



TRANSFORMATION TOWARDS A MARKET ORIENTED ECONOMY – AN IMPETUS OR HINDRANCE FOR ORGANIZED CRIME IN POLAND?

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Abstract

This article deals with the phenomenon of organized crime that has emerged as an urgent and serious problem in Poland during the transformation period. The solid background for organized crime group activity was created during the communist time. Due to the strong position of the police (that time called *militia*), and the security body, organized crime was not so well developed. After 1989, the organized crime groups (OCG) started to be more active, both in the domestic and the international market. The patterns of organized crime group activity were presented. So the main objective of the paper is to reveal the evolution of OCG activities and their scale in Poland. The organized crime groups have proven to be skillful in the exploitation of legal loopholes. The OCG became less violent, and focused more on economic crimes.

TRANSFORMACJA W KIERUNKU GOSPODARKI RYNKOWEJ – WSPARCIE CZY BARIERA DLA ZORGANIZOWANEJ PRZESTĘPCZOŚCI W POLSCE?

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Abstrakt

W artykule przedstawiono swoisty fenomen powstawania zorganizowanej przestępczości jako poważnego problemu w czasie transformacji ustrojowej. Początków zorganizowanej przestępczości należy szukać w założeniach poprzedniego systemu. W owym czasie policja (a właściwie milicja) nie była przygotowana do nowych wyzwań. Po 1989 roku przestępczość zorganizowana stała się bardziej aktywna. W artykule zaprezentowano charakterystyczne dla omawianego okresu wzorce przestępczości. Z tego względu można przyjąć, że głównym celem badawczym było zidentyfikowanie rozwoju grup przestępczych w Polsce. Dysponują one dużymi umiejętnościami i wykorzystują luki prawne. Grupy te stały się mniej agresywne, ale skupiły się na przestępstwach ekonomicznych.

Introduction

The market oriented reforms in Poland started in 1989. Before that time the Polish model of economics was similar to the other communist countries. It is well known as a planned economy (Ellman, 2014; Myant & Drahoukoupil, 2010). Because of its inefficiency, quite often this model was coined as the shortage economy. In spite of that, there are some academics, researchers and politicians who have tried to investigate and provide advantages of such a model, but generally it was proven to be a very wasteful one (Landauer, 1947; Mandel, 1986; Kornai, 2013). Moreover, based upon the literature studies many recognized authors like Hayek (1945), Tirole (1991), Aharoni (1997), Gaddy (1993), and countless others claim the relative advantages of private ownership than central planning in many aspects and in criminal activity as well. However, some have indicated the case of China where the model of the planned economy has proven to be a success (Wayne, 2015). On the other hand, corruption based upon specific ties – *guanxi* and the organized crime groups (triads) did not disappear, and have been expanding (Chu, 2000). In a fundamental way, organized crime emerges in conditions that are antithetical to the main assumption of much of economic modeling. Most economic ideas tend to be limited historically to certain kinds of social organizations or institutions. Those entities can be affected by the specific type of criminal organization. Such unambiguous activity existed in former communist countries. Patterns occurred that differed quite substantially. In Russia, organized crime has had a long history and could implement itself even in harsh times. It is almost impossible to draw a line between the state and organized crime. The economic conditions and problems in Poland differ in some respects from those in the former Soviet Union, Bulgaria or Czechoslovakia. In contrast to the above mentioned countries, more than 70 per cent of Polish factories were self managed by the 1980s. Central planning, even in state enterprises, was never extensive in Poland. With respect to firm management, Poland was closer to the Yugoslavian model of “socialism without planning” than the Soviet format (Giffin, 1994). Such a situation was favorable for a shadow economy, but organized crime was not so well developed. Organized crime is

very dangerous for the economic development of any country. This fact must be taken into account, especially in those countries that undergo transformation. The governments of such countries are trying to create conditions for economic growth, but such circumstances are also exhausted by organized crime. Organized crime is very sophisticated. In a market oriented economy, their sources and opportunities have increased dramatically. If OCG groups are overlooked and do not attract the Government's attention, then economic reforms make a convenient space of their development. Organized crime is very flexible and can utilize all possibilities. So even though economic reforms are regarded as a success they do not limit OCG activity expressively. The essay is organized as follows. Chapter one is devoted to emblematic crime activity in Poland. Then a methodological approach is presented. Chapter three gives an explanation to the economic situation fostering organized crime in Poland. Chapter four suggests the possibilities of organized crime extension during market reforms. After that, crime group activity was described after 2000. This is because some patterns of organized crime need some time. They need to familiarize with the new circumstances. The last section concludes.

