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Shadows of Growth:

Poland’s Grey Economy from Socialist Control to Market Prosperity

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Pledge of Honesty

On my honour as a student of the Diplomatische Akademie Wien, I submit this Master's Thesis, titled "Shadows of Growth: Poland's Grey Economy from Socialist Control to Market Prosperity," in good faith and pledge that I have neither given nor received unauthorized assistance on it.

Declaration of AI Assistance

I hereby declare that I have independently completed this Master's Thesis. In the course of writing, I made use of artificial intelligence (AI) tools, specifically DeepL, Grammarly, and Claude.ai, as supportive instruments for non-substantial aspects of the Thesis.

DeepL and Grammarly were utilized for language and style suggestions, particularly for improvements in grammar, punctuation, and awkward sentencing.

Claude.ai was used to create line and bar charts in a uniform style, based on personally compiled data in MS Excel.

All decisions regarding content, sources, structure, and analysis were made by me. No generative AI was used for the purposes of literature summarization, interpretation, argumentation, or conclusions.

This declaration is made in the interest of transparency and academic integrity.

Abstract

This master's thesis presents an extensive case study on the systemic development of the grey economy in Poland. It spans the most recent 45 years of economic history of the country, outlining the political and socioeconomic realities of life under the real socialism, tumultuous transition period, and free-market capitalism. It highlights relevant economic reforms, decisions, and international events influencing Poland's economic growth and prosperity. The research offers a detailed survey of informal practices emerging across the population, bringing attention to their evolution and adjustment to the changing course of history. These manifestations of the grey economy are successively explained through the prism of systemic changes in the country, allowing for forming new conclusions on the specificity and the role of informality in Poland. These findings are juxtaposed with existing theoretical frameworks on the "second economy" in an attempt to identify any inconsistencies or exceptions. The quantitative analysis of economic figures and statistics, along with the linguistics study, reinforce the assumptions and claims made throughout the thesis. Finally, the empirical knowledge gained by conducting interviews is applied to fill the literature gap and answer questions that arise during the research process.

Keywords: *grey economy, informality, Poland, socialism, economy of shortages, transition economy, capitalism, competition, SMEs, economic growth, GDP, income inequality, inflation, fiscal policy, tax, social welfare, Polish language, euphemisms*

Zussamenfassung

Diese Masterarbeit präsentiert eine umfassende Fallstudie zur systemischen Entwicklung der Schattenwirtschaft in Polen. Sie umfasst dabei die letzten 45 Jahre der Wirtschaftsgeschichte des Landes und beschreibt die politischen und sozioökonomischen Realitäten des Lebens unter dem Realsozialismus, der turbulenten Übergangsphase und dem freien Marktkapitalismus. Auf diese Weise werden relevante Wirtschaftsreformen, Entscheidungen und internationale Ereignisse hervorgehoben, die das Wirtschaftswachstum und den Wohlstand Polens beeinflusst haben. Die Untersuchung bietet zudem einen detaillierten Einblick in informelle Praktiken, die sich in der Bevölkerung etabliert haben, und beleuchtet, wie sich diese im Laufe der Zeit weiterentwickelt und an historische Veränderungen angepasst haben. Diese Erscheinungsformen der Schattenwirtschaft werden sukzessive aus der Perspektive der systemischen Veränderungen im Land erläutert, wodurch neue Erkenntnisse über die Besonderheiten und die Rolle der Informalität in Polen gewonnen werden können. Diese Ergebnisse werden bestehenden theoretischen Konzepten zur "Parallelwirtschaft" gegenübergestellt, um etwaige Abweichungen oder Ausnahmen zu identifizieren. Die quantitative Analyse von Konjunkturdaten und Statistiken sowie die linguistische Untersuchung untermauern die in der Arbeit aufgestellten Annahmen und Thesen. Abschließend werden die durch Interviews gewonnenen empirischen Erkenntnisse verwendet, um die Forschungslücke zu schließen und Fragen zu beantworten, die sich im Laufe des Forschungsprozesses herauskristallisiert haben.

Schlüsselwörter: *Schattenwirtschaft, Informalität, Polen, Sozialismus, Mangelwirtschaft, Übergangswirtschaft, Kapitalismus, Wettbewerb, KMU, Wirtschaftswachstum, BIP, Einkommensungleichheit, Inflation, Finanzpolitik, Steuern, Sozialwesen, polnische Sprache, Euphemismen*

1. INTRODUCTION

The economy has always operated through two channels: the first formally administered and regulated by law, whether regional or international; and the second concealed from public oversight, often circumventing regulations in place. The informal channel is naturally an extension of the formal one; they both involve the exchange of consumer goods and services, and labor; both circulate money; and both impact economic performance and stability. It is widely recognized that no country has been free of or has fully eliminated informal economic activity. It would then be easily assumed that grey economies evolve generally in the same manner. In many contexts, individuals with low available resources seek out unregistered or unofficial work to support their income, while in environments characterized by political oppression, informal structures provide for means of protection and autonomy. A global pattern, aligning with this theory, has been evident: poorer developing countries observe generally higher informal activity estimates, whereas more developed democratic states, OECD members in particular, exhibit significantly smaller grey economies.

Variation across political and economic systems, legal bases, culture, and languages worldwide suggests yet a different explanation. National and regional forces may shape generations more deeply, allowing behaviors and beliefs to persist despite regime changes, new alliance formation, or economic development. Having endured wars, shifting political systems, cycles of wealth and decline, even erasure from the map for 123 years, Poland represents a distinctive historical case. It has recently drawn global attention to its unrivaled economic growth over the past two decades and yet it continues to observe a resilient informal sector. Eliminating this activity, although successful, has been a slow process involving innovative solutions and regulations. This persistence suggests that economic performance alone does not determine the size and structure of the grey economy.

In a span of a mere 45 years the Polish economy transformed from the real socialism under Soviet control to Western capitalism, successfully attaining its tenet of "market prosperity." The political and economic system that prevailed in the country until 1989 marked the years of a relatively stagnant economy and isolation from the Western world, largely rebuilt and reconstructed after World War II. The vast majority of Polish society was employed in the state-owned industry, while the prospects for achieving higher wages through hard work were negligible. The situation today is drastically different: the main industries have been privatized, the borders are open, and competition is largely present among workers and entrepreneurs. Capitalism has emerged as the dominant system, offering greater prosperity and opportunities when compared to the scarcity of resources and economic hardship experienced in the Soviet-led country.

This change, although influenced by several factors, figures, and foreign forces, has uncontestedly been followed by its "shadows of growth;" informal economic practices which always accompanied the official domestic production. These phenomena partially reveal the country's overstated success, while highlighting the sustained challenges faced by Polish households and firms. Poland's grey economy adapted to the rapidly evolving events, changing its forms, names, and main actors. Its trajectory and persistence to this day reflect the continued poor performance or slow improvement across a number of elements of the country's economy.[1] It suggests that, while economic growth benefited many, it has also rendered some members of the society increasingly disadvantaged, with diminished access to the abundant resources accrued in the country over time. Arguably, the political and socioeconomic changes witnessed in Poland over the past few decades were inextricably linked to the informal practices shaping the society as it confronted a new reality alongside forthcoming challenges.

2. RESEARCH QUESTION

The central question of the master's thesis addresses the complexity and lasting effect of the informal sector evolving since the Soviet Polish People's Republic (PRL), 1952-1989. In an attempt to answer: "**How does the development of Poland's grey economy reflect the socio-economic outcomes of its post-1989 market transformation?**," the research spans the historical events taking place in the country throughout the past 45 years, its economic performance, and social developments. It traces the characteristics and motivations

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[1] Joanna Skuza, "Problemy pomiaru szarej strefy w Polsce," *Studenckie Prace Prawnicze, Administratywistyczne i Ekonomiczne* 49, no. 1 (2024): 131.

underpinning informal activity in Poland over the analyzed period to determine how it evolved in response to systemic changes: from Soviet socialism and its centrally planned economy, to drastic restructuring and inevitable economic sacrifices, to capitalism anchored in the free EU market and policy of "Laissez faire." By mapping these shifts, the study investigates the relationship between the grey economy and broader socio-economic changes. In this context, it strives to answer how informality contributed to Poland's unprecedented economic growth and who were its primary beneficiaries. It finally examines the lasting impact of historical trends of the activity in the shadows on national language and local sentiments.

The introduced hypothesis holds that the informal sector's role in the "Polish miracle," referring to the unprecedented growth of the country's economy and significant improvement in living conditions among the society, has been not only large but crucial. The shadow economic activity in the past decades arguably performed as a stabilization force during the systemic changes, otherwise economically challenging for the affected population, allowing for the growth and innovation of 21st century Poland. It follows with an expectation that the projected public revenue lost due to tax evasion, along with other grey practices would, in practice, remain largely unrecovered by state authorities. This is due to the belief that the main participants of the grey economy in Poland have been minor businesses and individuals historically disadvantaged by the systematic structures, therefore resorting to informality for economic survival. Its complete formalization would inevitably result in discontinuation of economic activity for many due to a lack of profitability. The possible conclusion posits that at a certain threshold, regulation of the informal sector becomes economically counterproductive, as a complete removal of unobserved activity would at least partially decrease domestic productivity without carrying a positive effect on the public budget through additional revenue collection.

The motivation behind the study originates in the belief that the comprehensive economic history of Poland in the context of shaping of the informal activity has been scantily treated, rendering the full picture still missing. As a consequence, the recent socio-economic "success" of the country has been internationally misunderstood, while the level of prosperity and living conditions among its society have been overstated. Poland's GDP per capita, average wages, and level of personal savings, among the others, are still below the average of the EU. Despite the sustained economic growth, large profits are exported outside the Polish borders, enriching foreign investors and executives. Meanwhile, state policies promote legal tax optimization among affluent businesses, while continuing to combat practices bordering legality among lower-income individuals and households. Comprehension of these processes remains paramount for effective regional economic policy, geopolitical considerations, and most significantly, international perception and expectations.

3. LITERATURE REVIEW

Existing scholarship on the process of Poland's economic transformation from the late Soviet era of the 1980s to over 20 years of the country's experience of neoliberal capitalism under the auspices of the European Union, primarily discusses macroeconomic restructuring, international market integration, economic growth, and democratization. Significantly less frequently the literature sheds light on the emergence and adjustment of the grey economy to these structural reforms. Many scholars investigate in detail individual informal practices that Polish society engaged in, although with a focus on specific periods. Similarly, the literature addressing the broader topic of the grey economy typically explores the mechanisms of its development, its role in the economy and social life, and policy insights for its formalization. However, it rarely examines the specific characteristics of informality in Poland, and even less often applies a holistic historical approach to studying the topic. In an attempt to fill this gap, this review synthesizes the individual components of the relevant research by drawing links between the formal economic policies in Poland and informal economic adaptation across three distinct historical periods: late Soviet socialism, post-1989 transformation through the "Shock Therapy," and neoliberal consolidation in the years following the EU accession in 2004. It organizes them thematically, complementing the sources discussing the economic history of Poland and specific examples of economic activity in the shadows with official statistics and cultural literature.

Scholarly attention to studying the grey economy has developed significantly in the past decades, reflecting the growing consideration of the phenomenon in public policy and private business practices. Informality concerns many, including the country leaders and institutions responsible for the economic stability on both national and international levels, the economists and other academics dedicated to public policy research, and finally, the individual economic actors including entrepreneurs and workforce, who are directly affected by the coexistence of the second economy in the shadows. However, the field remains fragmented, with ongoing research offering new insights into the causes, consequences, and policy responses, along with the development of refined methods of estimating the size of the grey economy. Arguably the single most recognized author of the theory of informality and its worldwide estimates is the German-Austrian economist and professor; Friedrich Schneider. In a range of publications, he differentiates between "legal" and "illegal" components of activity in the shadows; juxtaposes its legal, political, economic, and social determinants; discusses regulatory frameworks for successful combat of the phenomenon, and presents his estimates of the size of the grey economy across the globe.[2, 3, 4] A pioneering publication preceding those of Dr. Schneider, Portes and Böröcz (1988), provides a novel analysis of commonalities and differences of the grey economy under two contrasting political systems, socialism and capitalism.[5] It offers a valuable background for studying informality in the transition countries of the Eastern bloc, including Poland. Subsequent studies build upon these findings, with those conducted in the Polish context being of particular relevance to the current analysis. National writers discuss the prevalence of the grey economy in rural areas and identify a number of mechanisms behind informal practices, including poor education, skills

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[2] Friedrich Schneider and Alban Asllani, *Taxation of the Informal Economy in the EU*, study requested by the Subcommittee on Tax Matters (FISC), Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, 2022, https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf.

[3] Friedrich Schneider, Andreas Buehn, and Claudio E. Montenegro, *Size and Development of the Shadow Economies of 157 Countries Worldwide: Updated and New Measures from 1999 to 2013*, IZA Discussion Paper No. 6423, Institute of Labor Economics (IZA), 2012.

[4] Friedrich Schneider and Colin C. Williams, *The Shadow Economy* (London: The Institute of Economic Affairs, 2013).

[5] Predrag Bejaković, "How to Measure the Unmeasurable: Project Grey Developing Capacities and Capabilities for Tackling Undeclared Work," *Croatian Review of Economic, Business and Social Statistics* 3, no. 2 (2017).

displacement, and concentration of productive activities in urban centers.[6, 7] In addition, some contemporary sources partially challenge the predominantly negative portrayal of informality, highlighting its importance in responding to inequality, economic downturns, and instability.[8] Similarly, with respect to estimations of size of the grey economy in Poland, its national entities, including the Central Statistical Office, the economic think tank and research foundation IPAG, and more recently, the EY Economic Analysis Team, present refined figures for the country, hence offering differing interpretations and regulatory implications.[9,10] Only when analyzed together can the available theoretical frameworks pertaining to the grey economy provide a comprehensive picture of the phenomenon and facilitate a case study of Poland.

Sources on the economic history of Poland throughout the past 45 years are abundant. Most focus on a single political era, describing the peculiarities of the functioning economy structure at the time, political considerations behind it, and its social outcomes. Research on the late years of the communist-influenced Polish People's Republic features the country's economy by persistent shortages and inefficiencies. It additionally sheds light on the privileged position of the bureaucratic offices, poor institutions, and widespread corruption.[11] Some sources originate from the 1980s, signaling the decreasing censorship on publication towards the fall of the Iron Curtain and collapse of the Warsaw Pact.[12] They provide reports on

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[6] Anne White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," *East European Politics and Societies* 30, no. 2 (2016): 404–422.

[7] Anna Baczko-Dombi and Anna Giza, "The Road to the Shadow Economy. Social Mechanisms of Exclusion," *Przegląd Socjologiczny* 4, no. 63 (2014): 107–137.

[8] Maria Drozdowicz-Bieć, "Reasons why Poland avoided the 2007-2009 Recession," *Prace i Materiały Instytutu Rozwoju Gospodarczego SGH* 86 (2011): 39–66.

[9] Jacek Fundowicz, Krzysztof Łapiński, and Bohdan Wyżnikiewicz, *Szara Strefa 2025* (Warsaw: Instytut Prognoz i Analiz Gospodarczych, April 2025), https://www.ipag.org.pl/files/4c325b0c-c099-407c-9fea-5a86dc665a88/860a19ab-8983-40d0-8558-0d975241a46c_639081351127468399.pdf.

[10] EY Economic Analysis Team, *Shadow Economy Exposed: Estimates for the World and Policy Paths* (London: EY Global, March 2025), https://www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/insights/tax/documents/ey-gl-shadow-economy-report-02-2025.pdf.

[11] Frances Pine, "Living in the Grey Zones: When Ambiguity and Uncertainty are the Ordinary," in *Ethnographies of Grey Zones in Eastern Europe: Relations, Borders and Invisibilities,* ed. Ida Harboe Knudsen and Martin Demant Frederiksen (London: Anthem Press, 2015), 25–40.

[12] Zbigniew J. Stańczyk, "The Polish Grey Economy Since the mid-1980s – a Review of Research," *Zeszyty Naukowe* no. 744, (2006): 165–178.

individual experiences and living conditions under the real socialism, including the empty shelves, long queues, rationing system, and legal injustice.[13, 14, 15, 16] This array of sources lays a foundation for the publications addressing the fall of the Soviet-led rule in Poland in 1989 and the subsequent comprehensive economic and political reforms in the country. A number of authors critically analyze the implementation of the Balcerowicz Plan, which, contrary to the expectations of a brief period of necessary sacrifices, resulted in years of persistent challenges in the integration in the Western free market and a diminishing welfare of the society. According to the literature, the immediate consequences of the comprehensive restructuring of Poland were detrimental to society, giving rise to mass unemployment, inflation surge, and widening of income inequality, before yielding long-term positive economic growth.[17] These findings are contrasted with the literature portraying Poland as a successful transformation country, with an unforeseeably effective model of economic growth based on exports and foreign investment, and year-on-year GDP growth surpassing any of the other Eastern Bloc countries.[18, 19,20] The final portion of literature examines Poland's trajectory following its accession to the EU. In particular, studies of EU funds allocation and their economic impact emphasize their key role in driving the country's growth, while underscoring challenges in their effective absorption and equitable distribution, which resulted in regional disparities

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[13] Stefan Kawalec, "The Dictatorial Supplier," in *The Unplanned Society: Poland During and After Communism*, ed. Janine R. Wedel (New York: Columbia University Press, 1992), 128–143.

[14] Andrzej Zawistowski, "Kartki, bony, bilety, zezwolenia i inne przepustki do szczęścia. Mechanizmy sprzedaży reglamentowanej w dekadach rynkowych braków," in *Kuchnia (w) PRL*, edited by Grzegorz Piotrowski (Gdańsk: Europejskie Centrum Solidarności, 2024), 167–192.

[15] Malgorzata Sek, "Tax in History: Polish Tax System in Transition to Democracy and Market Economy," *Intertax* 49, no. 5 (2021): 470–475.

[16] Ilona Morzoł and Michał Ogórek, "Shadow Justice," in *The Unplanned Society: Poland During and After Communism*, ed. Janine R. Wedel (New York: Columbia University Press, 1992), 62-71.

[17] Eric Garland, "Reflections on the Balcerowicz Plan," *Zeszyty Naukowe PWSZ w Płocku. Nauki Ekonomiczne* 1, no. 21 (2015): 227–244.

[18] Philipp Ther, *Europe since 1989: A History*, translated by Charlotte Hughes-Kreutzmüller (Princeton: Princeton University Press, 2016).

[19] Marcin Piatkowski, *Europe's Growth Champion: Insights from the Economic Rise of Poland* (Oxford University Press, 2025).

