that the general output of agricultural production did not reach the prewar level by 1954 and that since 1949 when the compulsory deliveries of grain and cattle were introduced, there was an official drop in crops and in stock breeding cattle. This decrease was officially recorded; in fact, it was caused by false reports and the hiding of surpluses of agricultural products which were later sold privately. Assuming that about 20% of the crops and other agricultural products were hidden, this would represent the following value:

<u>Commodity</u>	<u>Value in Millions of Zlotys</u>
a. Bread Grain (comprised 50% of cultivated land) - This represents 20% of the average yearly production of c. 12,000,000 tons, or 2,400,000 tons at c. 2,400 zlotys per ton.	5,760
b. Other Crops This represents the hidden surpluses of crops on the remaining 50% of cultivated land.	5,760 (at least)
c. Milk This represents the hidden 20% of approximately 10,000,000,000 liters of milk produced yearly or 2,000,000,000 liters @ two zlotys per liter.	4,000
d. Meat This represents 20% of the yearly production of 1,000,000 tons or 200,000 tons @ 25,000 zlotys per ton.	5,000

TOTAL 20,520 Million Zlotys

the sum of 20,520 million zlotys is actually low because in the above estimate, an average low price for rye was used and not the prices of wheat, barley and flour which were higher, and the price of milk was used without reference to such products as butter, cheese, eggs and poultry. Apiculture and various vegetables were not counted at all.

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the town inhabitants had no difficulties in finding the necessary goods needed by the farmers by indulging in illegal dealings and thefts from industry and the building trades; and by doing this, they earned the money necessary for the purchases of agricultural products supplied illegally by the farmers.

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24. Similar conditions existed in the construction and the building trade. [redacted] the total yearly value of building investments was calculated at c. 50 billion zlotys. The yearly wages and salaries of c. 600,000 employees would be about 6 billion zlotys, that is, about 12% of the total investment. The remaining 44 billion zlotys was spent for materials and transportation. If we assume that only 20% of the 44 billion was going through illegal underground channels, this would represent about 8,800 million zlotys yearly. [redacted] however, this sum should be tripled because the prices of materials on the underground illegal market were at least three times higher than that officially paid by government agencies.

### Conclusions

25. The underground economy embraced almost the entire economy of Poland, and its system [redacted] was organically connected with the Communistic economic system which was regarded as immoral and was not accepted by the citizens. All the activities of the underground economy stemmed from this attitude of the Polish people. They felt that Communism was a foreign system brought into Polish industry and trade from the USSR, mainly by Poles who were deported to Soviet Russia in 1939 and 1941. [redacted] the underground economy system was applied in the USSR even on a larger scale than in Poland, and they expressed the opinion that this system would continue for a long time in spite of the regime's effort to eliminate it. The people were practicing techniques and old routines which they had adopted during World War II, by order of the Polish Underground Government, during the German occupation of Poland.
26. Unfortunately [redacted] the Polish people were getting gradually accustomed to this system of thefts, manipulations, and tricks against the state; [redacted] this might cause a very serious moral problem in the future. The existence of the underground economy and the system of thefts, described above, was generally known in Poland and could be qualified as one of the forms of resistance against the Communist regime. It was tolerated as a necessary evil and did not result in discrimination against or social ostracism of those who participated in it. The Polish community, as a whole, did not feel morally bound to obey most of the laws and orders issued by the Communist regime. Such actions as nationalization of trade and industry, collectivization of farms, land reform without indemnity, i.e., taking over the factories and shops without paying the former owners, restrictions on foreign currencies, and forced deliveries of grain and cattle for a lower price were regarded by most of the peasants as measures of injustice. Some looked on the underground economy as an opportunity to be recompensated for their individual losses; others considered it as a way to improve their standard of living.
27. This system was also practiced by members of the Communist Party who, by occupying higher executive positions, very often had many more possibilities for graft and embezzlement than non-Party members. The Party members counted on indulgences and were able to carry out such manipulations quite easily through their Party contacts. It was known that some people joined the PZPR Party for opportunistic reasons, i.e., mainly to get the opportunities for illegal manipulations and thefts and take advantage of them to improve their own standard of living. It should be stated that the people who were assessed by the regime as politically unreliable seldom participated in the underground economy dealings, but if they did, they did it with great care because if they were caught, they were usually more severely punished and very often their offenses were classified as sabotage.

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28. The regime was aware of the economic underground and formally prosecuted those involved but it was, to some extent, powerless because the system was so common and so very widely spread. In many cases the regime just "closed its eyes" for economic reasons, because it was impossible to send the majority of the people to prisons or labor camps. All criticism from the Party and from the daily press pretended, however, not to know about the underground economy and criticized the management and the administrative employees of industry, trade, and agriculture for their "spiritless attitude, wastefulness, and mal-administration." [redacted] the criticisms of deficiencies expressed by the Secretary of the PZPR, Boleslaw Bierut, at the III Plenum of the PZPR Central Committee on 26 January 1955; the announcement of new measures, new economic tasks, and a planned increase of industrial and agricultural production; the reduction of construction costs by shortening the building cycle; and the over-all reductions of costs which should amount to about 7½ billion zlotys in 1955 meant nothing more than endeavors and hopes to repress the illegal underground economy.

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761.113	55M
761.118	55M
761.114	55M
761.116	55M
103.91	55M
781.41	55M
<u>784.31</u>	<u>55M</u>
781.5	55M

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