Typical crime activity in Poland during the communist period

Under the communist regime, the key direction of motion characterized by the state power was its expansionist bureaucracy that monopolized the allocation of resources. Economic decisions were made in the political domain, and control over resources ensured state power. Demand always outpaced supply, creating economies of shortage, as Kornai (1980) has detailed (Wedel, 2001). There was a permanent lack of the basic products in the market. This was an inspiration for the shadow economy creation, as well as for organized crime group activity. The size of the shadow economy was at a high level, constituting nearly 30% of GDP (Buszko, 2016). The typical activity of the shadow economy in the communist times were related to smuggling, food product manufacturing and trading, corruption, illegal trade of official manufactured products, theft, and undeclared work. Such activity was strictly prohibited, even the death sentence was foreseen (Buszko, 2014). Nevertheless, the rate of economic criminal acts was growing. In 1954 the number of public thieves was 91 thousand, in 1955 – 96.7 thousand, in 1958 – 101 thousand, in 1960 – 134 thousand. Only 40% of the lawbreakers were caught and punished. The corruption escalated. From time to time, the big corruption scandals were brought to light. We can indicate as an example the corruption scandal in 1957 of the state owned company Centrogal, where the commercial director took bribes from private manufacturers. Over estimated deliveries supported by fake invoices done by private entities

to the state companies were normal practice. In order to cut off such actions, a special body was created – the Central Office for Corruption Fighting (Centralny Zespół do Walki z Nadużyciami i Korupcją). This office proved to be inefficient, even though some successes were sometimes achieved like: in Przeworsk – illegal apartment trading, milk fraud in Olsztyn and Białystok, smuggling in Gdańsk and Szczecin, and illegal drug trafficking in Warsaw (Buszko, 2017). Stealing and selling state owned products were popular practice during the communist time. Referring to Prosecution Statistics, the economic crimes during the sixties and seventies constituted ca. 30% of all crimes; but in the eighties – 37% (Prokuratura Okręgowa Warszawa Śródmieście, 1990). The well-known practices were swindles of the raw material supply. A good example of such a practice was the fake delivery of fabrics to the cooperative Panora located in Warsaw in 1957. The speculators earned nearly 8 million Polish Zloty (PLN). The medium salary of that time circulated at the level of 1,000 PLN (*Prokuratura w walce z przestępczością...*, 1957). The crucial thing of such a practice was the wide acceptance of those procedures. It was not regarded as a violation of ethical standards, such acts were even treated as being heroic deeds. This problem of the dual morality was well described by Firlit and Chlopecki in their article entitled *When Theft is not Theft* (1992). However, the economy of shortage created a sound base for informal group connections. The groups were formed in many industries, all over Poland. The reason for the creation was to achieve economic benefits. That is why different kinds of people joined such groups: starting from the owners of small and medium-sized private companies, members of the police (at that time called *militia – milicja*), clerks (especially from the revenue offices), managers from state owned companies (particularly responsible for raw material supply and distribution), bankers and government officials. Those groups did not operate on a constant basis, but from one dealing to another one. They did not use the threat or power solutions, just a focus on the swindle operations. Such informal groups were quite strong in the local communities, they even controlled small towns and rural areas. The very important factor fostering acceptance for such structures was the role of the Secret Security Body in Poland (Służba Bezpieczeństwa). The officers of this bureau kept an efficient net of informants, contacts from all over the country. They accepted some illegal activity in return for useful information. Those who just focused on the economic deals (not politics, and did not harm the Government too strongly), and were loyal to the Secret Security Body were allowed the freedom of functioning. A typical example of such relationships were the contacts with the hard currency black market dealers. The hard currency operations were under strict control, albeit there were shops (Baltona and Pewex) where citizens could buy foreign manufactured products. Those products were very popular and there was great demand for them. Naturally the illegal market for hard currency occurred. The dealers of hard currency very often informed secret security officers about what amount of money had been spent or what was bought. In this way the

information on the smuggling procedure by footballers of Legia Warsaw was delivered to the Secret Security Body. Some players Grotyński (goalkeeper) and Żmijewski (forwarder) wanted to handle contraband from Holland (during the rematch with Feyenoord Rotterdam in 1970) some products (shirts, jeans, raincoats, stockings – were very popular products in the shortage economy). This crime was cancelled since Legia Warsaw was a military club and the activists of the club were high ranking officers. This example gives two interesting pieces of information. First the source of information (from hard-currency dealers to secret security officers) and second – during the communist regime the right connections could provide efficient protection. Not everybody was equal in regards to the legal regulations. The second type of such a relation fostering organized crime in Poland was revealed during the swindle called 'Iron'. In the sixties secret security engaged skillful mobsters to steal valuable products in western countries (mainly in Germany and Switzerland) and bring them to Poland. The profits of such activity were gathered by secret security officers. In the seventies, smuggling boosted out. Further, key activists of Polish organized crime groups were given good lessons and experience based upon smuggling activity (like Pershing – one of the dominant persons in the Pruszków group, Nikoś – the Gdańsk group, Kozina – the Southern Part of Poland Group). The destination of these movements was Budapest and Vienna. Later on it was Germany. Gangsters started to steal and sell cars in Poland from these countries mainly (Jasinski, 1997).