[20] Normann, "Poland's 20 Years in the European Union: How the Country's Economy has Changed," *Blue Europe*, June 14, 2024, https://www.blue-europe.eu/analysis-en/full-reports/polands-20-years-in-the-european-union-how-the-countrys-economy-has-changed/.

and economic migration.[21, 22, 23] Of particular relevance for the current analysis is Drozdowicz-Bieć (2011), which outlines the reasons why Poland was among few countries which avoided the 2009 global recession stemming from the Great Financial Crisis in 2008. Among the key identified factors are low dependence on financial credit, large domestic market, floating exchange rate of the national currency, and notably, sizable grey economy.[24] In addition, literature on the key economic reforms following the 2015 and the 2019 parliamentary elections in Poland broadens the economic analysis by addressing the latest developments concerning fiscal policy and macroeconomic outlook in the country. These years of economic reorientation had significant implications for the business environment in the country, favoring more affluent entities while placing greater financial pressure and regulatory burden on small entrepreneurs.[25, 26] The new policies also promoted greater use of digital payments and reduced the compliance gap, leading to an increase in tax contributions to public revenues.[27] The analyzed period culminates in documentation of Poland's emergence as the 20th largest economy in the world, measured by its GDP. While it has further raised international attention to the "Polish miracle," it also initiated more critical discussions concerning the future of the Polish economy domestically.[28, 29]

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[21] Paweł Churski, "Structural Funds of the European Union in Poland – Experience of the First Period of Membership," *European Planning Studies* 16, no. 4 (2008): 579–607.

[22] Magdalena Mosionek-Schweda and Maciej Tokarski, "The Absorption of the European Funds Granted to Poland for Period 2007-2013 – Examples of Projects and Evaluation," *Dialog* 1, no. 3 (2014): 46–62.

[23] Ewa Balcerowicz, "The Impact of Poland's EU Accession on its Economy," *Studies & Analyses CASE*, no. 335 (2007): 1–31.

[24] Drozdowicz-Bieć, "Reasons why Poland avoided the 2007-2009 Recession,"39–66.

[25] Joanna Olszowy and Łukasz Jabłoński, "Efekty Zmian Podatkowych na Funkcjonowanie Przedsiębiorstw," in *Transformacja Finansów i Ekonomii: Wyzwania i Szanse* (Łódź: ArchaeGraph, 2024), 63–76.

[26] Michał Mariański and Michal Radvan, "Tax Amendments in Times of Crises in Poland and Czech Republic – Selected Legal Aspects," *Studia Prawnoustrojowe* 64 (2024): 203–215.

[27] Maciej Wysocki and Cezary Wójcik, "Fiscal Sustainability in Poland: How Did the Public Policy Shift of 2016–2019 Impact the Country's Long-Term Sustainability?" *Ekonomista*, no. 6 (2021): 777–798.

[28] Shreya Biswas, "Polish miracle: The fastest-growing economy in Europe? Here's how the once-isolated country broke into the Top 20," *The Economic Times*, November 5, 2025, https://economictimes.indiatimes.com/news/international/us/poland-economy-growth-2025-fastest-growing-economy-in-europe-heres-how-the-once-isolated-country-broke-into-the-top-20/articleshow/125111034.cms.

[29] Aneta Zelek, "Polska w top 20 największych gospodarek świata – zasłużony awans czy przypadek?" *Zeszyty Naukowe ZPSB Firma i Rynek* 2, no. 68 (2025): 9–31.

At the core of the current analysis lies the literature discussing the informal practices that have shaped in Poland over the studied period. The sources clearly indicate an evolution and adaptation of the grey economy throughout the three political and economic periods in Poland, changing at the dawn of each era to adapt to new decisions, laws, and economic incentives. Oftentimes, the authors focus solely on one specific component of the phenomenon. A number of publications on the PRL period describe the practices involving the exploitation of one's job position for personal gain, including the resource theft from the nationalized enterprises, primarily industrial sites, show work for economic remuneration, and the use of the network of colleagues and superiors for personal arrangements or expediting bureaucratic procedures.[30, 31, 32] Other sources bring light to the informal side jobs, such as home production of scarce goods, barter trade, or smuggling of foreign currencies and products.[33, 34] The literature on the transition period paints a rather different picture of informality in the newly-born III Republic of Poland. The available publications report on the emergence of unregistered enterprises or off-the-books hiring, while others document the shift in informal trade from the western to the eastern border, next to the increased commercialization of sexual services and cross-border fuel purchases.[35, 36, 37] Finally, after the 2004 EU enlargement, the evidence of informality in literature is mostly contained to a range

[30] Olga Smolyak, "'Working for Yourself': Resource Theft at a Factory in the Late Soviet Era. Summary," *Laboratorium: Russian Review of Social Research* 6, no. 2 (2014): 152–158.

[31] Krzysztof Kosiński, "Praca na niby," in *Historia pijaństwa w czasach PRL: Polityka, obyczaje, szara strefa, patologie* (Warszawa: Wydawnictwo Neriton; Instytut Historii PAN, 2008), 483–522.

[32] Wojciech Pawlik, "Intimate Commerce," in *The Unplanned Society: Poland During and After Communism*, ed. Janine R. Wedel (New York: Columbia University Press, 1992), 78–94.

[33] Krzysztof Kosiński, "Obok PRL: Alkoholowa szara strefa," in *Historia pijaństwa w czasach PRL: Polityka, obyczaje, szara strefa, patologie* (Warszawa: Wydawnictwo Neriton; Instytut Historii PAN, 2008), 523–578.

[34] Elżbieta Firlit, and Jerzy Chłopecki, "When Theft Is Not Theft," in *The Unplanned Society: Poland During and After Communism*, edited by Janine R. Wedel, (New York: Columbia University Press, 1992), 95–109.

[35] Tomasz Mroczkowski, "Informal Employment in the Transition Economy of Poland," *Journal of East-West Business* 3, no. 2 (1997): 23–42.

[36] Aimee Joyce, "Good Neighbours and Bad Fences: Everyday Polish Trading Activities on the EU Border with Belarus," in *Ethnographies of Grey Zones in Eastern Europe: Relations, Borders and Invisibilities,* ed. Ida Harboe Knudsen and Martin Demant Frederiksen, 1st ed. (London: Anthem Press, 2015), 75-85.

[37] Agata Stanisz, "Roadsides of Mobility: Informal Socioeconomic Strategies in Suburban Western Poland," in *Labour, Mobility and Informal Practices in Russia, Central Asia and Eastern Europe: Power, Institutions and Mobile Actors in Transnational Space,* ed. Rano Turaeva and Rustamjon Urinboyev (New York: Routledge, 2021), 149–171.

of creative approaches by Polish society to tax and social contributions evasion, often resembling similar trends elsewhere. By far the majority of the available research refers to the undeclared income or sales, settled with the physical currency. Among the documented practices contributing to the income tax gap and reduced social contributions are the failure to register one's economic activity, underreporting revenues, misrepresenting the number of employees and their wage levels, and exploiting sole proprietorships in place of standard employment contracts. Similarly, the VAT gap arises from unreported sales of goods and services, often conducted without issuing receipts or invoices.[38] Beyond domestic informal arrangements, the literature also highlights the challenges associated with the large-scale outflow of Polish workers to other EU countries, where a grey zone has similarly emerged.[39, 40]

A smaller but analytically crucial body of literature addresses how the grey economy is culturally framed in language and broadly perceived by Polish society. A number of sources describing the informal practices in Poland offer the linguistic nuances and connotation of words associated with them, even if inadvertently. While a volume with a holistic study of the language regarding the grey economy is not easily available, the sources acknowledge the development of the Polish language already in the PRL period to contain a range of euphemisms, softening or removing the negative resonance of the words related to informality.[41, 42] Perhaps more striking, however, is the fact that in more contemporary sources, a range of new expressions has emerged to replace sensitive words with more subtle ones.[43] This literature should be linked to the studies examining local attitudes and perceptions regarding the role of the grey economy in economic growth and wealth

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[38] Marek Kośny, Jakub Sawulski, and Aneta Kiełczewska, "Measuring the Scale of Envelope Wages: Evidence from Poland," *Economics of Transition and Institutional Change* 32, no. 3 (2024): 949–970.

[39] Olga Czeranowska, Izabela Grabowska, and Iga Wermińska-Wiśnicka, "Beyond Initial Boundaries: Two Decades of Polish Young Adult Migrants' Labour Market Positionalities in the UK Post-EU Enlargement," *Studia Migracyjne-Przegląd Polonijny* 2, no. 196 (2025): 7–29.

[40] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 404–422.

[41] Janine Wedel, "Dirty Togetherness: From Poland Under Communism to Weaponised Corruption Today," *Zeszyty Naukowe Katolickiego Uniwersytetu Lubelskiego Jana Pawła II* 67, no. 3 (2024): 161–173.

[42] Firlit, and Chłopecki, "When Theft Is Not Theft," 95–109.

[43] Monika Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," *Zeszyty Naukowe SGGW, Polityki Europejskie, Finanse i Marketing* 24, no. 73 (2020): 128–142.

distribution. The authors studying the Soviet era in Poland point to a widespread acceptance of informal arrangements as ordinary and necessary, with little social condemnation.[44] This perspective shifts in the 21st century: the prevailing view is that the grey economy negatively impacts the broader economy and the average citizen.[45] Yet, strong opinions persist that the participants are left without an alternative of formal employment due to persisting inefficiencies in the Polish labor market and that the grey economy serves as a stabilizing force during times of crisis by alleviating high unemployment and income inequality.[46] It is worth noting that most individuals in the informal sector would prefer to be employed in the formal labor market.[47]

4. THEORETICAL FRAMEWORK

CONCEPTUALIZING THE GREY ECONOMY

There is no single definition of the grey economy available. It may be analyzed as a subcategory of grey zone in its broader sense; "a murky area where normative boundaries dissolve," "marked by ambiguity or porous boundaries," or a form of "uncertainty, ambiguity, and turbidity."[48] It is characterized by a rather thin line between legality and illegality, or fairness and injustice. Although the practices commonly concerned as grey economy breach regulations in place, they are rarely referred to as crime. While there might be individual sources that stress the nuances between the terms "grey," "shadow," "informal," "underground," or "second" economy, for the purposes of the current research, these are unified throughout the analysis under the term "grey economy," at times used interchangeably with informality, or economic practices in the shadows. As commonly defined by economists, the grey economy comprises all present unregistered, therefore unregulated, untaxed, and publicly unobserved economic activities, which contribute to the

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[44] Pine, "Living in the Grey Zones," 25–40.

[45] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 128–142.

[46] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 404–422.

[47] Mroczkowski, "Informal Employment in the Transition Economy of Poland," 23–42.

[48] Martin D. Frederiksen and Ida H. Knudsen, "Introduction: What Is a Grey Zone and Why Is Eastern Europe One?" in *Ethnographies of Grey Zones in Eastern Europe: Relations, Borders and Invisibilities*, 1st ed. (London: Anthem Press, 2015), 2.

national production measured in GDP.[49] From an alternative perspective these are all forms of labor lacking the social and legal protections and not awarded employment benefits such as health insurance or a pension plan.[50] The income such activity generates falls usually under the category of labor income, including undeclared production and sales of goods, along with services performed off the books for remuneration. Less frequently, the informal sector generates capital income, such as unreported rental earnings from a property or non-declared interest received from a loan. Among the reasons for the concealment of these activities are circumventing costs of income, whether in a form of value added or other taxes; avoiding payment of social security contributions; and bypassing legal labor market standards or administrative obligations, including minimum wages, working hours, and safety standards.[51] Each of the above allows one to retain additional financial resources.

4.1. "Legal" vs "Illegal"

The grey economy may be understood through a range of behaviors and arrangements that produce economic value. There are differences between unreported economic activity for the purpose of tax evasion or lax regulation and unrecorded activities that the authorities failed to include in national income accounts. They both are still different from corruption and exploitation of one's social nexus in securing private economic gain. What they have in common, however, is the legality of the produced commodity or performed service; it is their execution that fails short of regulations in place.[52] For the purpose of the present analysis these should represent the unclear and blurry concept of the "legal" grey economy, which allows to study factors other than breach of law as potential justification of activity in the shadows.

A completely different set of activities constitutes the "illegal" grey economy; activities which "violate the rules prohibiting extortion, financial fraud, smuggling, organized crime, and theft of state property."[53] They build up the only clear-cut component of the grey

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[49] Schneider and Williams, *The Shadow Economy,* 23-24.
[50] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 409.
[51] Schneider and Williams, *The Shadow Economy*, 25.
[52] Bejaković, "How to Measure the Unmeasurable," 21.
[53] Ibid., 22.

economy, since its participation necessarily involves a production, sales, or distribution of goods and services prohibited by law or execution of practices without licenses, for instance, performing a surgery without holding appropriate credentials. These all naturally bring hazard to human health or life, or result in the destruction of private or public property alike, rendering them simply criminal activities. The "illegal" grey economy lacks the ethical ambiguity of its "legal" counterpart, and, for this reason, does not fall under the current inquiry.

4.2. Determinants of Informality

The size of the grey economy is believed to be determined by several categories of factors: legal, political, economic, and social. The potential trade-offs between the gains from informal practices and likeliness of and costs incurred upon detection, are, even if insensibly, weighed up by its participants. The legal factors primarily include clarity of regulation, communication and accessibility of relevant information to the public. Legal opacity and administrative burden discourage taxpayers from fulfilling their obligations. Similarly, intensified regulation is often perceived as an obstacle to freedom of choice of economic activity and thus can fuel participation in the informal sector.[54] Political factors include the quality of institutions and good governance that are positively correlated with compliance with the legal frameworks. Corruption of bureaucracy and government officials frequently serve as one's justification of non-compliance with the formal economy.[55] Among the economic precursors are the condition of the labor and product market, as well as the level of financial burden, predominantly in terms of social security contributions and tax liabilities. Increased economic pressure often leads to a diminishing tax morale and an increase of informality. This may be observed in the "Laffer curve" effect, which demonstrates the fall of tax revenues in parallel with the increase of the tax rates, pointing to the movement of economic activity out of the formal and into the grey economy.[56] In times of economic recession, the informal arrangements may similarly decrease the burden on the society. Due to its flexibility stemming from deregulation, it behaves anti-cyclical in the business cycles.

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[54] Schneider and Williams, *The Shadow Economy*, 38.
[55] Ibid., 41.
[56] Ibid., 9.

This means that in the times of crisis, when households decrease spending and enterprises decrease costs, the economic activity in the shadows increases, positively impacting the overall country's production, real, although unofficial, employment rate, and consumption when additional income is generated informally.[57]

Finally there is a social aspect: perception of justice. When larger quantities and better quality of public services are available, and more significantly, communicated to be financed through tax revenues, individuals have reduced incentive to distort this status quo by depriving the public budget of their contributions. In contrast, when subjective perception is that certain activities are forbidden by law unjustly, one can exercise their autonomy over regulation and implement "justifiable" rules in the informal sector instead.[58] The grey economy plays thus a role of holding the government accountable for its economic policy by the society. Ethics and one's status also play a role, whereby feelings of shame or loss of reputation among individuals or businesses are important deterrents to informality. Tax morale, observed through a "tendency to declare income and pay taxes if taxpayers believe that the tax system is broadly fair and others are paying their fair share," comprises an additional psychological component.[59] It is reinforced by good governance and may be increased by the state's provision of valuable and high quality public services. Even when the distributive forces of taxes do not directly benefit a part of the society, it is still inclined to tolerate such policies, when they follow transparent and just procedures.[60] The way in which individuals are treated by the tax authorities also plays a role. Partner-like contact increases tax morale, whereas a hierarchical relationship has the opposite effect. Similarly, draconian punishments and intrusive methods deployed for investigations of potential tax fraud or non-compliance put a downward pressure on it.[61] Thus, tax morale and social norms are frequently believed to exert a greater influence on participation in the grey economy than its other drivers or inhibitors.

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[57] Drozdowicz-Bieć, "Reasons why Poland avoided the 2007-2009 Recession," 50-51.
[58] Schneider and Williams, *The Shadow Economy*, 39.
[59] Ibid., 33.
[60] Ibid., 42.
[61] Ibid., 37.

4.3. Commonalities Under Differing Political Systems

The relevant literature suggests that the government in place may have a significant impact on the formality of the economy. Accordingly, the grey economy manifests differently under two contrasting regimes, prevailing across the globe today: socialism and capitalism, due to the fact that some forms of political or constitutional arrangements may promote the emergence of informality more than the others.

In a capitalist economy, where market forces dominate, the increasing labor costs and decreasing competition, often caused by the access to cheaper foreign commodities, result in profit squeeze among a number of domestic enterprises. When this combines with structural unemployment arising from the skills gap and possibility of decentralized work arrangements, the economic activity in the shadows inevitably grows.[62] It manifests through production and distribution of legal commodities or services but outside of the state-regulated segment of the labor and capital markets; primarily with the use of cash. In theory then, the market economy creates informality when it operates inefficiently or lacks appropriate institutions.[63] Interestingly, participation in the grey economy under capitalism could be a gamble, as it does not provide a social safety net, such as common healthcare, maternity support, or retirement. There is also a large differential in income between formal and informal labor, favoring the former. Consequently, the growth of the grey economy in capitalist societies puts a downward pressure on average earnings.[64]

In contrast, under socialism, it is the systemic rigidities leading to shortages in either labor, capital, or commodities, that result in the underground correction facilitating the participation in the economy and survival of the households, companies, and the state, without extensive reforms.[65] The socialist grey economy similarly includes the movement of authorized goods and services but outside of the centrally-planned and subject to state control frameworks. It comprises a complete value-added benefit for the individual, owing to the fact that the welfare provisions are typically conferred to all citizens. The retirement

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[62] Portes and Böröcz, "The Informal Sector under Capitalism and State Socialism," 18.

[63] Schneider and Williams, *The Shadow Economy*, 41.

[64] Portes and Böröcz, "The Informal Sector under Capitalism and State Socialism," 22-24.