The beginning time of transition for Polish organized crime was not so developed compared to Russia, for example. The tradition of organized crime had roots before the Revolution, and after that time it developed sharply. Organized crime was fostered by gangs operating in big cities (Gilinskiy, 1997). In the Polish case, the tradition of organized crime was limited but during the communist time the resourceful factors fostering organized crime were created:

- Corruption;
- Lack of trust in the Government;
- Low efficiency of the law system. The system was not prepared for organized crime activity in a market oriented economy;
- Informal relations among secret service officers, police, justice representatives, even politicians and gangsters;
- High level of the shadow economy;
- Gangsters set up good bases abroad. Nikoś (Nikodem Stokarczak) had a base in Germany (for auto theft operations mainly), Baranina (Jerzy Barański) in Vienna (cigarettes and spirits business);
- The code of criminal behavior was developed – the loyalty among mobsters, no cooperation with police (in practice the police had quite good sources of information in criminal circles. Later on those who cooperated were verified), own slang (called *grypsera* – especially used by those who spent some time

in jail), tattoos (gang members underlined their position by names like in military structures – where captains, majors, colonels and even generals were appointed).

The methodological approach

Two goals were adopted in the study. The attempt to describe in detail the formation of organized crime in Poland was taken. The second target was to identify the economic factors fostering organized crime groups in Poland. The linear multiple regression technique has been used. It is an extension of linear regression models based on Pearson's linear correlation coefficient. It assumes the existence of a linear relationship among variables exists. The linear multiple regression model was calculated based on the following formula:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \dots + \beta_k X_k + \mu,$$

where:

- Y – dependent variable describing the model,
- X – independent variables explaining the model,
- β – parameters calculated by least squares method,
- μ – random variable (this is the residual vector – the difference between the actual values of the dependent variable Y and Y_1 values predicted from the model); Statistica Software was applied.

The following independent variables were taken into account:

X_1 – the level of criminality (calculated per 10,000 citizens). The organized crime groups recruit members from criminal circles. The higher level of criminality has a positive impact on organized crime group activity,

X_2 – unemployment rate. The higher level of unemployment has a positive impact on organized crime,

X_3 – GDP per capita/the higher level of GDP per capita means more legal possibilities to get a good paid job,

X_4 – effectiveness of law enforcement, expressed as a ratio of convictions to the number of offenders. If this ratio is low, it creates a space not only for simple criminality but for organized crime as well,

X_5 – number of police,

X_6 – income diversification measured by a Gini coefficient. It is a measure of statistical dispersion intended to represent the income or wealth distribution of a nation's residents, and is the most commonly used measurement of inequality. If this inequality is high, one such situation is favorable for organized crime activity since the poorer part of society is highly likely affected by criminality. Such conclusions were developed by Fajnzylber, Lederman and Loayza (2002).

The data come from the Central Statistical Office (GUS) and cover the years 2000-2015.

Findings

Based upon the methodological approach model recapitulating the level of organized crime in Poland, it matches following prescription:

$$Y = 0.740 + 0.301X_1 + 0.121X_2 + 1.11X_3 - 0.411X_4 + 0.700X_5 + 0.021X_6.$$

The level of significance was less than 0.05 ($p < 0.05$).

In Poland, the Gini coefficient in 2008 was at the level of 0.34. Since the early 1990s, its systematic growth has been observed, however, this tendency was reversed and the Gini coefficient dropped in Poland in 2009-2015 from 0.313 to 0.299. A quite surprising situation was noticed with GDP. In the years 2000-2015, GDP growth was undoubtedly noticed. Growth was dynamic. At the beginning of 2000, it was PLN 747 billion and in 2015 PLN 1,799 billion (Statistical Yearbook, 2018). Such dynamic growth allowed Poland to even overtake Greece. Therefore, it may seem that such a situation should limit organized crime in Poland, although economic growth was conducive to the creation of comfortable places of action for organized crime. In its reform plans, the government did not take into account the possibility of the expansion of organized crime in the framework of a market economy. In the communist time, the crimes were the lowest – about 90-100 per 10,000 residents. This is mostly due to strict supervision of police. The communist wanted to control every sphere of human activity. A sharp rise in crime occurred in 1990, as a very unfavorable component of transformation. The crime rate increased from around 140 in 1989 to 230 in 1990. In the following years, up to 1997, the crime rate did not exceed 270. After 1997 there was an increase in the rate crime, which in 2002 exceeded 360. In relation to the most favorable time, the seventies, in 2002 it was almost 4 times larger (Sztudynyger & Sztudynyger, 2003). In the next years common crimes decreased. According to the data of the Command Chief Police, detection of criminal offenses amounted to 57.4%. Over the last 10 years, detectability of criminal crime oscillated between 43.4% (2000) and 54.4% (2015) (*Raport o stanie bezpieczeństwa*, 2016). This means increased effectiveness of the law, but still many criminals may feel unpunished. The number of police fluctuated around 100,000 people; however, in the last few years a slight decrease was noticed.