[65] Ibid., 19.

benefits are the only one contingent on employment, typically guaranteed by the state to the majority, if not all, working age individuals.[66] In addition, informality often provides for higher average incomes relative to those from the formal sector and increases the worker's bargaining power in wage demands. Therefore, non-involvement in the grey economy places one at a significant economic disadvantage, with the exception of the political party members and the bureaucratic apparatus.[67] An additional distinctive feature shared by the Soviet-socialist republics and the rest of the Eastern Bloc was a notably low sense of moral obligation to pay taxes, reinforced by the relatively high social acceptance of unregistered business activities, which generally has not appeared in capitalist countries.[68]

While a number of key differences between manifestation of the grey economies under capitalism and socialism exist, several shared features are evident. The appearance of informality is subject to a combination of the market and state forces, which are present regardless of the sociopolitical system that dominates. The difference is only in the relative strength of these forces compared to each other. In all systems, including capitalism, socialism, and transition countries, informality provides for flexibility to accommodate for adverse structural changes originating from business cycles and seasonal variations.[69] Participation in the grey economy challenges the monopoly of economic planning of the authorities vested with power to do so, whether it is a single party or major economic players leveraging lobbying for their causes. It can be achieved through low capital intensity production, which allows for the making and distribution of goods without bringing much attention of the regulators. Capital-intensive industries may not be informalized easily due to their size, responsibility, and large financial resources, which all necessitate the participation and supervision of numerous actors.[70] Ironically, the informal economic activity allows both systems to survive and correct their inefficiencies. It increases the profitability of capitalism among the non-competitive and underqualified individuals, while allowing the redistribution of wealth in the centrally-planned economy between efficient domestic industries and those

[66] Portes and Böröcz, "The Informal Sector under Capitalism and State Socialism," 23.

[67] Ibid., 23-24.

[68] Paulina Malaczewska, *Szara Strefa Gospodarki. Determinanty i Mechanizmy Kształtowania* (Łódź: Wydawnictwo Uniwersytetu Łódzkiego, 2019), 44.

[69] Portes and Böröcz, "The Informal Sector under Capitalism and State Socialism," 21.

[70] Ibid., 20.

inefficient ones, which would not survive without additional financial assistance. However, when allowed to grow large enough, the grey economy may drain the public resources and paralyze the system in place, leading to the emergence of illegitimate regimes, unrecognized internationally.[71]

In terms of the constitutional system in place, a federal government with strong local authorities providing for a system of checks and balances is less conducive to the growth of informality than a unitary system with a dominating central government. Similarly, direct democracy allowing for greater participation of the population in the decision-making process decreases the incentive to participate in the grey economy relative to indirect democracy, and particularly, to the authoritarian systems.[72] This phenomenon can be explained by reference to the previously outlined legal factors and social perception of justice. In democracies, the law is generally made available to the public and all citizens are equally subject to its provisions. Electoral voting and public participation in referendums, even if not always representing the will of the majority, increase the perception of one's autonomy. Consequently, even in monarchies with legal transparency and strong constitutional rights, the activity in the shadows can remain marginal.

4.4. How To Measure the Grey Economy?

The precise size of the grey economy is impossible to measure for a simple reason: it is an activity that millions around the world attempt to keep off the record. Yet, there are several methods at hand available for its estimation, among which are direct procedures such as conducting surveys, which allow for an estimation of informality on a micro-level at a given point in time. On a macro-level, specific economic indicators may be used as proxies for the measure and implemented in statistical models. One such measure, the MIMIC procedure, quantitatively estimates the grey economy through the level of tax burden, intensity of regulation, demand for currency, national income data, and official working hours documentation.[73] Another promising measure, the CDA framework, focuses exclusively on analyzing currency within the given country, assuming that with very few exceptions, all

[71] Portes and Böröcz, "The Informal Sector under Capitalism and State Socialism," 25.
[72] Schneider and Williams, *The Shadow Economy*, 41.
[73] Ibid., 27.

transactions and payments in the grey economy are conducted in cash. The non-monetary activities may be figured in by using an approximation of goods produced in the country but never sold in the market.[74] Unfortunately, there are issues concerning each of these methods. People tend to underreport their participation in borderline illegal activities when asked in the surveys. Reports of data collected by the national statistical offices are often inaccessible or published with high time lag, while their results remain internationally incomparable. Meanwhile, the econometric models based on macroeconomic indicators are founded on assumptions not reflected in reality, omit crucial factors, or include latent variables.[75] It is believed that they only provide relative estimates, which determine whether informality is on a rise or shrinking, or how its size compares to the levels in another country.[76]

One must bear in mind that regardless of the used method, virtually every estimation of the informal sector's value added to GDP or population participation carries at least some error. Not only data from different authors lack unification, but also data from country to country is really difficult to compare, either due to divergence of approach taken to estimation, time specificity, or the research studies limitations. One reason for such is inconsistency across definitions of the grey economy, which leads to the inclusion of certain economic activity in one measure and simultaneous exclusion of it in another. Recent quantitative data shows that many of the historical estimates of informality present unrealistic expectations of its share in the country's official GDP. One possible error leading to overestimated levels of the grey economy could be miscalculations of consumption and production alike. On the consumption side, studies may consider primarily domestic expenditure, ignoring government spending, firms' investment, and foreign expenditure, which all contribute significantly to the final GDP calculations. Similarly, when addressing production, the public sector generates a high percentage of the country's production and share of income, which are all automatically recorded by the authorities. While corruption and unnecessary government spending are certainly widespread issues, they are not, by

[74] EY Economic Analysis Team, *Shadow Economy Exposed*, 28-29.

[75] Piotr Dybka et al., "Currency Demand and MIMIC models: Towards a Structured Hybrid Method of Measuring the Shadow Economy," *International Tax and Public Finance 26* (2019): 5.

[76] Schneider and Williams, *The Shadow Economy*, 28.

definition, included in the grey economy.[77] Most importantly, however, one must differentiate between the informal output and informal employment. Many expect a large share of the grey economy in the country's total GDP because a substantial proportion of workers engage in unregistered economic activity or underreport their revenues. Yet, informal employment is frequently concentrated among lower-income individuals, whose productive capacity is limited and earnings are predominantly spent on low-value goods and services. As a result, their contribution to GDP is not proportional to the economic activity and larger expenditures in the formal market.[78] This suggests that, while the grey economy may support economic subsistence of less affluent social groups, it does not account for an equally large share of the country's total output.

4.5. Source of Instability or Economic Remedy?

Many studies have attempted to determine whether the grey economy constitutes "economic hardship or social salvation."[79] While the available data points to its negative consequences outweighing potential benefits, it is essential to account for country-specific characteristics and conditions. In answering how the grey economy influences the economic stability and wealth of the citizens, three key actors must be addressed: the country, representing the formalized economy, the worker, and the employer, both of whom engage in informal practices.

4.5.1. Negative Impact

The persistence of informality in the country carries several adverse consequences impacting a large share of the formalized workforce. Particularly, when the economic activity in the shadows creates a tax gap; that is, when fewer contributions are collected by the tax administration and social services than expected, state revenues shrink, elevating public debt. It may prove challenging in the face of macroeconomic shocks, as no buffer of additional funds is available in times of crisis, for instance, during elevated unemployment. In turn, the authorities increase a pressure on spending cuts, which typically involves decreasing

[77] EY Economic Analysis Team, *Shadow Economy Exposed*, 148.
[78] Ibid.
[79] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 110.

the quantity and quality of public goods such as infrastructure or fundamental services including education and healthcare.[80] It may also be achieved by increasing tax burden on the fully complying citizens, which carries a threat of a spiral, where the previously formalized businesses move to the grey economy or leave the national market and register in other countries. The government may also decide to reduce welfare provisions, such as unemployment benefits; however, this would be a politically unpopular decision as it could hurt the party in power's interests, and consequently it is rarely resorted to.[81] A large size of the grey economy distorts the competition in the country, hindering business growth or even leading to closures of compliant enterprises, who face fewer clients and suppliers. According to studies, as much as 20% of productivity of registered firms is decreased by the "parasitic" activity of unregistered firms, who do not comply with the competition rules.[82] Additionally, there are limited investment opportunities, owing to the fact that a part of the fluid funds are in informal circulation. Lastly, the omission of regulations in place may prove harmful for the society or the environment.[83]

From the perspective of the worker, engaging in informal employment may seem profitable in the short term but the future is often discounted. Underreporting carries consequences over the long-term, as one's pension benefits are limited or not available. In case of accidents or illness, the cost of healthcare is high and borne by the employee. Notably, an informal worker may struggle with the lack of creditworthiness and possible limitation in the access to loans and banking services in general, particularly considering the technological improvement in tracking cash transfers and payments. Similarly, one is not eligible for legal rights stemming from formal work contracts, which leads to smaller bargaining power and possibly lower income than in the formal labor market.[84] Meanwhile, the employer in question carries the risk of paying a penalty on informal arrangements in his owned business. When the enterprise is formally registered but evades financial liabilities by using informal contracts or declaring artificially low wages, the owner may not be able to report its tax-deductible costs in

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[80] EY Economic Analysis Team, *Shadow Economy Exposed*, 24.

[81] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 108.

[82] EY Economic Analysis Team, *Shadow Economy Exposed*, 24.

[83] Ibid., 26.

[84] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 108.

full. In such cases, the firm's revenues may appear substantial on paper, while the actual profits are considerably lower.[85] This creates an issue particularly when attempting to apply for additional funds or grants for the business.

4.5.2. Benefits

Upon certain conditions, the key actors may directly or indirectly gain an advantage from the sustained grey economy. For instance, the employer may rely on informality to ensure the survival of his business, preserving the jobs it provides. Smaller businesses compete in the free market against corporate giants, which benefit from economies of scale and low costs of production. Moving their activity into the shadows allows for maintaining production, covering labor costs, and generating just enough profit to continue operation by the owner. It is worth noting that the informal sector generally has lower productivity than its formal counterpart, offers different products, and attracts a different clientele. The relatively small contribution of a single unregistered or underreporting firm to the national GDP challenges the "parasite" perspective, according to which those informal enterprises constitute unfair competition to the large and more productive businesses.[86]

Simultaneously, workers who struggle to find formal employment, whether due to lack of proper education, mismatched skills, or other social and professional disadvantages, can find opportunities in the shadows. For many people, having an informal job offers greater dignity than having no job at all. It is not only beneficial in an economic sense by providing the individual and his family with larger resources, but it can also elevate one's social status, preserve mental health, and even deter crime.[87] Therefore, informality may indirectly prevent a negative chain of effects in the society, benefitting it as a whole. What is more, in countries with large government corruption, the fiscal pressure created by the tax gap may actually offset this malpractice. This becomes evident in the countries marked by pervasive bonuses, premias, and financial favors among the bureaucracy, which are no longer possible in a tight

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[85] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 108.

[86] EY Economic Analysis Team, *Shadow Economy Exposed*, 25.

[87] Karsten I. Paul et al., "Employment Status, Psychological Needs, and Mental Health: Meta-Analytic Findings Concerning the Latent Deprivation Model," *Frontiers in Psychology* 14, no.1017358 (2023): 8.

fiscal environment subjected to social pressure.[88] Lastly, in an increasingly globalized world, the grey economy fosters stronger local economies with limited involvement of the international actors. This regional autonomy promotes more labor-based activity and reduces overexploitation of natural resources.

4.6. Poland as a Case Study

The grey economy varies considerably across countries worldwide, reflecting distinct historical, political, and economic conditions. In order to gain a comprehensive picture of a given national informal sector, it must be studied in relation to its local development and values that have shaped it.[89] Given Poland's exposure within a short timespan to directly opposite political and economic systems, the evolution of its grey economy, coined *szara strefa*, which translates to "grey zone", offers a promising case study. Its findings may provide new empirical evidence of key differences between informality in real socialism, transition period, and free market capitalism. The country's economic growth, not to be observed among other Central Eastern European countries, additionally creates a unique environment to examine. Considering Poland's unprecedented GDP growth, one would expect the estimated rate of the grey economy to converge with the most developed economies, yet the available literature points to the nation's persistent participation in informal practices. This may appear counterintuitive at first, especially given the relatively low level of tax liabilities in the country. Unlike in many Western European economies characterized by high increments of the cost of labor through several tax brackets, sometimes perceived as "penalty" of income increases, in Poland there are only two tax levels: 12% for annual earnings exceeding around €7,000 and 32% for income greater than about €28,500. The income of entrepreneurs is usually taxed at a flat rate of 19%, although some professionals from key industries benefit from a reduced rate.[90] This suggests that neither tax burdens nor economic growth alone can fully explain the prevalence of the grey economy in the country. Hence, a more

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[88] EY Economic Analysis Team, *Shadow Economy Exposed*, 25.

[89] Valters Kaže, Roberts Škapars, and Gatis Bolinskis, "Consumer Social Values Behind the Grey Economy," *Intellectual Economics* 5, no. 3 (2011): 423.

[90] PwC, "Poland – Taxes on Personal Income," *PwC Tax Summaries*, February 21, 2026, https://taxsummaries.pwc.com/poland/individual/taxes-on-personal-income.

comprehensive analysis, considering economic factors alongside national culture and behaviors shaped by Poland's turbulent modern history, may offer invaluable insights into its informality.

5. METHODOLOGY

The present thesis adopted an interdisciplinary research methodology situated at the intersection of history, political economy, and cultural studies. It examined the historical development of Poland's economic transformation from the late socialist Polish People's Republic to a full-fledged market economy, investigating the link between its socio-economic effects and the evolution of informal practices within society. The objective was to identify pivotal events conducive to development of the grey economy in the country and assess how Poland's remarkable growth influenced its scale and economic significance over time. The analysis drew on existing theory on the grey economy, documented evidence of key informal practices in the country, macroeconomic indicators, linguistic and national sentiment analysis, as well as expert opinions.

Drawing on the discipline of history, the study sought to chronologically analyze major political, economic, and social developments that shaped Poland's transformation from a socialist state under Soviet influence to a market economy integrated in the European Union. Given the broad temporal scope of the thesis, the years under consideration were divided into three distinct political-economic systems, each characterized by its own institutional arrangements, economic models, and social conditions: the late PRL period, the establishment of the Third Polish Republic and its transformations towards a parliamentary democracy and a market economy, and Poland's EU membership. This periodization allowed placing emphasis on major historical events and structural reforms, while defining the key informal practices for each phase in Poland's transformation. Particular attention was drawn to the turning points in modern economic history of the country, including the 1989 Round Table Talks, the implementation of Balcerowicz Plan in 1990, tax reforms throughout the 1990s, 1995 currency denomination reform, 2004 EU enlargement, global economic downturn following the 2008 Great Financial Crisis, economic reorientation initiated in 2015, the Polish Order implemented throughout 2022-2023, and Poland's trillion-dollar GDP milestone. The discipline of economics complemented the study by providing a conceptual framework for investigating the economic systems and fiscal reforms in terms of growth, productivity, labor market conditions, and social impact. These figures were analyzed specifically in terms of their potential to generate economic inefficiencies conducive to development of the informal economic activities in the country. In addition, elements of cultural and social studies were incorporated where relevant to determine language adaptation and public attitudes towards Poland's transformation and parallel development of its grey economy. This approach was integrated into the study, in view that the motivations behind informal activity are often specific to the individual or community, which renders considerations of identity, perception, and patterns of cultural behavior relevant.

The study employed a mixed-method research design. It proceeded first with a qualitative approach introducing a systematic review and interpretation of historical and cultural data available across published book chapters and scholarly articles, supplemented by secondary data gathered from newspaper publications. This approach enabled compiling data on economic history of Poland and development of informal practices particular to each investigated period, often drawn on interviews and field studies conducted throughout the last decades. The softening of censorship towards the fall of Soviet control in the country allowed for first relevant literature to be published in the 1980s, which influenced the choosing of this time period as the beginning point of the analysis. The quantitative approach was subsequently adopted to incorporate statistical data and economic analysis to evaluate the trends, developments, expectations, and the impact of events identified through the historical review. The data set chosen included Poland's annual GDP and GNP growth, labor income share, GINI coefficient, inflation, business demography, and most importantly, annual estimates of the size of Poland's grey economy. Both national and international data were included to ensure the most reliable temporal sets and comparative data. It should be noted that certain economic data was only available following 1995, and that harmonization of different sources of economic figures was necessary at times in order to obtain a complete dataset. The end of analysis was set to the year 2025, representing the most recent point in time documented in published literature and included in economic data.

In order to address the gaps and answer additional questions raised by the research, the study was augmented by empirical data collected through interviews with three individuals with direct experience or informed perspective on the topic. All participants comprised Polish nationals, who represent the best understanding of Poland's economic history and sociocultural context. The participants were informed about the purpose of the conversation and gave consent to include their insights in the present master thesis. Two of the interviews were recorded and transcribed for the analysis, while the third was conducted in the form of a written exchange of questions and answers. The participants were selected through purposive sampling, which provided comparative data of diverse perspectives and fields of expertise. The first interview was conducted with Dr. Michał Możdżeń; a political scientist and economist at the Department of Public Policy at the Cracow University of Economics, and a research partner of the Vienna Institute for International Economic Studies. Given his extensive academic work and practical implementation of political economy topics, he was selected as the expert for macroeconomics and fiscal policy for the purpose of the current research. The questions addressed during the interview with Dr. Możdżeń were related to the macroeconomic performance and economic growth model of the country, next to businesses demography, and compensation of the employees. In particular, he provided an analysis of the drivers, beneficiaries, inefficiencies, and challenges of Poland's GDP growth. In addition, he discussed the divergence of the international and national perspectives of Poland's successful transformation over the past decades. Finally, he expanded on the discussion by situating it in the context of the grey economy and broader tax pathologies. The second interview was conducted with Dr. Piotr Dybka; the manager of the EY Economic Analysis Team and assistant professor at the Warsaw School of Economics. Owing to his vast experience in policy-driven research and applied economic analysis, he was selected as the expert for the grey economy and regulation assessment. During the interview, Dr. Dybka shared insights about the development of the grey economy in 21st century Poland, the relation between the economic growth and the informal sector, and most notably, the common challenges and errors encountered in estimation methods. In addition, he discussed the heterogeneity of tax morale across society and its development over time, next to the concept of the tax gap, its typology, and its relevance to the topic of the grey economy. The third contact was established with a former senior tax administrator with extensive experience handling tax evasion and underreported economic activity. The communication was facilitated through a mutual acquaintance and conducted in writing, both at respondent's request, given the sensitivity of the discussed topic. The exchanged questions and answers addressed the scale of the grey economy in Poland, the individual motivations behind it, and the type of enterprises that typically engage in informality. In addition, the respondent offered his personal perspective on the current contributors to the grey economy in the country.

6. HISTORICAL FOUNDATIONS

ECONOMIC DEVELOPMENT OF POLAND

When Western Europe stood back on its feet after World War II, beginning the reconstruction and integration period, Poland within roughly 20 years of gaining independence in 1918, effectively lost it again, transforming to the Polish Underground State engaging in combat against the USSR till the late 1980s. While countries like France and Germany enjoyed gradual economic stability and revived political foundations, Poland would follow a turbulent path till almost the end of 20th century. According to the Warsaw Institute's publication, "[w]hile Western societies went on to rebuild their homelands after the war, the UK saw the onset of Beatlemania, and Elvis Presley's career was in its infancy, gunshots were still being heard in Poland."[91] The post-war developments in the country may be best understood through three distinct phases: 1) the Soviet Union's Socialist Satellite during 1952-1989, 2) the reconstruction years and westernization of 1989-2004, and 3) the fully-fledged market economy as one of the EU members following the 2004 enlargement. Each period produced unique social and economic developments, and only when analyzed together, they reveal historical forces that shaped Poland's contemporary identity, institutions, and growth.