New times, new possibilities

The organized crime did not receive much public attention in Poland under socialism. It was assumed that organized crime would disappear as the system would provide jobs for everybody. Moczydłowski (1999) pointed out the role of the security service as the animator of the organized crime in Poland. Paradoxically,

the security service (the Polish equivalent of the Soviet KGB), and the police in the first post – communist period created possibilities to develop organized criminal groups. Because in the communist period militia (later on police) were isolated from society, they wanted to gather information from criminal circles. Informants, in order to function properly, had to commit crimes and often they used information presented to the militia or another state agency to fight other criminal groups. Between the 1980s and 1990s, the militia lost control over their pseudo-informants and they were building their own criminal organizations. The first wave of organized crime in Poland was possible because of such informant – policeman connections and wide scale corruption (Moczydłowski, 1999). At the time, crime groups did not dominate specific segments of the economy, but were mainly involved in crimes such as burglaries, robberies and car thefts (Plywaczewski, 1997). This pattern of crime was changed during the first years of transformation and later on. Even during the communist time, crime groups had good contacts in western countries, especially in Germany, Italy, and other eastern countries like Russia, Ukraine and Lithuania. This is because of the close location and even family contacts. Quite a few Polish citizens had families in neighboring countries, particularly Pomerania, Silesia, the Warmia and Mazury region, in Germany, the eastern and southern parts of Poland and in Ukraine. Those contacts started from small scale smuggling and were developed into robberies, burglaries and fake financial operations. The transformation made an impact on organized crime development.

On 1st January 1990 the post communist government in Poland undertook a set of radical reforms. This is due to the fact that in 1989 the level of macroeconomic destabilization of the Polish economy was much bigger than that of the economies of other countries of real socialism. It was only Poland that did not service the majority of its foreign debt and only in Poland inflation approached the hyperinflation level, undermining the confidence of citizens to its own currency so seriously that in August 1989 the average monthly pay, according to the market exchange rate, declined to 20 US dollars. In the period 1990–1991 transformation destroyed a large part of the Polish industry (Gomułka, 2016). Very few of the large state industrial companies in Poland had actually gone bankrupt – the legal system and existing property rights did not encourage bankruptcy proceedings for insolvent or troubled enterprises. However, employment in this sector declined by more than 30%. At the same time, the number of private business incorporations had increased from 1,275 in 1988 to 11,693 at the end of 1989, 33,239 at the end of 1990, and 45,077 by the end of 1991 (Johnson & Loveman, 1995). In 2013 the industrial output (manufacturing and mining) in constant prices was 2.5 times higher than in 1989, and about 3.7 times higher than in 1991. There was a change in the composition of industrial production in the right direction: the extraction of raw materials shrank while the production and export of processed goods, including high tech goods, grew many times (Gomułka, 2016). The reforms generally proved

to be a success, but for organized crime, the first two years of transformation were very crucial ones (Slay, 1994; Adam, 1999). The authors of reforms did not pay close attention to the limitation of potential organized crime future development activity (Krajewski, 2004; Siemaszko, 2000). In July 1990 the new legal act related to the trading of alcohol was established. Based upon this act, the Government supervision on production and alcohol trading was abolished. Additionally, to this the Government allowed the import of alcohol for personal use without any taxes. This made an open gate for organized crime to smuggle spirits from western countries and from Ukraine and Russia. The market for this trade was calculated at 32 million liters of pure alcohol in the beginning of the nineties (Foks, 2000). The first route of smuggling spirits from western countries was controlled by the organized crime groups. Some deliveries were handled on fake invoices. The purchase price indicated in the invoice was a very low one, and the taxes were paid based upon this price. So the budget revenue was very small. This business made for organized crime profits calculated at 200 million USD on a yearly basis. One of the organized crime group leaders – nick named – *Dziad* in his book writes “The price in Germany for one liter of pure alcohol Royal was 1 USD, in Poland 7 USD. The profit can be calculated on 4-6 USD per bottle. Some money should be paid to sellers (shop keepers, restaurants, whole sellers etc.) and the transport costs must be born. One truck could carry 24 thousand bottles” (Niewiadomski, 2002). Such good profits even caused a war between organized crime groups. Gdańsk and Zielona Góra crime groups began to be very active in controlling the cross checking points in Zgorzelec and Słubice (the border between Poland and Germany). The procedure with smuggling spirits to Poland was named Schnapsgate – this is because of the scale of it and fortunes creation (Pytlakowski & Ornacka, 2013). In the begging of of the nineties, the Pruszków organized crime group developed an association with a characteristic spirit smuggling activity. One – truck robberies. This was a very profitable business since the operators of this illegal business did not report the robbery to the police. The second way was devoted to fake invoice deliveries. The smugglers declared the transit of goods through Poland, but in fact the goods were unloaded in the country and sold. Officially the transport left Poland and no tax was paid. All profit was taken by the organized crime group. These two kinds of activity were called – The Pruszków style. The important feature for developing the organized crime activity was the hard currency operation. The role of the exchange rate in monetary policy in Poland was very important and played a crucial role in inflation targeting, and attracting foreign investors. It was a fixed rate against the US dollar set up, and from May 1991 the Polish zloty was based upon a basket of five currencies. In May 1991, the devaluation was noticed by 16.8%. The exchange rate played an effective role as an anti-inflation anchor. During the time of October 1991 – May 1995 a crawling peg with a monthly rate of devaluation declining steadily from 1.8% to 1.2% was introduced. Two devaluations took place, by 12% in February 1992 and 8%