[91] Karol Wołek, "A Post-War War. The Years of 1944–1963 in Poland," *The Warsaw Institute Review*, October 1, 2018, https://warsawinstitute.org/post-war-war-years-1944-1963-poland/.

6.1. Polish People's Republic: A Soviet Satellite

Despite the end of World War II in 1945, Poland did not regain its sovereignty for another four decades. The years 1952-1989 represented a complex period in the history of Poland, marked by asymmetric political developments, institutional transformations, and shifting social dynamics. This era is frequently referred to the country's statehood in place, the Polish People's Republic, abbreviated by its citizens to "PRL." It served as a formalization of a socialist system that had already been developing under Soviet influence in the preceding years, stretching as far as the late years of Nazi occupation of Poland. It has been well-documented that the Polish nation resisted the system from its very inception, fighting against the Soviet forces infiltrating the central government, mostly through underground channels. The farmers opposed collectivization, while the Polish Catholic Church fought for its autonomy.[92] The independence forces gradually diminished as a result of their suppression and remained limited after the creation of the PRL in 1952, replacing the Republic of Poland. Strong state control and widespread censorship defined the following decades. The nation had to adapt to the new regime's rules, nationalization of virtually all means of production, and the privileged position of the communist party; the Polish United Workers' Party (PZPR).[93]

In the 1970s, real socialism came to be seen as a defunct system, leading to an economic crisis and people taking to the streets. Mass protests broke out among the workers in 1970 and 1976, brutally suppressed by the government, which significantly undermined the PZPR's legitimacy.[94] The following events would arguably prove defining not only for the Polish nation, but also for the future of the Iron Curtain and the formation of new global forces. In 1978, a Polish national; John Paul II, was elected to the role of Pope. A year later, in 1979, he would lead a pilgrimage back to his homeland to support the Polish nation and instill hope for a better future. This event, according to many, ignited the largest public protest in the history of the country, beginning in August 1980 in Gdańsk Shipyard, and gaining the

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[92] Łukasz Kamiński, "Solidarność – narodziny ruchu społecznego," *Muzeum Historii Polski*, accessed April 15, 2026, https://muzhp.pl/wiedza-on-line/solidarnosc-w-czterdziesta-rocznice-narodzin-ruchu-spolecznego.

[93] Translation of the official name of the party: *Polska Zjednoczona Partia Robotnicza*.

[94] Institute of National Remembrance, "The Anniversary of Solidarity: A Legacy of Freedom," August 28, 2025, https://eng.ipn.gov.pl/en/news/11979,The-Anniversary-of-Solidarity-A-Legacy-of-Freedom.html.

support of roughly 10 million members in just a year.[95] Some have even compared the scale of events taking place in Poland during 1980-1981 to the Russian revolutions of 1905 and 1917.[96] The subsequent signing of the Gdańsk Agreements established the first independent trade union in the communist bloc, restoring dignity and hope for freedom among the society, but most notably, providing new impetus for greater autonomy and prosperity. As news reached Radio Free Europe, the eyes of the world turned to Poland, forcing the communist authorities to make concessions. Labor unions began to form, frequently making economic and political demands. They provided fertile ground for conceptualizing and initiating a political shift, with the aim of overthrowing the Soviet-led authorities.[97]

In pursuit of common interests, many small labor unions merged into one movement led by Lech Wałęsa in November 1980: "Solidarność" became reality. A greater freedom of press was renegotiated, while favorable concessions to workers were secured, including higher salaries and shortening of the working week. The members of Solidarność began drafting reforms for nearly every sphere of public life, requiring another decade of struggle against the regime before implementation. In response, the authorities sought to exploit the intensifying economic crisis against the independence movement and exhaust the society.[98] In violation of Soviet law, the government introduced martial law lasting between 1981 and 1983, which forced Solidarność to move underground and pursue its objectives towards democratization and market economy from hiding. The role of the movement was significantly weakened after the formal end of the emergency state. Only in 1988, general protests spread across the country, resulting in the negotiations at the Round Table between Solidarność and the communist party.[99] However, before the Third Republic was formed and Poland officially began its "westernization," the nation endured some of the most challenging economic conditions during the PRL, anticipating a radical economic and political transformation.

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[95] IInstitute of National Remembrance, "The Anniversary of Solidarity."

[96] Ther, *Europe since 1989*," 64.

[97] Kamiński, "Solidarność – narodziny ruchu społecznego."

[98] Ibid.

[99] Ibid.

6.1.1. Economy of Shortages

The Soviet Union exercised at large its control over the Polish government and market for more than 40 years. It did so in a socialist manner representative of the Eastern bloc. The industries were centrally owned with most citizens working for the public production, foreign trade played a limited role, and most significantly, a general shortage of essential products persisted. In 1947, the law of supply and demand was officially rejected, while profit-making became illegal.[100] Prices were determined centrally, impacting private vendors who were subject to severe consequences for selling commodities at a higher price than the domestic market rates. Five years later, in 1952, the possession of foreign currencies was outlawed to further contain the national economy to its borders.[101] Those who engaged in business with foreign entities could be punished for hindering the functioning of the socialist system. These regulations practically removed competition and any price divergence. Large purchases and deficit goods, such as apartments, cars, or landlines, were allocated based on individual conditions and with waiting time up to several years. In such circumstances, people began to trade everything in short supply, including information where scarce goods to be found. Meanwhile, premium products, such as chocolate, coffee, or soap, could serve as bargaining chips in administrative offices.[102]

Such a system could only survive under the central planning of the entire economy. Government agencies determined quotas; the type and quantity of goods to be produced, the schedule, and the rules of their distribution. The 1980s marked the inception of greater autonomy of individual enterprises to make decisions regarding their operations. Still, the state retained ownership, ensured the supply of raw materials, and centrally distributed the produced commodities. Notably, the strategic industries, such as steel production, were excluded from the initial stages of economic liberalization.[103] To guarantee the success of real socialism in Poland, the communist party aimed for a nearly universal employment. In order to achieve this, the working age population was assigned occupational roles by the

[100] Morzoł and Ogórek, "Shadow Justice," 64.
[101] Ibid., 66.
[102] Pawlik, "Intimate Commerce," 78.
[103] Kawalec, "The Dictatorial Supplier," 128-129.

government; men were generally offered employment in factories and women in administrative offices or services. The women's participation in the workforce was particularly promoted through a range of work benefits, which resulted in almost a half of the workforce in 1990 consisting of female workers.[104] Yet, their role as mothers and housekeepers was simultaneously reinforced, creating double expectations. Remaining at home was not a viable option, as one income was insufficient to provide for the family. The outcome was substantial: the employment rate among women in Poland significantly exceeded the one in Western Europe, on average 30% higher in the years 1950-1985.[105]

6.1.2. Kartki: The Rationing Era

The currency played a diminished role in Soviet Poland. One could acquire all the currency by the country, denominated as *złoty* since the interwar period, yet still fail to purchase basic products due to the persistence of the empty shelves. In order to regulate the distribution of scarce commodities, the authorities introduced the infamous *kartki*. It was a system of goods rationing, similar to wartime and emergency measures employed elsewhere. While limited trade of medical products, drugs, military equipment, or oil, is supported either on social or economic grounds, once daily products such as food articles and clothing are systematically rationed, it demonstrates political perturbations or economic failure in the country.[106] *Kartki*, translated into "ration stamps," became the primary form of payment in Polish stores. Each specified the type and amount of the product allowance, ranging from more luxurious items, such as coffee and meat, to sugar, bread, or even toilet paper. Other deficit goods, such as cars, building materials, or coal, were only to be acquired through one or another version of a ticket, receipt, or coupon. It must be noted that rural communities would often be excluded from the allowances, due to the belief that they can provide for their own subsistence.[107] The system was mixed, meaning that one could still use currency to purchase goods otherwise allocated through stamps; however, the prices of the "free-market"

[104] Ania Plomien, "Women and the Labor Market in Poland: From Socialism to Capitalism," in *Globalization, Uncertainty and Women's Careers: An International Comparison*, edited by Hans-Peter Blossfeld and Heather Hofmeister (Cheltenham, UK: Edward Elgar Publishing, 2006), 250.

[105] Ibid., 252.

[106] Zawistowski, "Kartki, bony, bilety, zezwolenia i inne przepustki do szczęścia," 168-169.

[107] Ibid., 175-176.

products would be several or several dozen times more expensive. The economy of the Polish People's Republic deteriorated to such an extent that basic necessities were rationed intermittently for 21 years, representing more than two thirds of its lifetime.[108] The amount of the ration stamps to be printed was calculated according to the production quotas and economic developments in the country, yet many stores could not supply the demand, closing within a few hours after opening each day and forcing many to wait days to acquire a certain product. Lines at the stores persisted, becoming a symbol of the Soviet era.[109]

In light of the inefficiencies arising from the implementation of the rationing stamps, a system of special permissions, categories, and exceptions was formed, to which party members had privileged access. Meanwhile, the general society sought to obtain undue stamps, traded allowances across different products, of which alcohol and cigarettes proved the primary exchange tokens, or even extorted the coupons from others.[110] There were instances of individuals stealing the stamps from printing centers next to attempts to forge the rationing documents. This injustice led to widespread frustration, expressed through demonstrations against the inadequate state distribution of commodities. Particularly challenging became the hunger protests in 1981, which spread throughout major cities in the country, marking the streets with banners stipulating: "We will not eat stamps."[111] *Kartki* were only gradually removed, product by product, as the communist project in Poland was coming to an end. It was not until the fall of the PRL in 1989 that a number of items finally entered the free market.

6.1.3. Disproportionate Punishment

Following the arrival of the Red Army in previously Nazi-occupied Poland, a new legal system was gradually established, where one could arbitrarily be acquitted of a charge at the discretion of state authorities. Several statutes were introduced regarding similar criminal offenses, so that one could be found guilty under one regulation or another.[112] This was an

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108 Zawistowski, "Kartki, bony, bilety, zezwolenia i inne przepustki do szczęścia," 170.
109 Ibid., 181- 182
110 Kosiński, "Obok PRL," 558.
111 Zawistowski, "Kartki, bony, bilety, zezwolenia i inne przepustki do szczęścia, 171, 182.
112 Morzoł and Ogórek, "Shadow Justice," 66.

effective strategy for the persecution of “political enemies.” Any opposition to the communist party could be interpreted as a violation of the rules in place. The law enforcement forces were extremely brutal in suppressing the Polish population in any activity diverging from the public political and economic discourse. They demolished private property, by force nationalizing what was left of non-state enterprises, while the judiciary was instructed to deliver judgements and impose capital punishment or labor camp sentence for criminal acts. The monetary fines were absurd and often resulted in concerned individuals facing lifelong debt.[113]

Economic crimes, such as funds embezzlement, counterfeiting, smuggling across the border, speculation, and theft of public goods, were addressed as grave violations as they hurt the economic interest of the PRL. However, even minor informal activity could have put one at unbearable consequences. Considerations such as lack of economic assets or inheritance, low-paid jobs, limited access to basic nutrition, clothing, and house equipment, were not considered in the imposed punishment. Whether the offence involved owning a private business without giving concessions to the state, which attempted to eradicate all private activity by driving owners to bankruptcy; engaging in unauthorized production and trade, or simply earning a marginal profit; was of little relevance.[114] When detected by the authorities, it would be framed as undermining the communal life and production, aversion to work for the good of all, hatred towards the USSR, and spreading the Western propaganda. Once formally charged, the defendants would be subject to labor camp time for several months if not years, forced migration to other provinces in the country, and frequently concurrent monetary fines borne by the family.[115]

6.1.4. Tax System in the 1980s

The tax system implemented in the Polish People’s Republic reflected the specificity of the political and economic arrangement of the country as a part of the Eastern Bloc. The means of production were socialized; that is, they were controlled and regulated by the state, national economic plans determined quotas, while foreign trade was only available to the top

[113] Kosiński, “Obok PRL,” 564.
[114] Morzoł and Ogórek, “Shadow Justice,” 68.
[115] Kosiński, “Obok PRL,” 558-559.

officials. In such a system, most taxes were transferred between the nationalized enterprises and the government, amounting to some 80-90 % of all budgetary revenues, removing the need for related parliamentary legislation.[116] In principle, the taxation was designed under the values of equality and universality, although they applied only insofar as the affected workers were integrated into the socialist system. Those employed in the state factories or cultivating state land were not obligated to submit income tax returns and hence, had very low fiscal awareness. In contrast, the same system was weaponized to suppress individual economic activity. Private owners and farmers constituting the minority were deprived of the same tax privileges and had to adjust to the unstable, relentlessly changing tax rules. The tax administration applied internal bylaws, guidelines, and instructions, none of which were officially disseminated. More notably, these administrative bodies were not subjected to judicial control and consequently, could impose fiscal penalties within their own jurisdiction, as long as the punishment did not involve imprisonment or restriction of liberty.[117]

The 1980s were a truly specific period for the future of Poland. Due to heightened activity of "Solidarność," many democratic elements were gradually introduced, including modifications of the tax system. These were negotiated with the government as necessary market mechanisms and regulations that would save the already crippling economy of shortages. The reform began with the introduction of the *nullum tributum sine lege*; "no tax without law" principle in 1980.[118] It essentially guaranteed that any alterations regarding people's tax obligations were to be first supported by an officially published statute, which removed the arbitrary power of the government's decrees and eased the burden on the private sector in particular. Over the course of the following year, 1981, judicial control was introduced over tax administration, allowing Polish citizens to challenge tax decisions in front of court anchored in objective truth and legitimacy of private interests on par with public interests.[119] While it had limited impact on the laborers in the public production, the newly enacted law curtailed a range of favorable administrative bylaws and privileges granted predominantly among the party members and central authorities. Eventually, at the turn of

[116] Sek, "Tax in History," 470-471.
[117] Ibid., 471.
[118] Ibid.
[119] Ibid., 472.

1988, a principle of equality in taxation of economic activities, regardless if under state or non-socialized economy, was enshrined in Polish law. From 1989 on, every individual carried an equal right to engage in entrepreneurship, but in the same vein, everyone became subject to tax burdens under uniform rules. In the following years, the remaining disparities between the public and private sectors would be fully removed.[120]

6.2. Westernization

The first free elections in Poland since the outbreak of World War II took place in 1989, beginning the 15 years of economic and political transformation of the country. The scheme for shifting from a centrally run economy to an open market was overseen by a Polish professor, economist, and statesman; Leszek Balcerowicz. Hence, the project would remain known as the "Balcerowicz Plan." It spanned a series of legislative acts that resulted in comprehensive privatization, new taxation law, independence of the national bank, private international trade and foreign investment, as well as a range of social transfers and protections necessary due to rising unemployment rate. The public's initial perception of the plan was very positive, reflecting the widespread belief that the socialist system was the only factor hindering the nation's economic prosperity. The opinion changed once the Polish economy entered a negative shock. The removal of state subsidies and opening the country's border to trade immediately resulted in unprecedented inflation of close to and above 400% in 1989 and 1990 respectively.[121] The rate remained in double digits in the following years. Simultaneously the publicly owned companies laid off large numbers of workers in redundant positions or artificially protected industries, either transitioning to private ownership or declaring bankruptcy. The gross national product fell by 18 percent in just two years, 1990-1991, while industrial production dropped by almost a third.[122] The government had to exercise fiscal discipline, which additionally limited welfare transfers. In effect, the initial period of Poland's "Westernization," instead of anticipated prosperity and abundance, resulted in increasing poverty. Those who came from the upper strata of the socialist working class often could enter the new government and institutions created in the Third Polish

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[120] Sek, "Tax in History," 472.

[121] Garland, "Reflections on the Balcerowicz Plan," 228-229.

[122] Ther, *Europe since 1989*, 82.

Republic, but the people outside of intelligentsia went along with life, adapting to economic hardship.[123] The widespread disappointment was driven by comparison: while in Soviet Poland everyone owned little due to a general shortage, once stores were filled with Western goods, which few could afford, this lack of ownership became painfully felt. Over the next years, when the general health of the economy began improving, the income inequality widened, creating a particular gap between bigger cities and peripheral villages marked by higher unemployment rates and multi-child families.[124] Unlike in many other Eastern bloc countries, unemployment in Poland declined at an exceptionally slow pace over the course of a decade, contributing to prolonged economic instability. Despite the challenges of transformation and a need for reform moderation, the market economy slowly took shape, eventually leading to Poland's recognition as the first successful transition country. Once capitalism was firmly established and the economy stabilized, Poland was ready to fulfill its long-held ambition: enter the European Union.

6.2.1. Round Table and Western "Reapproachment"

The Round Table negotiations were established in February 1989 and would last for two months.[125] Its name was symbolic as it involved the Soviet party to invite the leaders of Solidarność to discuss together at one table the future of Poland and share of power. Its resolutions allowed for holding the first democratic elections in Poland since the interwar period on June 4 the same year, which although assumed by the authorities to prolong the communist rule in the country, yielded a crushing victory for Solidarność and paved a way to democracy and market economy.[126, 127] It also inspired the remaining Soviet bloc republics to pursue their struggle for independence and fundamental reform. In hopes to never repeat the course of history, Poland immediately oriented itself towards the political West and ambitiously pursued economic reform. Accordingly, the new Polish authorities almost

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[123] Ther, *Europe since 1989*, 77.

[124] Tomasz Daras, Leszek Zienkowski, and Zbigniew Żółkiewski, "Income Inequality and Poverty in Poland in 1993–2004," *Bank i Kredyt* 11-12 (2006): 36.

[125] Kamiński, "Solidarność – narodziny ruchu społecznego."

[126] Ibid.

[127] Ther, *Europe since 1989*, 50.

immediately undertook the necessary steps to the EU accession, to be completed in 2004, and joined NATO in 1999.

After the collapse of the Berlin Wall in 1989, the West moved to facilitate the transition in the Eastern bloc, believing that the change may be made by "reapproachement."[128] The repulsion towards the welfare system after the memories of the PRL, pushed Poland to follow the more radical neoliberal policies of Ronald Reagan and Margaret Thatcher.[129] In the short-term, the austerity program upon the IMF recommendation would postpone the ascendance of the abundance and wealth people expected. In fact, Poland experienced consecutive years of hyperinflation and wage instability on top of the mass unemployment due to laying off workers in the previously socialized enterprises. By that time, however, Poland, just as other indebted Central and Eastern European countries had no other choice than to follow foreign advisors in order to secure the financial support of the Western capitalists.[130] On the other hand, the weak post-socialist industries marked by low productivity had to modernize to compete in global trade, which could be done by outsourcing it to private entrepreneurs who would introduce Western capital and technology. To society the austerity program was communicated as the only alternative: "People were told that sacrifices now would make way for a better future."[131]

6.2.2. Balcerowicz Plan: Impoverishment of the Society?

The task of designing the points of the economic reform were entrusted to Leszek Balcerowicz, who cooperated with the IMF representatives overseeing the plan. Already in October 1989 the program consisting of 11 points was presented to the lower house of the parliament and on the last day of the year the President signed the proposal.[132] The public opinions of the plan were very high, believing that once the real socialism is gone and political power is no longer monopolized by one party, scarcity will end and economic prosperity will descend on the Polish society. A notable research of Garland (2015) has offered an insightful

[128] Ther, *Europe since 1989*, 36.
[129] Ibid., 44.
[130] Ibid., 48.
[131] Ibid., 82.
[132] Garland, "Reflections on the Balcerowicz Plan," 227.

analysis of the Balcerowicz Plan's short-term challenges for the society and macroeconomic implications, facilitating the following discussion.[133]

Price Liberalization. To open Poland's economy to international trade and allow commodity prices to reflect market conditions, the price floors, price ceilings, and subsidies so prevalent during the PRL had to be abolished. One immediate challenge was determining the actual value of goods, which had often been reflected more accurately in black-market prices than in official ones. More importantly, once prices were allowed to respond to supply and demand, inflation became unavoidable. Chronic shortages had artificially suppressed prices, and their removal inevitably led to sharp increases. These considerations were central to Balcerowicz's decisions, including the temporary restraint of wage growth in order to limit inflationary pressures. Nevertheless, the short-term consequences of the reform were severe. Inflation exceeded 400 percent in 1990, effectively wiping out a large share of household savings. Foreign goods began flowing into Poland in unprecedented quantities, filling store shelves that had previously stood empty. Yet many consumers had little purchasing power. Their savings had evaporated, wages lagged behind rising prices, and hyperinflation reduced real incomes. The situation had effectively reversed: there was now an abundance of goods available, but relatively few people could afford them. For many households, this created the impression that they had become poorer despite the visible improvement in market supply.

Trade Liberalization. Opening Poland to foreign trade was another key pillar of economic transformation. Economic growth theory identifies trade openness as one of the fundamental determinants of long-term income growth, while institutions such as the IMF have argued that integration into global trade and investment networks is essential for substantial improvements in living standards. There was, however, another important consideration. Until 1989, Polish producers had largely enjoyed guaranteed markets within the Soviet-led Comecon system, where trade flows were determined by state planning rather than market demand. Empty shelves in Poland often reflected the fact that domestically produced goods were being exported elsewhere in the socialist bloc, particularly to the USSR. After 1989, the opposite problem emerged. Polish firms could no longer rely on protected

[133] Garland, "Reflections on the Balcerowicz Plan," 227–244.

eastern markets and had to compete for customers elsewhere. The signing of the Europe Agreement in 1991 established an association with the European Community and initiated a gradual process of economic integration. Export and import licensing requirements were largely removed, private entrepreneurs gained the right to engage in foreign trade, and the state's monopoly over international commerce was progressively dismantled. Tariffs and other trade barriers were reduced, allowing Polish and European goods to move more freely across borders. These reforms quickly addressed the problem of shortages by increasing the availability of imported products. At the same time, they transferred responsibility for finding customers, developing distribution networks, and organizing logistics from the state to individual enterprises. Trade liberalization also required currency reform. Foreign goods could not move freely without a currency that individuals and firms could exchange and use for international transactions. Although the early peg of 10,000 *złoty* to one US dollar provided temporary stability, persistent inflation eventually necessitated the 1995 currency redenomination. In the longer term, exposure to international competition improved the quality of Polish goods, as only products desired by consumers could survive in the market. At the same time, rapid trade liberalization limited the emergence of powerful oligarchic structures that came to dominate parts of the economy in several other post-socialist states.

Fiscal Austerity. Establishing fiscal discipline was viewed as necessary both to address the foreign debt accumulated during the final decades of communist rule and to restore confidence in the state's finances. Budget deficits had to be reduced gradually to provide future governments with greater fiscal flexibility and policy autonomy. Fiscal restraint also reflected the recommendations of the Washington Consensus, which strongly influenced reform strategies throughout the region. Equally important was the creation and enforcement of a new tax system. Without effective compliance, even well-designed tax rates would fail to generate sufficient revenue, creating what economists describe as a soft-budget constraint. In such a system, deficits persist because of weak enforcement, loopholes, delays, or politically motivated exemptions. Fiscal responsibility was expected to improve macroeconomic stability, support exports, encourage investment, and contribute to long-term growth. At the same time, austerity measures carried significant social costs. While unemployment did not rise immediately, largely because many state enterprises initially retained excess workers, redundancies gradually appeared as firms adjusted to market conditions. The burden of reducing inflation and restructuring the economy was therefore increasingly borne by workers through job losses and declining job security.

Privatization. Privatization represented one of the most far-reaching elements of the Balcerowicz Plan. State-owned enterprises were frequently overstaffed, reflecting the socialist commitment to full employment rather than economic efficiency. The objective of the reform was the diffusion of state ownership over land, industry, services, and housing in order to establish a functioning market economy. This objective was motivated both by ideological preferences for private property and by the belief that private ownership would encourage more efficient use of resources, attract investment, and generate long-term growth. Policymakers were fully aware that privatization would produce painful consequences. Workers whose positions had been maintained through subsidies and administrative decisions rather than market demand would inevitably lose their jobs as private owners sought to reduce costs and improve efficiency. Although significant unemployment was expected in the short term, reformers believed that surviving enterprises would become competitive in international markets and ultimately benefit the economy as a whole. In practice, however, the pace of privatization was slower than originally envisioned. As unemployment increased, governments became more cautious about allowing large enterprises to collapse. Some firms received temporary support through deferred social security contributions, waived tax liabilities, or preferential access to credit. Such measures were often directed toward enterprises with significant economic or symbolic value, including the Baltic shipyards and the producer of the Polonez automobile.[134] While some were eventually privatized, others proved unsustainable and were closed. By contrast, the so-called "small privatization" of trade, services, and small-scale manufacturing achieved much greater success. Many Poles eagerly entered private business, seeking opportunities that had previously been unavailable under socialism. Over time, however, growing competition also reduced the number of firms able to survive in the increasingly open market environment. Alongside these reforms, a social safety net was introduced to mitigate the effects of rising

[134] Ther, *Europe since 1989*, 90.

unemployment and poverty. Social insurance contributions were established to finance healthcare, pensions, disability benefits, accident insurance, and unemployment assistance. Combined payroll contributions reached nearly half of gross wages, while additional payments financed labor market programs. Although initially generous, many benefits were reduced already in the early 1990s as fiscal pressures intensified. The scale of assistance nevertheless illustrates both the severity of the social crisis and the extent to which many citizens relied on public support, including food aid and state-run kitchens, during the transition period.

Tax Reform. In a new democratic state, the tax system had to undergo a reform to make it suitable to the new political and economic realities. The long-term aim of joining the EU played a role for its architects. The tax reform was implemented in a number of stages between 1989 and 1993, beginning with the introduction of a uniform corporate income tax (CIT) paid similarly by the private employers and state organizational units performing economic activity.[135] Only later it was complemented with tax on increment payroll; that is, on raising employees' salaries, and adjusted to the new personal income tax (PIT) rules adopted in 1991. PIT was designed as an equal individual burden calculated based on cumulative income regardless of its sources. Millions of workers were impacted, as everyone now had to file annual tax returns, which naturally increased fiscal awareness and gave a feeling of financial burden, even though earlier the state regularly extracted the tax from every worker. No sector was subject to tax breaks any longer, while some economic activity was subject to lump-sum taxation, higher in the volume but paid at once.[136]

This system in force as of 1992 has been kept to this day in the country, only experiencing changes in values and administration. The third component of today's system was implemented in 1993, the value added tax (VAT) targeting consumption. It was modelled on the EU common system applicable to all goods and services, although it took slightly under a decade to unify it and more importantly, end the continuing dispute between taxpayers and tax administration.[137] VAT proved already then to be at core of poor tax morale

[135] Sek, "Tax in History," 472.
[136] Ibid., 473.
[137] Ibid.

and a public sense of unfairness and burden. The “sin taxes” also originate from this period, as gaming tax was put in place in 1992, and excise tax a year later, in 1993.[138] This means that between 1989 and 1991 there was no effective income or sales tax. The Shock Therapy was introduced without a simultaneous tax system, which was later more difficult to gain public support. It also could not help in financing the budget for the first years, thus allowing for the correction by hyperinflation.[139]

The introduction of a new market-oriented and democratically fitting tax system was an ambitious project completed in minimal time. The covert tax burdens from the Soviet era became apparent and quickly impacted society. Although at first there was a general acceptance of tax reform, without doubt reinforced by the content of a system change and preparedness for the “Western riches,” the subsequent policies and legislative acts, viewed as deliberate complications and increases of financial burden, significantly decreased the uniform acceptance.[140] The early leniency of the system opened new doors for many to avoid the economic hardship inherent to the Balcerowicz Plan. Despite the new tax system in place and mandatory reporting, the new entrepreneurs opening up their business would either not register it to the authorities or underreport the taxable activities. Yes there was punishment for doing so, but little detection or preventive measures were at hand.[141] The system would become stricter and its enforcement forces would be put in place. As Poland’s borders opened, the double tax treaties were signed in a speedy manner; between 1990 and 1996 there would already be forty-one such negotiated treaties.[142] These simply ensured tax revenues from persons traveling across borders for employment, as well as from foreign trade and consumption.

6.3. 2004 Enlargement and the “Polish Miracle”

Following 15 years of systemic transformation, Poland was prepared to join the West, perceived by the nation as a guarantor of political and economic stability. At the Copenhagen

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[138] Sek, “Tax in History,” 473

[139] Garland, “Reflections on the Balcerowicz Plan,” 231.

[140] Sek, “Tax in History,” 475.

[141] Garland, “Reflections on the Balcerowicz Plan,” 234.

[142] Sek, “Tax in History,” 474.

Summit in 2002, the EU recognized Poland's successful completion of its transition to democracy and a market economy, translating into the country's readiness for accession.[143] The pursuit of closer ties with Western Europe through diplomatic engagement and reform-driven integration began almost immediately after the collapse of Soviet control. Although the negotiation process lasted for nearly a decade, Poland and other Central and Eastern European countries were ultimately identified as strategic partners for the EU. The enlargement took place on May 1, 2004, marking the largest expansion in the history of the European Union. Poland's accession to the Single Market that same year, and later to the Schengen Area in 2007, enabled the country's full participation in Western economic structures. The free movement of goods, services, labor, and capital quickly became a reality. With its competitive pricing, Poland experienced significant economic migration, particularly to the UK, Germany, and other EU countries offering higher wages.[144] These migration flows, often providing remittances, had a positive effect on the Polish economy. At the same time, tourism from other European countries increased, technological transformation gathered pace, and new infrastructure projects were launched. These developments gradually restored Polish pride after the period of disappointment and economic hardships.

Upon joining the EU, the Polish economy experienced a combination of positive developments and encouraging forecasts, alongside ongoing challenges. By 2004–2005, Poland had already emerged as the fastest-growing economy among EU member states.[145] Accession brought numerous benefits, most notably access to structural funds, which not only reinforced but also accelerated the implementation of infrastructure and agricultural aid programs that had begun in the 1990s. Exports and FDI, the two main drivers of Poland's economic growth up to that point, intensified even further after EU accession. Although there were concerns that Poland might repeat the post-1989 experience of worsening trade deficits upon entering the free trade area and customs union, these fears proved unfounded. By then, Polish production had shifted its focus to strategic commodities in high demand for Western European manufacturing, strengthening the country's trade position.[146]

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[143] Ther, *Europe since 1989*, 78.
[144] Balcerowicz, "The Impact of Poland's EU Accession on its Economy," 16.
[145] Ther, *Europe since 1989*, 78.
[146] Ibid., 103.

A contrasting, albeit less favorable, dimension to these developments must be considered. Poland presented a significant challenge for the EU, not only because it accounted for over half the working-age population among the new member states, but also due to its particularly low employment rate, just above 50%, and the highest unemployment rate in the EU, at around 20% in 2004.[147] Over the following decade, national unemployment would only drop to 14%, while GDP per capita, adjusted for purchasing power parity, reached just 47% of the EU-25 average.[148, 149] These figures, of course, represent nationwide averages. A closer look at the so-called "eastern wall;" the four voivodeships situated along Poland's eastern border, reveals even starker disparities. These regions ranked among the poorest in both the old and new EU member states, with GDP per capita at roughly 30% of the EU average.[150]

6.3.1. EU Funds Absorption

Despite becoming a net recipient of EU funds, Poland faced persistent challenges in absorbing these resources, which led to several years of net resource outflow from the country. In 2005, for example, only 4.35% of allocated funds were actually disbursed.[151] While factors such as concerns over the quality of legislation, lack of decentralized government and administration, and later issues related to the rule of law played a role, other significant obstacles included the insufficient availability of domestic public funds required to co-finance infrastructure or public health projects. Poland's already strained public budget, low salaries, and low pensions, rendered these years particularly challenging. During the first period of structural funds absorption, 2004–2006, only 11.7% of the allocated Structural Fund resources were actually disbursed.[152] Although these funds are intended to primarily benefit the least developed areas, where the largest share of the population works in agriculture, an analysis

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[147] Plomien, "Women and the Labor Market in Poland," 247.

[148] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 412.

[149] Eurostat report European Commission, Eurostat, *"GDP per Capita in 2004,"* News Release No. 75/2005, June 3, 2005. https://ec.europa.eu/eurostat/documents/2995521/5188566/2-03062005-BP-EN.PDF/2f9cbcd6-8fe7-46f0-bc71-04fdb0d9b27f.

[150] Churski, "Structural Funds of the European Union in Poland," 585.

[151] Normann, "Poland's 20 Years in the European Union."

[152] Churski, "Structural Funds of the European Union in Poland," 591.

of EU fund distribution maps reveals a different outcome. Absorption of EU funding was consistently lower in the agricultural voivodeships of southern and eastern Poland, as well as in the region surrounding the city Łódź, which has been particularly affected by the negative social consequences of restructuring its former textile industry. By contrast, the highest levels of EU fund absorption were concentrated in more developed and economically prosperous voivodeships, especially those containing major metropolitan centers.[153]

In 2008, out of 16 regional units in Poland, 15 were still below the 75% of average EU GDP per capita benchmark.[154] The persisting disparity in economic development led to a decision to grant Poland 20% of all cohesion funds available for the period 2007-2013. The country became the largest beneficiary of the EU grants up to date. These funds were primarily allocated to promote economic convergence with wealthier regions, enhance production competitiveness, and create new jobs. Local governments often chose to direct the majority of received funds toward transportation and environmental improvements to boost investment attractiveness of Poland.[155] The two largest projects financed were the creation of a second line of underground in Warsaw, followed by a construction of an international motorway. Significantly fewer resources were dedicated to supporting human capital or fostering innovation within the economy.[156] Investments in these areas could have provided long-term benefits by strengthening the role of science, encouraging the adoption of advanced technological solutions in both academia and business, and increasing overall knowledge and entrepreneurship, particularly in regions with limited employment and reduced access to education. More strikingly, projects specifically aimed at supporting the poorest regions in Eastern Poland received only 3% of all allocated funds.[157] In the first three years of the period, little progress was made: in 2011, 15 voivodeships remained below 75% of the EU average GDP per capita, with five of them ranking among the 20 poorest regions in the

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[153] Churski, "Structural Funds of the European Union in Poland," 592, 596.

[154] Mosionek-Schweda and Tokarski, "The Absorption of the European Funds Granted to Poland for Period 2007-2013," 49.

[155] Ibid., 58.

[156] Drozdowicz-Bieć, "Reasons Why Poland Avoided the 2007-2009 Recession," 59.

[157] Mosionek-Schweda and Tokarski, "The Absorption of the European Funds Granted to Poland for Period 2007-2013," 54.

EU, each marked by a GDP per capita below 50% of the EU average.[158] Throughout a decade of EU membership, the economic convergence progressed at a slow pace, reinforcing perception among the Polish society of persistent economic injustice.

It is worth noting the number of drawbacks of the funds absorption during these periods. Although the living standards in Poland improved, its economy did not gain substantially in innovation or knowledge that could generate positive spillovers and sustain productivity growth. EU grants were frequently used to purchase existing Western technologies, rendering Polish enterprises consumers of Western products, rather than creators of their own competitive solutions. As a result, much of the financial benefit was exported to more developed EU economies. Moreover, although EU funds created opportunities for business growth, not all entrepreneurs were eligible or selected to receive support. Many smaller start-up ideas were never supported in their development, while certain less valued sectors, such as construction and industry, received comparatively less financial assistance than others.[159]

6.3.2. Global Recession 2007-2009

While the world was shaken by the Great Financial Crisis, initiated already in late 2007 and intensifying with the financial market collapse and banking failure in 2008, Poland stood out as the single EU country to avoid the economic recession. Except for a single quarter, Poland’s GDP growth remained positive, though modest. Inflation did rise, production slowed significantly, and industrial sales declined, but a few remarkable observations allowed to offset these adverse shocks. During 2007-2009, domestic demand and individual consumption were only mildly affected, primarily due to rising prices rather than any imminent threat of savings loss or widespread bankruptcies. The real wages and household disposable incomes saw a temporary increase as a result of personal tax cuts and lower social security contributions introduced by the government in 2007.[160] Unemployment rose

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[158] Mosionek-Schweda and Tokarski, “The Absorption of the European Funds Granted to Poland for Period 2007-2013,” 49-50.

[159] Ibid., 60.

[160] Drozdowicz-Bieć, “Reasons Why Poland Avoided the 2007-2009 Recession,” 43-45.

gradually, while access to bank credit was restricted as a precautionary, risk-averse measure to ensure that banks maintained adequate liquidity.