in August 1993. Starting from May 1995 until 2000, there was a crawling band system with a fluctuation band increasing from $\pm 7\%$ to $\pm 15\%$. After 2000, a free-floating exchange rate system was implemented (National Bank of Poland, 2008, 2011). These steps show that Poland had a logical plan on the exchange rate regime. Those steps in general terms proved to be a success (Przystupa, 2002). Meanwhile in the Polish foreign trade with other communist countries the *transfer ruble* existed as the tool for clearing up transactions. The transfer ruble did not have a “material form” it was only created for accounting purposes (Welsh, 1997). When the transformation period began, some companies (which had good connections with the former communist regime) concluded contracts with CMEA countries (especially with Russia) for different kinds of deliveries. Some contracts proved to be fake ones, but the money due calculated in the transfer ruble was then exchanged for USD and PLN. The total loss of the Polish budget was calculated at 400 million US dollars (*Afera rublowa (1990)*, 2017). This case should be connected more with crime group activity than the idea of the common ruble area on the territory of the former Soviet Union (FSU) in 1992-1993 (Dąbrowski, 1995). The second issue related to hard currency was the decision of the opening of private exchange entities (kantory). The first one was opened in March 1989 at the cross border check point in Świecko (border with Germany). The demand for hard currency was tremendous. At the end of 1989, the Ministry of Finance issued nearly 2000 permissions for the opening of kantory. Those setups were mainly devoted to people who did such transactions illegally during the communist times. Thanks to this possibility they could earn huge profits officially and enter the group of the richest people in Poland. Such practices gave rise to basic questions:

- Did the Authors of the transformation deliberately set up conditions for particular group activity? Or did those possibilities appear by chance?
- Who influenced crime group activity during the first years of the transformation?

Zybertowicz (2002a, 2002b) declares that Poland of the 1980s was a post-totalitarian police state. He states that the transformation in Poland (as well as in many other post-Soviet countries) was executed in favor of informal elite groups rather than democratic institutions and exerted real influence on the state decision-making process. Since the secret police had good contacts among crime groups (the contacts collaborated with the police and the secret police), those groups could be used as tools for the goals of the secret police.

Poland was among the countries with the lowest number of murders per 100,000 inhabitants. Nevertheless, it should be noted that within the period 1990–2002 the activities of the criminal groups led to the deaths of several hundred people. These included Ireneusz Sekuła, a former deputy prime minister of Poland, Jacek Dębski, the sports minister, and the Police Chief Commandant Jacek Papala, whose investigation has not yet been completed and those responsible for the crime have yet to be brought to justice (Raczkowski

& Gołębiowski, 2011). The thread of organized crime made an impact on the Police and a special group called Marathon was formed. Based upon the research of this unit, in 1992 there were 30 criminal groups involved in economic crime activity on a large scale in Poland. Those groups should be classified as typical well organized units, with efficient structures and flexible adaptation to the new environment. One of the new arenas of organized group activity which brought huge profits was connected with narcotics. The Pruszków group started smuggling cocaine from Columbia and the Wołomin group was involved in amphetamine production and selling it to western European countries mainly. At that time, Russian crime groups appeared (the mafia) in a more visible way. The Pruszków Group was recognized as being involved with extortion and counterfeiting. This was underestimating their activity. This group just from the early years of transformation was involved in money laundering, mainly by opening restaurants, discothèques and even casinos. Those businesses were based on cash transactions mainly. It was not so easy to change money from organized crime to a legal business. In the early years of transformation, the police and other Government institutions did not have enough knowledge about crime group activity, which is why they did not adopt adequate tools to limit the illegal operations.