A range of economic factors in the country provided a cushion protecting Poland from experiencing the worldwide recession. The stabilization of the economy was mainly attributable to two factors: household income and the cost of conducting business.[161] The proportion of household and enterprise financing had historically been low and increased only gradually after EU accession. Banks maintained a restrictive lending policy, particularly towards small and medium-sized enterprises (SMEs), which have been the backbone of Polish business activity. In the early years of EU membership, Poland's external economic ties remained weak and exports relatively low in comparison to the size of its domestic market and consumption. When the economic downturn affected foreign importers, Poland's GDP was only mildly impacted, as most consumption was still domestic.[162] The floating exchange rate of the national currency also played a stabilizing role. It appreciated against the euro and US dollar following EU accession, protecting society from rising import prices before the Great Financial Crisis. Later, during the EU recession in 2009, *złoty* depreciated, rendering Polish exports more competitive.[163] Finally, the recession coincided with the first major absorptions of EU funds allocated in 2004 and 2007, which not only created additional jobs but also attracted foreign investment, based on expectations of future growth and profitability.[164]

6.3.3. Post-2015 Economic Reorientation

Following the 2015 elections, a single party, Law and Justice (PiS) secured both the presidential seat and majority in the parliament, creating a single-party government for the first time in the history of democratic Poland. As a result, reforms could be implemented without the need for negotiations and compromises with the remaining political representations.[165] This allowed the party's socioeconomic agenda to prevail, resulting in several changes, of which fiscal and social public policy shifts should be highlighted. PiS

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[161] Drozdowicz-Bieć, "Reasons Why Poland Avoided the 2007-2009 Recession," 42.

[162] Ibid., 49-50.

[163] Ibid., 57.

[164] Ibid., 65.

[165] Markowski, Radoslaw, "Creating Authoritarian Clientelism: Poland After 2015," *Hague Journal on the Rule of Law* 11, no. 1 (2019): 111.

decreased the statutory retirement age, simultaneously introducing a number of new social programs. The most important of those was to be discussed fiercely in the next few years, the so-called Family 500+ program, under which the government expenditure on family and children support increased abruptly from 1.5% to nearly 3% of the country's GDP.[166] All families were eligible to receive a tax-free benefit of PLN 500 per month, which amounted to roughly EUR 120, for the second and each subsequent child. Those with the lowest income levels were eligible to receive it similarly for the first child. In the run-up to parliamentary elections in 2019, the program was expanded and all parents could claim benefits for each of their children. It was communicated as a necessary investment into families and an attempt to alleviate the demographic shrinkage by encouraging a higher birth rate.[167] However, it also served a welfare function, as it targeted the improvement of living conditions among the poorest families and decreased the extreme poverty rate among children. In 2024, the Family 800+ program replaced it, increasing the payouts to its beneficiaries to PLN 800 per child in one month.[168]

The significance of the program lies in the fact that, while it has undoubtedly had a positive impact on segments of Polish society, it has also led to a substantial increase in public expenditure. To address the resulting fiscal pressure, additional sources of revenue had to be sought. Efforts focused on improving tax collection, which remained relatively low as a result of the cuts introduced by the Polish government during the global recession in 2007-2009.[169] Consequently, a major reform targeting VAT gap reduction was launched, aiming for a significant decrease over time. One approach involved expanding public education, led by government institutions and partisan media. For example, at the end of 2015, a receipt lottery was introduced to encourage taxpayers to request fiscal receipts from retailers and service providers as proof of VAT payment. Beginning in 2017, the upper limit for cash transactions was also reduced by approximately four times, from EUR 15,000, to further

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[166] Wysocki and Wójcik, "Fiscal Sustainability in Poland," 777.

[167] Ministerstwo Rodziny i Polityki Społecznej, "6 lat programu Rodzina 500+. Inwestycja, która opłaca się wszystkim," *Gov.pl*, April 1, 2022, https://www.gov.pl/web/rodzina/6-lat-programu-rodzina-500-inwestycja-ktora-oplaca-sie-wszystkim.

[168] Ministerstwo Rodziny i Polityki Społecznej, "Rodzina 800 plus," *Gov.pl*, accessed May 15, 2026, https://www.gov.pl/web/rodzina/rodzina-500-plus.

[169] Wysocki and Wójcik, "Fiscal Sustainability in Poland," 783.

discourage informal, unrecorded payments.[170] VAT gap reduction was implemented as a complementary policy to the Family 500+ program in an effort to maintain fiscal stability, but it has remained a subject of considerable controversy. Many critics contend that, over time, this approach actually weakened Poland's fiscal position, which became evident during the onset of the COVID-19 pandemic, when the government found itself unable to respond adequately to the shock and to mitigate its negative economic impact on society.[171]

6.3.4. Tax System Change in 2022

The COVID-19 pandemic and Russia's full scale invasion on Ukraine in 2022 represented the most severe financial and legal challenges that Poland faced since 2008. After regaining a majority in parliament and the presidency, the PiS party introduced a package of anti-crisis measures and new fiscal amendments coined *Polski Ład*, the "Polish Order." The economic instability, rising inflation, and deteriorating macroeconomic prognosis were cited as key justification for implementing changes, including the tax law reform.[172] The Polish Order was introduced in two stages: first in January 2022, followed by its update in July the same year. Among its key provisions were tax reliefs and exemptions, most importantly, the almost quadruple increase of a tax-free income threshold and a rise in the second tax bracket threshold. The basic PIT rate was lowered from 19% to 12%. In addition several groups were exempted from personal income tax, falling under "PIT-0," up to specified limit: families consisting of four and more members, young people up to 26 years of age and working seniors, in addition to workers returning to Poland.[173] These were complemented by some of the less welcomed reforms. Health contributions were increased by over 1% of an individual's income and, at the same time, ceased to be tax-deductible for employers. The payroll regulations also became more complex, at times so unclear that even accountants and lawyers struggled to interpret them, leading to frequent miscalculations.

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[170] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 137.

[171] Wysocki and Wójcik, "Fiscal Sustainability in Poland," 792.

[172] Mariański and Radvan, "Tax Amendments in Times of Crises in Poland and Czech Republic," 203-204.

[173] Ibid., 205.

Revisions were necessary within half a year, due to legal inconsistencies, rashed decisions, and unpredictability regarding income. The economic relief for the middle-class was annulled, so was the obligation to calculate hypothetical payments for the following tax year in advance. Developers struggled to keep updating the bookkeeping software, while accountants performing calculations expected a new amendment at any moment.[174] It became shortly evident that the Polish Order, instead of a clear crisis mitigation role, was supposed to promote greater tax compliance and cashless payments.[175] Inadvertently, however, it resulted in perceived injustice of the unprivileged groups of taxpayers, alongside violation of the principles of legislation and loss of confidence in the Polish state and its offices. From the economic perspective, to many employees the changes had a neutral or slightly beneficial effect. However, those running a business, particularly microenterprises, found themselves at a higher financial burden and slowed growth. Owners of firms producing larger revenues began to pay additional payroll of some 60% of a full month of gross earnings.[176] Under the pressure of a broad dissatisfaction of taxpayers, accountants, and even parliamentary members, the Polish Order continued to be revised and simplified well into 2023.

6.3.5. Trillionaire Club

After years of positive projections, in 2025, the Polish GDP reached the trillion-dollar milestone, entering the top 20 economies worldwide, surpassing Switzerland. The transition from the 38th place in 1990 to an invitation to join the G20 talks in 2026 has unsurprisingly received a title of the “Polish miracle.”[177] The same year, the renowned journal, *the Economist*, devoted its cover to “the remarkable rise of Poland” and an article praising the last decades of the country’s immense economic development. The article dubbed Poland as “Europe’s most overlooked military and economic power” and the fourth “musketeer” of Europe, where per capita income more than tripled over the past 30 years, industry is booming, and Polish

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[174] Olszowy and Jabłoński, “Efekty Zmian Podatkowych na Funkcjonowanie Przedsiębiorstw,” 67, 73.
[175] Mariański and Radvan, “Tax Amendments in Times of Crises in Poland and Czech Republic,” 206-207.
[176] Olszowy and Jabłoński, “Efekty Zmian Podatkowych na Funkcjonowanie Przedsiębiorstw, 73.
[177] Biswas, “Polish miracle.”

workers are returning in seeking better life prospects.[178] Since entering the EU, the country's average year-on-year GDP growth almost reached 4%, while the global growth oscillated between 3% and 3.2%, and in the EU only between 1.5% and 2%.[179] In 2024, the country's unemployment was the lowest in the past 30 years. Wages have significantly risen, life conditions improved, consumption increased, particularly in terms of luxury items, earlier rarely affordable by the general population. Yet, some warn against premature conclusions. The high inflation in Poland in the past years, augmented by appreciation of *złoty*, are significant contributors to the high GDP calculations, concealing the slower pace of the real productivity growth.[180] The near-future predictions argue that maintaining a position among the leading global economies will pose a challenge. This is primarily due to Poland's demographic problem, low innovation, bureaucracy and inefficient economic regulations, as well as uncertainty in global trade. Future success is dependent on continued foreign investments in the country and survival of national business, of which the SMEs are at particular risk.[181]

7. ANALYSIS

INFORMALITY THROUGH ECONOMIC, POLITICAL, AND SOCIAL LENSES

The three distinct periods that Poland experienced in the past 45 years were characterized by their own economic challenges and new manifestations of social injustice. Yet, the country continued to grow, drawing international attention to its pioneered successful transition from dysfunctional socialism to capitalist economy. What is frequently omitted in such conclusions is the slow and, for many, painful process of adjustment to the regime changes. Poland's economic history written by national offices and foreign press is "just statistics," not uniformly relevant to ordinary people.[182] Many have attempted to make a

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[178] "How Poland Can Keep Its Place at the Heart of Europe," *The Economist*, May 22, 2025, https://www.economist.com/leaders/2025/05/22/how-poland-can-keep-its-place-at-the-heart-of-europe?utm_source=twitter&utm_medium=social-media.content.np&utm_campaign=editorial-social&utm_content=discovery.content.

[179] Zelek, "Polska w top 20 największych gospodarek świata – zasłużony awans czy przypadek?," 9.

[180] Ibid., 15.

[181] Ibid., 27-28.

[182] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 418-419.

good living from regular employment, only to face disappointment and pressure to enter the informal market. This is key to consider in the context of the country's systemic changes, as many people anticipated better living conditions and new opportunities, yet they have instead observed these benefits distributed unevenly across the society. Hence, the current analysis attempts to rewrite the common economic analysis of Poland's success by tracing how the changing realities of life and employment have shaped the grey economy. It attempts to first establish the linkage between the course of Poland's history and its *szara strefa* to discover which factors propelled the economic "pathologies" in the labor market. It follows with an investigation of the grey economy's function in shaping the country's socioeconomic landscape and aiding national growth. To this end, the following sections include a survey of informal practices that developed throughout the periods of Soviet socialism, westernization, and post-EU growth, augmented by economic data reflecting persisting challenges and inequality, and the relevant cultural analysis.

7.1. Development of Informality in the Soviet Satellite

During the years of the Polish People's Republic, the society collectively confronted limited economic prospects, successful isolation from the Western world of abundance coupled with external governance. This led to the deeply-rooted formation of a "trust your people, distrust the government" sentiment, which would have a long-lasting impact on character development and perception of justice among the Polish people.[183] The living conditions created by the PRL and successful alienation of Poland from the West behind the Iron Curtain would have a direct influence on the shaping of the informality in the country. As opposed to the grey economy manifested in the West as a marginal phenomenon cultivated mostly by the underclass, in a socialist planned economy it emerged as an intrinsic part of public life and state-owned enterprises.[184] Several reasons for such may be identified. First and foremost, in the economy of shortages, people earned little and when they did manage to save, basic products were either unavailable or were in such scarcity, that one had to wait in lines for hours to secure their share. Simultaneously, any higher aspirations and self

[183] Wedel, "Dirty Togetherness," 162.
[184] Firlit and Chłopecki, "When Theft Is Not Theft," 96.

entrepreneurship were otherwise unattainable, unless performed in the “criminal demiworld” marked by its handicapped reproduction of free market and trading system.[185] In ideological terms, the emergence of the grey economy directly challenged the socialist values, illustrating misalignment between state-imposed “common goal” and national beliefs. The society grew distrust against the Communist Party and attempted to bring justice by supplanting the national objectives by individual profitability and kinship relationships.[186]

The grey economy during these years largely differed from present times. Most citizens were employed in the Soviet command economy, while additional pays and products stemmed from informal markets, smuggling, fees paid “voluntarily” for services, and large corruption among the government officials. Despite the high employment pursuant to the socialist belief that everyone should have a job, the supply rarely matched the level of demand, resulting in empty shelves across the country. When common wages prove insufficient and shortages of basic products persist, people seek alternative ways to adapt. In Poland, the grey economy assumed this role. The paradoxical employment in and simultaneous ownership of public production and property allowed the economically challenged and politically suppressed society to exploit their circumstances for a better quality of life. The informality was monetarily limited and thus, manifested through other “grey zone” activities, such as “working for yourself,” unauthorized privatization of public resources, pseudo-work receiving compensation, home production and trade on the black market, next to the adoption of alternative forms of payments. One must bear in mind that even minor informal activity allowing the society to make ends meet could have put one at unbearable consequences. The law enforcement forces were extremely brutal in suppressing the Polish population in any activity diverging from the official political and economic discourse. The persistence and commonality of the activities in the shadows suggest that the grey economy in the PRL was neither a choice, nor demonstration of one’s moral values. It was a necessity for one’s survival.

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[185] Kosiński, “Obok PRL,” 578.

[186] Firlit and Chłopecki, “When Theft Is Not Theft,” 109.

7.1.1. “Working for Yourself”

In the Soviet era, it was commonplace to derive additional benefits from one’s occupation. The most pervasive was the use of available resources in production plants for one’s own gain; for instance, by assembling or repairing personal objects on a company’s working clock.[187] Polish workers would use the materials and technology to produce extra pieces of commodities for their families and friends, or renew their personal objects using the same resources. Alternatively, they would exceed the production targets and use the surplus to trade with other companies or to bribe officials for additional benefits.[188] This practice of “working for yourself” created an opportunity to apply one’s skills and creativity, otherwise not used in the standardized production. While not providing additional income, it still guaranteed a number of individuals and families with better life conditions in the form of access to additional household tools, machines, and basic necessities.[189] In the Soviet order such arrangement was actually preferred, as it provided access to scarce goods or limited services, impossible to purchase with money alone. The transfer of manufactured goods from the workplace to private homes had to be legitimized either through gift-giving or the practice of “writing-off,” where leftover materials or complete products were misidentified as no longer useful or after the expiration of their “service life,” and could be officially sold for a pittance.[190]

Factory theft, among other informal practices in the PRL, was founded on the principle of reciprocity and fostering of social networks. It was limited to those who possessed professional knowledge and practical skill, but more importantly, creativity, and ability for social cooperation. “Working for yourself” created an attachment to individually produced commodities, often of higher quality, and emotional relations with other workers.[191] Thus, it emerged as a universal social order of exchanging favors and mutual support, excluding those who did not participate from the community. Consequently, even strangers exchanged favors knowing that they would receive reciprocal benefits elsewhere: “Today I will arrange

[187] Smolyak, “‘Working for Yourself’,” 152.
[188] Pawlik, “Intimate Commerce,” 80.
[189] Smolyak, “‘Working for Yourself’,” 157.
[190] Ibid.
[191] Ibid., 154-155.

something for your colleague, in return for which you will arrange something else for my colleague's colleague tomorrow."[192] Most importantly, the practice of "working for yourself" was not limited to the factory subordinates but almost as frequently to their supervisors, who made arrangements for families and colleagues alike. The managers understood the needs of workers because they valued their labor and skills, hence affording them personal autonomy to perpetuate the mutual trust.[193] In this light, the grey economy emerged as a social project.

The practice was an expression of one's professional identity among equals, permitted across the society due to the shared socioeconomic circumstances. The employees considered their workplace and the socialist "equal redistribution" to be fair, as long as they could decide about and make use of what was presented to them politically and economically as public property, therefore for the use of all.[194] From the socialist ideological viewpoint, the activity was in clear violation of labor and discipline, but most strikingly, it led to stealing from the nation as a whole. The official discourse, however, was weak for several reasons. The majority of the society politically opposed the Soviet system viewed as perpetuating the external control over Poland after World War II. In economic terms, people knew that the society as a whole got robbed by the communist state and hence, felt no shame to steal from the party.[195] These negative sentiments were reinforced by the official discouragement of individual success, creativity, or ambitions, which the system viewed as threatening to the socialist equality. Therefore, the paradoxical privatization of the time and resources through "working for yourself" emerged in the shadows to compensate for the deficiencies of the formalized economy. It allowed the workers to gain recognition through their craft skill, creativity, and family support.[196] It additionally fostered a sense of understanding and mutual support, given everyone's shared economic struggles and scarcity. This demonstrates that until 1989, the grey economy was widely accepted as a demonstration of social justice and a survival strategy.

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[192] Firlit and Chłopecki, "When Theft Is Not Theft," 101-102.
[193] Smolyak, "'Working for Yourself'," 154.
[194] Ibid., 158.
[195] Pawlik, "Intimate Commerce," 80.
[196] Smolyak, "'Working for Yourself'," 156.

7.1.2. Pseudo-Work

Next to exploiting the resources at work, many similarly took advantage of the work schedule and time. One of the PRL's epidemic societal developments was "pseudo-work;" claiming compensation while avoiding productive activities at the workplace. One of its manifestations was drinking on the company's clock, often tolerated, if not actively encouraged by the managers, who themselves engaged in such practice.[197] The nationalized enterprises offered a place to meet peers, celebrate together, and exchange gratuities, all often accompanied by drinking. The worst cases of alcohol abuse were observed in large public factories and farms. Some studies conducted at the time showed that as many as 30% of workers displayed symptoms of regular excessive drinking, while on a payday, 40% of them regularly visited sobering-up stations.[198] Chaos at many production sites, poor life conditions, especially at one's home, and lack of other leisure activities available were some of the underlying causes.