During the first years of the transformation, violent crimes were noticed. The organized crime groups wanted to take control of some areas and they were not so well prepared for the advanced knowledge crime action. That is why the most popular crimes were related to extortion, robberies, kidnapping, blackmail, cars theft, and fraud – mostly connected with automobile operations. The mobsters sold cars to their partners in the east (Russian and Ukrainian, mainly), and then they declared the theft. In this way, they gained money from the insurance company and the buyers. At that time the acts were violent ones, but the government budget did not suffer too much. However, the situation steadily changed. Firstly, those acts were simply identified and the gangsters were punished. Police were given more tools like having a key witness. The minor offender could be free, but they needed to provide some evidence of a felony. Thanks to this tool, the police could liquidate the most dangerous Pruszków OCG. Secondly, gangsters started to avoid violent actions and take care of more profitable operations. Such operations required more knowledge and based on it – a more sophisticated approach. A good example of such dealings was the manufacturing of fake products and smuggling them to west European countries. For example, in 1994 the German video market lost more than \$140 million to pirates that year, according to the anti-piracy organization GVU. Illegal copies came into the country from organized crime in Eastern Europe. The GVU had discovered that a large proportion of the illicit product entered Germany across its border with Poland. The tapes were then sold in Germany via an intricate, market-based network of dealers (Spahr, 1995). The illegal copies were partly manufactured in Poland (Warsaw, Łódz area) and in the Far

East. The Polish OCG started to set up contacts with Asian groups. Over the last few decades, the arrival of visible numbers of Asian migrants to Poland has been seen. This is because Poland can be regarded as a good destination for different kinds of operations, and has a close connection to other European countries. Asian (especially Vietnamese) migrants came to Poland in the sixties for educational purposes and then part of them decided to stay. The population of Vietnamese in Poland is calculated at 60-70 thousand people. Some of them are heavily engaged in criminal activity with occasional cooperation with Polish partners. The police have had problems with Asian groups since they are very loyal to their members and are organized around the traditional native culture, so the trust between 'strangers' and Asians has always been in short supply (Basham, 1996). Polish crime groups are still very active in stealing cars from west European countries. During the first years of the transformation, the customs office and police identified the value of stolen cars at 33-38 million PLN yearly (Potakowski, 2008). This value of stolen cars was kept later on, even after 2000. But the pattern of this crime was changed. The number of these crimes has decreased from 1,300 in 2002 to 740 in 2010, so it means that the OCG focused on luxury and more expensive models. The stolen cars come to Poland not only from Germany and other neighboring countries, but also from Belgium, Italy, France and Spain. Quite often before stealing the cars, all other necessary procedures are foreseen. They are mostly connected with documents and the corruption of clerks responsible for the registering the cars in Poland. The Polish OCG are specialized in changing Vehicle Identification Numbers (VIN). Parts of the stolen cars are sold in Poland and parts of them are sold in Russia, Ukraine and even in Tajikistan, Uzbekistan and Kazakhstan. The route of stolen luxury cars to Central Asia goes through Poland, then Kaliningrad (Russia) and via sea ports to Iran. From there, they are sent to their final destination. Such a logistic undertaking requires international crime group cooperation. In Poland the crime groups involved in car theft are characterized by the territory of activity, method of operations and the way of profit gaining. The small groups operate locally, more advanced ones internationally. The profit of the former group is relatively small, but the profit of the latter is far higher. The Polish police pay close attention to criminal terror. Terrorist acts appear quite frequently. Some acts are strictly connected with crime groups. In this way they want to eliminate competitors or reach goals. The second category is devoted to individual acts. In Warsaw the "Rurabomber" terrorized residents by constructing bombs and causing explosions in densely populated areas. In the begging of the nineties, the number of extortions was at the level of 45 thousand, but in 1997 this figure started to decrease. Right now, it is at the level of 12 thousand annually (Komenda Główna Policji, 2016). In the first years of transformation, kidnaping for ransom was a very popular crime group activity in Poland. The Police during the time of 1992-1996 identified

182 such cases. After 1996, the number of such acts fell sharply to 4-6 per year. This decrease was due to effective police activity and more strict cooperation with victims (Nyc, 2006).

Crime group activity after 2000

After 2000, the Polish OCG started to be very active in all financial swindles affecting the national budget very much. During the first years of transformation, not only were entrepreneurs, administrative officers, politicians, police, and government officials given a good lesson on the market oriented economy but the organized crime groups as well. They started to work in a more effective way, searching for gaps in the law and more profitable operations. One operation is connected with VAT fraud. Tax collection in Poland as a percentage of GDP is lower than what is found in other EU member states. Additionally, there is a low efficiency of tax collection.