Another variant of pseudo-work involved the manipulation of overtime records. While the socialized enterprises did not offer extra paid hours beyond the standard shift assigned to all employees, deadlines and set quotas sometimes necessitated production outside of one's schedule. In the minds of workers, time paid according to contract carried no additional value, as it was expected to be spent at work. In contrast, any additional hours were highly valued and justified the employee's entitlement to significantly larger compensation. As a result, those forced to remain at the production site outside of the regular schedule would commonly claim overtime for double, or even quadruple the actual time spent to be deducted from another working day.[199] Simultaneously, tardiness or leaving home were considered time "won," without a need of reporting, let alone making up for it. In fact, for many, out of the eight-hour working day, only a few hours were dedicated to actual assignments. The remaining time would be spent on personal arrangements and private matters, going shopping, taking breaks, and gossiping with co-workers.[200] Many public

[197] Kosiński, "Praca na niby," 486.
[198] Ibid., 482, 501.
[199] Firlit and Chłopecki, "When Theft Is Not Theft," 104.
[200] Ibid., 106-107.

enterprises were officially experiencing persistent underemployment; however, it was rather the low productivity and pseudo-work to be blamed for. These circumstances were further deteriorated by the high rate of absenteeism, which amounted to as many as 1.2 million days per year lost. While these behaviors constituted work pathologies, they also reflected the poor living conditions and the need to develop societal coping mechanisms.[201]

Pseudo-work was undoubtedly enabled by the strong sense of community. Close ties between workers led them to hide drunk colleagues and excuse those absent ones.[202] This fostered solidarity among equals and even friendship between subordinates and their superiors. Work establishments were perceived as belonging to no one, and thus to everyone, rendering blending private life and official duty widely acceptable. The "human world" and the "institution world" collided there, drawing a line between "us;" the workers, and "them;" the Soviet central government.[203] This perception of the authorities as distant and unconcerned with individual interests explains the bottom-up initiative of privatization of public goods and poor work ethics.

7.1.3. Home Production

The grey economy demonstrated entrepreneurship of the Polish nation and a need for flexibility in the economic hardship of a defunct economy since the mid-1970s in cyclical crises. Thanks to "'private traders', dealers, smugglers, currency dealers, and pimps" there was always a second life bustling along even the most harsh Soviet conditions.[204] But for the life in the shadow to flourish, there must have been a currency, safe sites, and common interests. The currency became what one could produce themselves, including earlier discussed tools produced using factories resources and alternatively, what one could produce at home. Understandably, alcohol became at the core of the informal activity; it was easy to produce, especially beverages such as grain spirit and moonshine, bootleg homemade liquor, and it was viewed as generally valuable for socializing and coping with the realities of life. The

[201] Kosiński, "Praca na niby," 516.
[202] Ibid., 493.
[203] Ibid., 509.
[204] Kosiński, "Obok PRL," 525.

latter became apparent, as the decline in prosperity of the country was correlated with the intensified production and purchase of alcohol.[205]

The home production of liquor was first and foremost illegal due to the competition with officially produced alcohol. In a country with a relatively high consumption of alcoholic beverages, the revenue generated by the state monopoly was as high as 17% at its peak.[206] Allowing distilling at home could effectively diminish a large part of the government's budget, let alone its effect on population's health when only consuming high % alcohols. In addition, the production using the moonshine apparatus creates a potential explosion or fire threat, which could ruin the apartments allocated by the socialist government. The profits the hidden moonshine and spirit production, as well as trade, generated were clearly significant just looking at the violence and imprisonment terms, also in remaining labor camps, that met those caught by the state.[207]

The prices of alcohol were frequently on a rise, while the market for it was always present. Hence, despite the risk of being caught, many resorted to this form of informal activity, even if for individual consumption.[208] These naturally could not function without the neighbors' loyalty, which once more demonstrates the role of the social nexus in the grey economy of the time. Despite the high rewards offered for turning in bootleggers, no one really reported their fellow citizens.[209] The practice was so widespread that even in the 21st century the self-built moonshine apparatuses were found in older generations' residences.

7.1.4. Unauthorized Trade and Barter Currency

The chronic shortages of the PRL period, combined with rationing and the limited availability of consumer goods, encouraged the rapid growth of informal trade. Goods exchanged outside official channels were regulated less by state rules than by social norms, personal trust, and the ability to navigate shortages.[210] Agricultural surpluses, factory-produced goods, alcohol, meat, and imported products were frequently traded

[205] Kosiński, "Obok PRL," 529.
[206] Ibid., 526.
[207] Ibid., 527.
[208] Kosiński, "Obok PRL," 529.
[209] Ibid., 535-536.
[210] Firlit and Chłopecki, "When Theft Is Not Theft," 95.

through informal networks, often at lower prices or simply because they could not be obtained legally. Demand remained the primary force regulating this segment of the grey economy: the greater the shortages and restrictions imposed by the state, the more profitable informal trade became. Western products were particularly sought after, leading to widespread smuggling and resale of foreign clothing, cigarettes, food products, and household goods.[211] Informal markets also relied on cooperation between ordinary citizens, shop employees, and at times thieves who diverted state-owned supplies into unofficial circulation.

At the same time, the instability of the socialist monetary system encouraged the development of substitute currencies and barter exchange. Repeated inflation, the memory of the 1950 currency reform, and limited trust in *złoty* reduced the attractiveness of holding cash savings.[212] Foreign currencies, particularly the US dollar, became highly valued, while goods themselves often functioned as stores of value and mediums of exchange. Alcohol, meat, coffee, and other scarce commodities were regularly used to settle transactions, reward favors, or obtain services that could not be acquired through official channels. Prices were frequently recalculated in terms of such goods rather than money itself.[213] This system extended beyond ordinary trade and into everyday dealings with public officials, where gifts and informal exchanges could accelerate administrative procedures or secure favorable decisions. In this way, barter and substitute currencies became an essential component of the grey economy, allowing individuals to overcome the limitations imposed by the centrally planned economy and maintain a higher standard of living than the official system could provide.

7.2. New Wave of Informality

While the 1990s in Poland began to symbolize new democratic rules, legal institutions, fiscal order, and "economic freedom," they coincided with the time of sudden

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[211] Kosiński, "Obok PRL," 551.

[212] Muzeum Historii Polski, "Reforma walutowa, czyli skok na kasę obywatela," *dzieje.pl*, October 28, 2015, https://dzieje.pl/aktualnosci/reforma-walutowa-czyli-skok-na-kase-obywatela.

[213] Kosiński, "Obok PRL," 565.

impoverishment of many.[214] The postsocialist transition of 1989-2004, instead progressing gradually, became a large-scale revolution leading to cuts and increases of social inequality, forcing a rapid adjustment of the population. Balcowicz's reform in fact was designed to be implemented swiftly, in order to respond to its negative shocks in the shortest time possible, yet it resulted in a "big bang."[215] High unemployment, greater disadvantages for women, widespread poverty, and growing frustration of the society emerged the unintended side effects of the neoliberal policies; the question remained of how quickly these could be alleviated. Just in 1990-1991, Poland's industrial production dropped by a third, inflation soared, while wages remained stagnant.[216] The implemented growth model, based on exports and FDI, would gain momentum in the years to come and support substantial growth over the next decades. However, it came at a severe initial cost of widespread layoffs and economic uncertainty of many. The period witnessed profound class diversification, with a shift from an economy controlled by a few for a benefit of few during the PRL to diverse communities ranging from extreme poverty to local millionaires.[217, 218]

During the time of turbulent changes, social and economic arrangements in the shadows provided for the adjustment by other means. They also reflected the disappointment and failure to attain the colorful consumer goods of the West in place of grey, low-quality Polish products.[219] The unfamiliar conditions and uncertainty created by the restructuring of the entire political and economic systems resulted in a "great change trauma," leading society to develop new coping mechanisms, as the old ones became no longer feasible.[220] Following the opening of the borders to the outside world and increased availability of foreign products in stores, the informality typical to the Soviet era was no longer effective. For instance, with the state-owned land and factories successively sold to private owners or closed down, public resources could no longer be appropriated by workers. Similarly, there was no need to smuggle products or foreign currencies across the border,

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[214] Stanisz, "Roadsides of mobility," 154.
[215] Ther, *Europe since 1989*, 80-81.
[216] Ibid., 81.
[217] Stanisz, "Roadsides of Mobility," 164.
[218] Piatkowski, *Europe's Growth Champion*, 97.
[219] Ther, *Europe since 1989*, 92.
[220] Ibid., 157.

when all products were available in stores and could be legally traded for profit. The Polish society, facing new challenges, developed new practices that would help them simply get by. People did not change overnight, yet the system transformed abruptly. As a result, informality evolved along the broader reforms and would play a pivotal role until Poland officially distanced itself from socialism and formally joined the West as a new EU member state.

Until 1991, no personal income, sales, or corporate tax was in place. Two years after the formal end of the Soviet rule in Poland, the implementation of taxes would incentivize the Polish nation, feeling largely disappointed and awaiting Western prosperity, to avoid them where possible. Austerity measures were necessary to curb inflation, therefore the government further introduced wage freezes and taxes on wages, including payroll tax.[221] Given that most Poles were still working for the government when these measures were implemented, the collection of revenue was simple to execute. Consequently, many would flee to the private sector, which was the aim of the Balcerowicz Plan anyway. For those, the doors stayed open, with no concrete procedures for compliance or punishment in place, to establish a private company without registering it, thus evading new taxes in place.[222] Given slow implementation of the effective tax system, gradual institutional reform, and persisting economic challenges, the years 1989-2004 were pivotal for the grey economy development. Polish citizens found themselves at a brink of two systems, experiencing initial losses and painful adjustments. For many of them, informal arrangements and work opportunities offered an alternative before the formal economy could deliver tangible gains.

7.2.1. Informal Employment and Off-The-Books Hiring

It remains without doubt that the vast majority of workers preferred to attain stable permanent employment. They were used to working within one enterprise their whole life and in hopes of better income after dismantling the Soviet system, they expected employment at the privatized industries or newly established businesses. In the first years of the transition period, however, more jobs were removed than the new ones were created.[223] Masses became unemployed for the first time in their lives and could no longer depend on the

[221] Garland, "Reflections on the Balcerowicz Plan," 233.
[222] Ibid., 234.
[223] Mroczkowski, "Informal Employment in the Transition Economy of Poland," 24.

quickly shrinking unemployment benefits. Some would acquire informal jobs, without a contract and formal salary, often organized through the social network and paid out in physical currency. These were not especially attractive, as the majority of informal employment was temporary or seasonal.[224] Yet these practices afforded a way of surviving through the most difficult times, marked by low levels of saving and hyperinflation. According to studies, those participating in the grey economy during this period predominantly consisted of the unemployed, pensioners, and foreigners.[225] The majority of the unemployed have at least attempted to acquire a legal job, but due to lack of preferred qualifications, coupled with long distance from new working centers that were now adjusting to the needs of the global market, could not secure a decently paid position. The pensioners often included those forced to enter early "bridge" retirement, naturally with discounted payouts. Some 24% of all employed had the right to retire early, despite their willingness to work further, hence moving their economic activity in the shadows. The foreign employees often traveled to Poland from other Central and Eastern European countries in search of better economic prospects.[226]

From the employers' perspective, hiring off the books similarly became a way of founding a small business and surviving despite the increasing competition and new financial burdens. The largest tax and social securities share fell on the shoulders of the new small entrepreneurs. The founding of the SMEs faced often adverse conditions, as they lacked the same foreign investment that literally carried the whole new economy in the country, and was later identified as one of the main factors for Poland's successful transition to market economy and accelerating growth.[227] Oftentimes, in order to establish a new business, the owners would unofficially hire a few subordinates, who could be paid out "under the table" in cash. According to many, this manifestation of the grey economy allowed SMEs to develop in the times of high competition and expensive credit, thus stimulating the Polish economy.[228] It seems that the society shared this view, as it largely protected those informally hiring and

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[224] Mroczkowski, "Informal Employment in the Transition Economy of Poland," 28.
[225] Ibid.
[226] Ther, *Europe since 1989*, 109-110.
[227] Normann, "Poland's 20 Years in the European Union."
[228] Mroczkowski, "Informal Employment in the Transition Economy of Poland," 30.

employed alike, while the authorities largely exercised a "do nothing policy," turning a blind eye to legal economic activity through borderline illegal means.[229] It surprisingly resembled the formation of the side jobs and public resource exploitation under the conditions of negligence of PRL's authorities, but simply adjusted to the new economic circumstances.

Kinship relations both within family and neighbors would help many make ends meet during the early Shock Therapy. It was common to set up for instance family businesses and their rotation among the relatives. Such an enterprise, when facing financial debt or obligations, including taxes, could shut down or abandon its legal entity. The tangible assets, equipment, and produced goods held by the owner could be then simply transferred to another family member, registering a new business, although it would perform the same economic activity with the use of the same exact resources.[230] This could be later repeated, and the ownership would shift to the next relative, neighbor, or simply a trusted partner. There were cases of entrepreneurs operating a wide range of production and services, including general stores, hotels, restaurants, and rental properties all at once, but since they were each registered under a different person, the profits could be better hidden, costs overestimated, and no official salaries, thus no payroll tax, paid.[231]

7.2.2. Trade on the Eastern Borders

After the collapse of the USSR in 1991, Poland gained new independent neighbors to the East; Ukraine and Belarus. As opposed to many Central Eastern European countries, they still had strong ties to the Soviet Union, now part of the past, and rather distant relationship to the EU. Hence, the economic reform and democratization took different paths, in Belarus in particular. The foreign investors did not have initial trust to locate their savings further East, which quickly manifested in a different trajectory between Poland and its eastern neighbors. The emerging differences in prices and exchange rates of national currencies enabled their exploitation over time.[232] The economy in the borderlands became an "ad hoc assemblage of market exchange, house holding, barter, cross-border trading and gifting," guarded by socially

[229] Mroczkowski, "Informal Employment in the Transition Economy of Poland," 35.
[230] Stanisz, "Roadsides of mobility," 163.
[231] Ibid.
[232] Joyce, "Good Neighbours and Bad Fences," 76.

accepted rules.[233] Goods would flow in both directions of the borders: into the east Western goods and hard currencies along with Polish building materials and excess devices and household tools produced in the country but no longer saleable in exchange for Russian cigarettes, liquor, tea, toys, and even luxurious items among other "unmentionables," significantly cheaper than in the Polish market.[234] They would be hidden in traders' garments, while transportation means would be adjusted to successfully hide smuggled goods. Even rivers were used for delivering contraband. These trading practices were very well known among the local residents and practised when customs officials were unlikely to come across, mostly at night. It was not the trading with the East that was falling outside of the legal practices, but the evasion of regulations regarding cross-border mobility, imports and exports, and sales permits. It also was not unusual to see the visitors from the East, mingled in with the national traders at open markets or invisible streets. They commonly sold alcohol hidden in canvas bags with a typical checkered pattern, often referred to as *przemytniczka*, which simply means "a female smuggler."[235]

These practices were a natural extension of the emergence of the "good neighborliness" between the Poles and Belarusians or Ukrainians, who often despite the official demarcation of the borders belonged to the same historical community.[236] It is another example of how history and political decisions have created fertile soil for social arrangements and activity in the shadows. The eastern border of the country within just two centuries shifted numerous times, both eastwards and westwards. While new authorities attempted to draw a hard line distinguishing the democratic and strongly Catholic country as opposed to authoritarian Belarus and corrupted Ukraine, both mostly Orthodox, the societies in the borderlands have long developed cordial relations, if not family ties or friendships.[237] The economic uncertainty and ambiguous political discourse marked by continued struggle for power between outright capitalists and socialists, brought the nations even closer

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[233] Joyce, "Good Neighbours and Bad Fences,"81.
[234] Ibid., 82-83.
[235] Kosiński, "Obok PRL," 549.
[236] Joyce, "Good Neighbours and Bad Fences," 78.
[237] Ibid., 80.

together. Those who felt the most distant from the nation and its political centers, would also establish the closest ties with their neighbors, also on the other side of the border.[238]

7.2.3. Sex Trade

Since the transition period, sexual services have developed in Poland in a broader context. The economic crisis felt by many encouraged many previously employed in state enterprises female workers to make a living through sex trade. It is arguably a unique case of informality, as the Polish prostitution policy has been identified as abolitionist. The history of its implementation spans decades, but for the purpose of analysis two dates are of particular importance. The socialist state of the PRL ratified the 1952 UN Convention identifying prostitution as an offense but shortly repealed any laws against women providing sexual services.[239] In the following years, however, the authorities deemed prostitution as nonexistent and did not investigate it further. It was not until 1997, when the new Penal Code was introduced as a part of legal reform in westernized Poland that codified laws governing sex work again.[240] This arguably leaves a window of some decade, when such activity was of an ambivalent nature and hence, ought to be considered when speaking of the grey sector existing in the transition period of the country.

Sex trade developed significantly in the most dynamic locations, such as towns and cities close to the borders. This allowed for a continuous flow of customers, often coming from Poland's richer western neighbor. Two forms of sexual services particularly manifested, namely a formation of nightclubs offering unofficial services next to the roadside and car park sex trade, often led by lorry drivers. The former was highly tolerated, as it also provided new jobs in the region in the form of security workers or bartenders. The latter would be allowed based on mutual benefits and clientelism, such as an agreement between hotel reception and the sex trade boss for the use of the premises for an exchange of informal advertising and bringing clients.[241]

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[238] Joyce, "Good Neighbours and Bad Fences," 85.

[239] Anna Ratecka, "Sex Work Policy in Poland and Its Impacton the Lived Experience of Sex Workers," *Croatian Political Science Review* 60, no. 4 (2023): 40.

[240] Ibid., 41.

[241] Stanisz, "Roadsides of mobility," 160-161.

7.3. Grey Economy under the Eye of the EU

EU accession prompted significant legal and regulatory adjustment in Poland, contributing to the improvement of rule of law and stricter fiscal order, and a more attractive business environment for foreign investors and multinational enterprises (MNEs). Domestic industrial companies became successively integrated in the supply chains of major global corporations. In contrast to the conventional approach of foreign firms tapping into local resources, Poland's unique growth was facilitated by capitalization on its human resources.[242] However, the distribution of gains from productivity growth has not been equally shared, leading to high disintegration of the domestic labor market. Job opportunities began to concentrate in the cities, where the economy shifted to capital-intensive and services-driven sectors. Meanwhile, small towns and rural areas faced an increasing gap in income levels, closure of large companies providing for local jobs, and higher registered unemployment. Despite structural fund investments and emigration, those peripheral regions have continued to observe lower prosperity, skills misalignment, limited prospects of finding fulfilling employment, and widening income inequality, despite its narrowing on the national level.[243] The economic reorientation of 2015, fiscal amendments in 2022-2023, and the rapid rise in minimum wage all exerted additional fiscal pressure on small entrepreneurs, who comprise the vast majority of Polish businesses. In order to maintain their individual economic activity, many have resorted to new informal practices under the radar of the EU and national institutions in place.