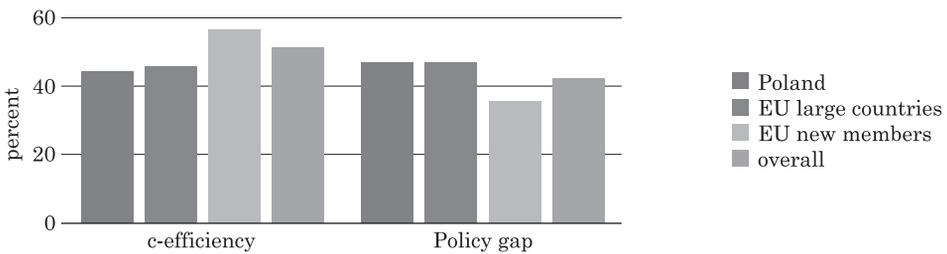


Figure 1. Efficiency of Value-Added Tax Collection in Poland in 2012

Source: based on: Toro *et al.* (2015).

The VAT gap in Poland is calculated at the level of 2.5% of GDP (*VAT Gap in Poland, 2014; Luka podatkowa w VAT...*, 2014). This gap is just very partially created by tax optimization, but mainly by VAT fraud. The PwC report found that VAT fraud in Poland was the key element in the growing VAT gap. The report's evidence for this included recurring indictments in VAT fraud investigations, suggesting that it had penetrated into several industries, and EC reports of endemic refund fraud across the entire EU. In particular, the report found that 'carousel' refund fraud, a highly corrosive variant of Missing Trader Intra-Community fraud (MTIC), which exploits EU rules on the intra-community movement of goods, had a significant presence in the following sectors: scrap metal; construction steel; fuels; electronics (mobile phones, computer parts); agricultural goods (oils, sugar); and the wood industry (Toro *et al.*, 2015).

The mechanism of VAT fraud is very simple. Tax fraud involves illegal traders setting up shell companies which they use to import or export goods from

a company or another country. The sell is accompanied by the invoice including VAT. The shell company disappears or is closed down before paying back the collected tax. The VAT fraud operations are controlled by the OCG based in well-developed regions and big cities. This is due to the fact that there are many business activities over there, and shell companies can be easily hidden. Sometimes the shell companies are registered as sister firms in less developed regions in Poland (like Warmia and Mazury). Thanks to those tricks, crime groups pretend to improve business in poor areas. They want to avoid unnecessary and quick controls by local authorities. In this way crime groups gain time. When the VAT fraud maneuver is done, the shell company is closed down. VAT fraud is heavily supported by the law and inadequate tax administration. Staff resources directed to tax administration are not properly aligned to the function. General principles have emerged over the years that help the modern tax administration decide on proper resourcing levels for the major tax administration functions. For example, taxpayer service/registration should have 15 to 20 percent of staff resources, and audit 25 to 30 percent. There is no such approach that governs tax administration in Poland and as a result, resources could be inappropriately allocated across work functions – which can be aggravated by the excessive autonomy of chambers and tax offices (Toro *et al.*, 2015).

The process of harmonizing Polish law in the field of turnover taxes to the European Union's rules officially started in 1990 (it was developed after May 2004 when Poland joined the EU). The Polish tax law system has not been fully adjusted to the European Union. For example, Regulations concerning VAT refunds like the one included in the Eighth Council Directive 79/1072/EEC of 6 December 1979 and the Thirteenth Council Directive 86/560/EEC of 17 November 1986, were not included in Polish law. Some minor changes were done later on (Karolak, 2011). Referring to the Poniatowski study (2016), the VAT fraud in Poland should be explained by organized activity. The estimation of the scale of excessive claims is based on data on the level of refunds and their share in total obligations. Because the relationship of refunds to liabilities is growing, which cannot be explained by changes in tax law or in the structure of the economy, the increase in refunds in excess of the increase in theoretical obligations to a large degree reflects the growth in illegal behavior, such as claims for goods for private consumption or the use of fictitious invoices. The estimates of VAT overstatement were corrected for the scale of MTIC crime, which also affects the value of returns in the VAT system (Poniatowski, 2016). In addition to that, the legal acts are changed very often and the regulations are quite often contradictory. Starting from 1993, practically each year new regulations were introduced. The Government could not simplify the law and make it more friendly and transparent to taxpayers. The mess in the legal system attracted not only Polish crime groups, but foreign ones as well. Groups from Italy, Russia and Ukraine are active in this field. They have cooperated with Polish crime groups very firmly. Gangsters from those countries view Poland as a good place for a hidden destination. Their

stay in Poland is quite often supported by local crime groups. Simultaneous to crime group movement, money laundering activity emerged, partly because of the large size of the shadow economy. A money laundering control system does not exist in the practice of financial institutions other than banks. This makes such procedures easier for organized crime groups. They are even active on the Polish Stock Exchange. Even a simple transaction has proven to be very effective. This is when the stocks are bought at market price and then sold at a higher price with a cash transfer. The organized crime group quite often squeezes the price in the stock market and makes dummy derivative trading, as well. The omnibus and nominee accounts are used as well (*Financial Action Task...*, 2006). Prostitution and bazaars could be examples of dangerous connections between more or less legal work and organized crime. According to Polish law, prostitution is a private relation between prostitute and client and a prostitute is not obliged to pay taxes on profits obtained in this way, according to article 2 of Act of 26 July 1991 on Income Tax from Natural Persons. Organized crime also controls bazaars. In reality, a lot of bazaar sellers are dealers of property obtained in an illegal way and bazaars are warehouses of stolen, smuggled or falsified goods. Credit and leasing frauds are popular among crime groups in Poland. One popular form of fraud is known as ‘dummy pillar’, where a criminal forces an entrepreneur to take out large loans. While the criminal takes control of the borrowed money, the entrepreneur ends up with some little money but bears all the liability for the default. This reflects on the share of irregular loans in Polish banks. They are on the level of 6.7% of the total credit portfolio. However, the rates in other countries are: Germany, Czech Republic (3%), in Sweden, Norway (1%), Great Britain (2%) (Rudke, 2016).

The organized crime groups are very active in excise fraud. Those frauds are related to illegal manufacturing, smuggling and trading cigarettes, spirits and fuel. The pattern of the cigarette business has been changed. Until 2000, most illegal cigarettes came to Poland from abroad. The smuggling motion was mainly executed in Russia, Ukraine and Belarus; but some transports came from East Asia as well, from Malaysia mainly. There was (and there still is) a tiny smuggling operation done by individuals in eastern Poland. Residents of eastern Poland do this based upon close location to Russia, Ukraine and Belarus identifying cigarettes, spirits and fuel smuggling as a good part time job. That merchandise is partly used by them, partly sold in the domestic market and partly delivered to the organized crime groups. Such a category of smugglers are called “Ants”. The larger scale operations are done by Polish organized crime groups with Russian speaking crime groups. After 2000, this pattern changed. More illegal cigarette factories were opened in Poland. The first locations were in the east of Poland and then they spread all over the country. Police identified and closed down in 2010 – 17 such factories, in 2011 – 19 factories, in 2012 – 20, 2013 – 22, 2014 – 20, 2015 – 18, 2016 – 26 manufacturing works (*Rekordowa liczba nielegalnych...*, 2017). The factories were very well equipped and could

even produce a few thousands cigarettes per minute. Police quite often found Russian speaking citizens among those arrested. A similar pattern applies to spirits. Such an operation is extremely profitable for the organized crime groups. The price for one box of cigarettes in Great Britain is ca. 7 £, in Germany – 5.10 Euro, in Norway – 100 NOK but in Ukraine 0.5 Euro only. The production cost of one box of cigarettes (20 pcs) in Poland is about 15 Euro cents (*Rekordowa liczba nielegalnych...*, 2017). One transport of illegal cigarettes to Western Europe can bring for the organized crime groups up to 1 million Euros. The budget losses for the sale of 10 thousand illegal cigarettes are calculated at 1.5 million PLN. Those products are characterized by a low price elasticity of demand. A high level of excise tax (31.41% of the price) and steady price growth (during the last 10 years the price has risen by 116%) has made an impact on the shadow economy and organized crime activity (*Straty budżetu państwa...*, 2014).

Conclusion

The Organized Crime Groups in Poland (OCG) started to be very active in the first years of transformation. They skillfully adopted themselves to the new business environment, typical in a market oriented economy. This situation happened even though the economic reforms generally proved to be quite successful. Theoretically, a good economic situation should limit organized crime, but in practical reality it had a strong impact in fostering OCG. The OCG changed their patterns of activity, becoming less violent and paying more attention to economic crime. The first economic crime schemes can be regarded as quite simple ones, but they became more sophisticated. They could identify the legal loopholes and exploit them in a professional way. A good example of it are VAT frauds. The OCG in Poland cooperate with foreign crime groups not only from Russia, Ukraine, Belarus, and other European countries (Italy, Greece, Cyprus, etc.) but also with South American and Mexican narcotic cartels, American and Far East criminal groups. OCG activity does not simply create losses to the national budget but undermine confidence in the financial system as well. Authors of reforms should take into the account the problem of eventual OCG expansion. More studies on the issue are required, especially on the estimation of OCG activity, their direction and effective tools to minimize the scale of OCG operations.

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