Informality became co-constitutive with modernization, demonstrating how the success stories related to Poland's turn to the West were accompanied by poverty and aspirations for entrepreneurialism.[244] Despite the favorable conditions for rule of law and legal compliance created by democratization and integration with other EU members, the attitudes and informal habits continued to manifest in the background of technological advancement, more effective law enforcement, and particularly, improved tax administration. Those who experienced disadvantage in comparison to their compatriots, and now also EU neighbors, continued to distrust the officials and institutions, calling into question the benevolence of the new "Laisser-faire" system. They began to work around the bureaucratic structures in

[242] Michał Możdżeń, online interview by the author, May 21, 2026.
[243] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 406.
[244] Stanisz, "Roadsides of Mobility," 149.

place and continued resourcefulness to make ends meet.[245] Without doubt, the earlier widespread grey economy was set on a path to improvement, using periods of prosperous market conditions to prepare for its formalization, when circumstances allow for it. However, during periods of economic downturn, external shocks, or unexpected shifts in regulations, it allowed many to maintain their achieved income level, in turn, sustaining consumption and alleviating inequality in the country.[246]

7.3.1. Grassroots Activity in the Roadsides Communities

In areas connected to major cities only by state roads or international highways, few visitors ever stop. Many of these localities once relied on their own agricultural or industrial activities, but today they would be referred to as "holes;" places where little economic or social activity appears to take place, at least from an outsider's perspective. For residents lacking either the skills demanded by larger labor markets or the mobility to reach them due to poor public transportation and the absence of a private vehicle, alternative forms of economic activity had to suffice. These were often the areas where small private shops once emerged, only to be gradually displaced by uniform European competition and an influx of imported goods offering competitive pricing. As a result, local communities developed "grassroots" and "bottom-up" economic strategies to shield themselves from complete economic marginalization.

One practice identified in the economic periphery, before more recent regulations made it significantly more difficult, was informal fuel trading. Alongside the fully illegal fuel market involving theft, often from construction sites, there existed a semi-informal trade in fuel purchased at lower prices and later resold at a profit along major roads, where petrol stations typically charged inflated prices.[247] It was not uncommon for sellers to cooperate with station employees or security personnel in order to offer a cheaper alternative directly in car parks or even near petrol stations themselves. Although such practices indirectly deprived station owners of customers, they were rarely viewed as morally problematic by participants.

[245] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 410.
[246] Drozdowicz-Bieć, "Reasons Why Poland Avoided the 2007-2009 Recession," 53-54.
[247] Stanisz, "Roadsides of mobility," 158.

The owners were often perceived as distant, wealthy individuals, sometimes even foreigners, rather than members of the local community.

Off-the-books trade similarly gained a strong foothold in rural areas. As legally registered shops became increasingly unprofitable and disappeared, informal systems of door-to-door sales and deliveries emerged in their place.[248] The same goods could be exchanged without incurring additional tax liabilities or administrative costs. Close-knit neighborhood ties further reinforced these arrangements, fostering a sense of mutual support and local entrepreneurship. Likewise, roadside sales of homemade products such as honey, jams, pickled goods, mushrooms, berries, and other forest produce emerged and have survived to this day despite stricter administrative controls. Under Polish law, many of these activities require permits and regular fees, obligations that can be avoided when operating informally. One must bear in mind that a large share of informal economic activity, especially in poorer regions is deliberately overlooked by the local authorities. While personal ties can to some extent explain it, the relative poverty of the roadside peripheral communities stands as a key factor in the allowance and general tolerance of their informality.

7.3.2. Labor Migration

Once Poland acceded to the EU, the four freedoms of its Single Market were extended to all its citizens: the free movement of goods, services, capital, and people.[249] Of these, the freedom of movement had a particularly significant impact on the labor market and, consequently, on its informal segment. Poland's lower GDP per capita translated into lower wages compared to the states that had joined the EU before 2004, which incentivized a large wave of emigration. TThe predominant destination became the United Kingdom, with some of the highest wages relative to Poland, but the out-migration spanned pretty much the whole continent, reaching even Ireland, Norway and Iceland, which barely experienced migration from any other Central Eastern European country.[250] Some regions of Poland also maintained their long-standing migration traditions to the United States, continuing patterns established during the PRL period. The migrants were predominantly young, educated, and motivated

[248] Stanisz, "Roadsides of mobility," 159.

[249] Balcerowicz, "The Impact of Poland's EU Accession on its Economy," 8.

[250] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 411.

individuals who sought employment abroad. Despite their qualifications, many initially accepted low-skilled jobs because they were readily available and required few formal barriers to entry.[251] As a result, many experienced occupational deskilling, often working in unstable positions and under difficult conditions. Many of them became target earners, frequently traveling between the two countries, in order to maximize their savings and bring them back home for specific investments or purchases. The difference in pay was so large, that even those working in the lowest skill positions perceived their income as sufficient to get by.[252]

The scale of post-accession migration facilitated the development of extensive transnational networks linking communities in Poland with those abroad. These networks became deeply embedded in everyday economic practices. Such networks contributed to the emergence of a distinct transnational dimension of the grey economy based on family, friendship, and community connections. While those moving abroad for long-term often secured employment through formal recruitment channels before departure, other workers frequently relied on personal recommendations and informal arrangements.[253] Distrust of strangers, particularly in a foreign environment, discouraged many Poles from traveling abroad without some form of prior contact. Informal hiring through fellow migrants therefore became a common pathway into employment. Seasonal and temporary jobs in construction, agriculture, food processing, cleaning, and related sectors were especially common among individuals who struggled to find suitable employment in Poland or sought higher earnings than those available at home. Interestingly, expectations regarding formal employment often changed after migration. In Poland, workers generally expected formal contracts that guaranteed social security protections, healthcare access, and pension contributions. Abroad, these expectations were frequently lowered.[254]

[251] Czeranowska, Grabowska, and Wermińska-Wiśnicka, "Beyond Initial Boundaries," 8.
[252] Ibid., 21.
[253] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 417.
[254] Ibid., 415.

7.3.3. Tax and Social Contributions Evasion

The one single largest manifestation of the grey economy in the modern sense is tax evasion. In the context of *szara strefa*, attention is primarily focused on the economic activities that circumvent tax laws by intentionally hiding transactions from the official records. The common method of achieving this is to conceal the levels of income by its participants. A number of businesses or self-employed individuals choose to bypass the invoice for their services or receipt for the sales of goods, thus evading VAT.[255] Another approach involves "buying services" from a self-employed person instead of officially hiring them. This transaction enables the employer to avoid payroll tax liability and allocate a part of the saved funds to higher remuneration of its B2B "employee." Some 80% of all income tax and contribution gap may be due to such verbal agreement.[256] Other arrangements include a formal employment, providing for job and social security for the employee, but only at a rate of minimum wage, while the additional compensation is paid "under the table," meaning cash in hand. Less common is running one's own enterprise without officially registering it. Studies have shown that on average, self-employed individuals do not disclose up to a half of their income, while around 10-11% Polish workers receive envelope wages in cash accounting for some 5% of total earnings of unreported earnings in sectors exposed to informal arrangements.[257]

When earnings are not officially recorded, naturally there are no tax claims on them. Without these liabilities, costs of the self-employed and companies are decreased, which enables them to offer lower prices, staying competitive on the market and continuing their economic activity. It allows those smaller firms who are not as efficient as large corporations to be able to sell their products and services as well. Frequently, even when entrepreneurs intend to operate within the law, they are compelled to move a part of or all their economic activity into the shadows to be able to "work for themselves."[258] Simultaneously, the informal labor market may be a response to excessively high barriers to entry to the market and hiring,

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[255] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 112.

[256] Ibid.

[257] Kośny, Sawulski, and Kiełczewska, "Measuring the Scale of Envelope Wages," 959.

[258] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 132.

which are often holding entrepreneurs back from establishing their own company. Notably, certain underprivileged members of society, including those with low qualifications and social barriers, tend to benefit from the access to informal practices. The grey economy expands the labor market by marginal jobs with low productivity and low wages, which would not be otherwise created in the formal sector.[259]

Tax evasion is typically accompanied by the avoidance of social security and health insurance contributions, which often constitute an even greater financial burden for employers than income taxes themselves. With no or only partially recorded incomes, individuals and firms benefit in the short term through higher net salaries and increased revenues. In the long run, however, this often results in insufficient access to welfare benefits, including pension entitlements and medical coverage. In some cases, employers may also be required to bear the full cost of workplace accidents or health treatments when workers are employed informally.[260] The persistence of such arrangements suggests that many participants perceive these risks as less costly than the evaded taxes and social contributions. It may also indicate dissatisfaction with the quality or value of the benefits financed through publicly. IInstead, the higher earnings available through informal arrangements can be directed toward immediate consumption, which is estimated to account for as much as 70% of such income.[261] This increased spending circulates funds back into the formal economy, while the lower operating costs improve the competitiveness of small entrepreneurs and may, in some cases, support the creation of additional jobs.

7.4. Evidence in Numbers

The persistence of the grey economy in a country signals underlying dysfunctions, inefficiencies, or other systemic issues. In the case of Poland, those issues became evident during the Soviet-influenced Polish People's Republic and throughout the transition period. However, they are less frequently pointed out in present-day Poland, recognized internationally as an economic success, a rising military power, and an attractive tourist

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[259] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 133-134.

[260] Ibid., 132.

[261] Ibid., 133.

destination. The “Laisser-faire” system now in place is the very development Polish society aspired to and the West promoted, and as a result, it is widely regarded as more efficient and responsible for the country’s achievements. Yet, it is important to recognize the less favorable aspects of this narrative to understand why Poland’s external image is incomplete and why its economy may face significant challenges in the foreseeable future. A review of modern-day socio-economic vulnerabilities, including income inequality, low savings and investments, firms fragmentation, profit outflows abroad, and elevated inflation, offers a valuable perspective on the economic drivers behind sustained informality in the country. Finally, the available estimates shed light on the actual scale of the phenomenon in Poland and its implications.

7.4.1. GDP Growth as a Measure of Success

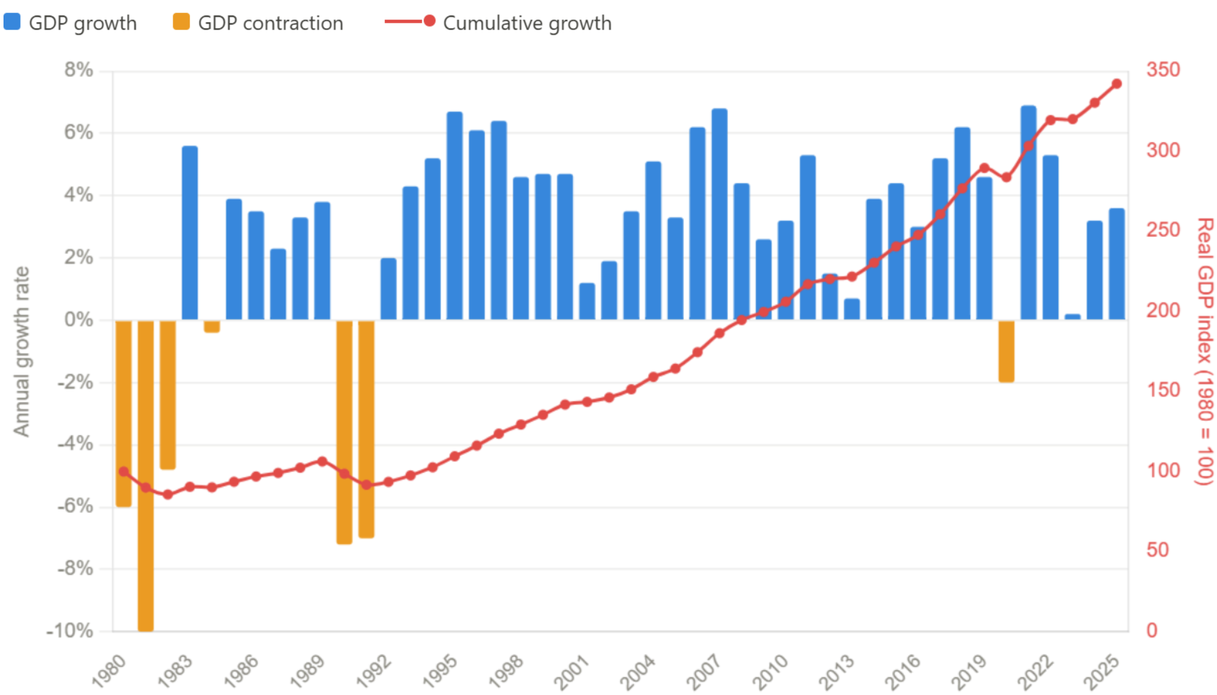
In September 2025, the Polish Prime Minister announced the country’s entry into the “Trillionaires’ Club,” synonymous with becoming the 20th largest economy in the world.[262] This message, along with official reports and journal publications voicing an optimistic outlook on Poland’s growth and prosperity, has undoubtedly reached an international audience. The eyes are now turned to the presumed emerging European great power, where work prospects are abundant and people live comfortably. This depiction of Poland, however, falls short of reflection of reality and paints a superficial picture of the country and its prosperity. The studies indicate a deterioration in the socioeconomic conditions of the Polish population in recent years. People experience higher credit costs, choose cheaper products, travel less, and save on entertainment. Many are also forced to forgo saving, which increases the risk of financial stress.[263] Arguably, the international outlook on Poland is marked by a broader bias, to a certain extent resulting from the change in ruling party to one that is more favorable to the West. On the outside, the stable and sustained GDP growth has allowed Poland to appear on the radar of investors, politicians, and media (**Figure 1**). Inside the country, however, the

[262] Chancellery of the Prime Minister of the Republic of Poland, “Poland Joins the Trillionaires’ Club: A Historic Entry into the World’s Top 20 Economies,” September 2, 2025, https://www.gov.pl/web/primeminister/poland-joins-the-trillionaires-club-a-historic-entry-into-the-worlds-top-20-economies.

[263] Łukasz Stelmaszczyk, and Dariusz Brążkiewicz, “Employee Stress in Times of Crisis - Inflation, War and Pandemic as Causes of Stress,” *Studia Społeczne* 2, no. 41 (2023): 177.

tone is more pessimistic; while internal commentary is more critical and complex. Domestic debates show better understanding of economic mechanisms and consider some of the historical structural weaknesses, including fragmentation of firms, a large agricultural workforce, or an underdeveloped financial sector, only some of which have gradually improved.[264]

Figure 1. Poland's Real GDP Growth, 1980-2025: Annual Growth Rate (%) and Real GDP Index (1980 = 100)



Source: Author's own compilation based on Poland's Central Statistical Office (GUS) data

Many focus on Poland's GDP growth as the measure of its ultimate economic success. Yet the figure more closely representing the nation's wealth is the Gross National Product (GNP), which records the total production in one year performed by nationals, whether located within the country's borders or abroad. In Poland, GNP values not only have been historically lower than GDP, but this gap, or net primary income, has gradually increased over the past decades. In recent years, it has fluctuated between 3.5% and 4.5% of GDP (**Figures 2 and 3**). This is one of the highest levels in Europe, with the exception of tax havens, which indicates that a significant share of profits is exported abroad, typically to mother companies

[264] Możdżeń, interview.

which established their subsidiaries in Poland.[265] Considering that Poland's GDP growth has been maintained at positive levels, the nominal value of foreign profits has been on an increase each year, while national companies have achieved comparatively smaller gains. Another issue to consider when assessing the country's economic success is the GDP per capita indicator. In a country experiencing population growth, the increase in total GDP could be offset by a decrease in per capita value. While this is a valid concern, Poland has been experiencing demographic ageing, rendering GDP and GDP per capita growth at consistent rates. Between 2004 and 2023, Poland's GDP per capita increased from 50% to 80% of the EU average, marking a remarkable improvement.[266] However, given the low baseline, this progress is still not on par with the figures recorded in Western European countries.

Figure 2. Poland's Net Primary Income, 1995-2025 (PLN Billions)

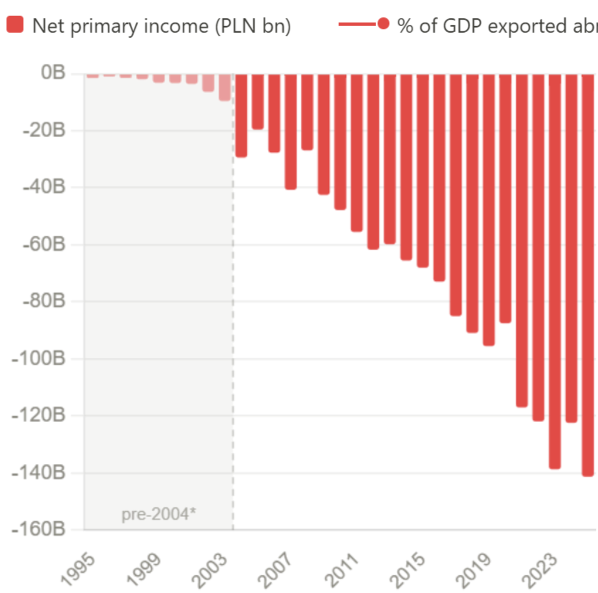


Figure 3. Poland's Net Primary Income as a Share of GDP, 1995-2025 (%)

** Comparability of pre-2004 data is limited due to incomplete harmonization.*

Source: Author's own compilation based on Eurostat and GUS data

[265] Możdżeń, interview.

[266] Normann, "Poland's 20 Years in the European Union."

7.4.2. Wage Share and Income Inequality

Economic growth inevitably yields different outcomes across social classes and individuals, creating "winners and losers." This phenomenon underscores the need for the implementation of redistributive policies to alleviate income inequality and its negative implications in the context of the grey economy and legal compliance in a broader sense. According to relevant literature, the increase in income differentials among the society undermines the public trust and perception of justice of the government and its institutions. This, in turn, has a negative effect on morality, as individuals who observe their wages rising more slowly than others, do not feel the same obligation to pay taxes or social contributions.[267] Simultaneously, the decline in contributions resulting from income inequality can further exert pressure on the public budget and potentially state welfare, which directly impacts the lowest socioeconomic class, increasing inequality further.

One way of measuring how the average society benefits from economic growth is by tracking the wage share over time. During periods when income growth outpaces productivity, workers can experience improvements in their living standards. Conversely, when unit labor costs do not rise at the same pace as productivity, firms become more competitive, but at the cost of the workforce. In Poland, wage share remains at relatively low levels, especially when compared with the EU average (**Figure 4**). To a certain extent, the previously discussed levels of net primary income exported abroad explain this divergence. Yet, it is clear that the minority of wealthier individuals with capacity to invest in capital, has derived greater benefit from Poland's GDP growth than the average employee whose income is earned through labor. This is particularly evident in the years 2021-2022, when the decisions pertaining to the Polish Order and their subsequent implementation improved the fiscal situation of the wealthiest, simultaneously failing to promote equality among the micro-enterpreneurs or self-employed individuals.[268]

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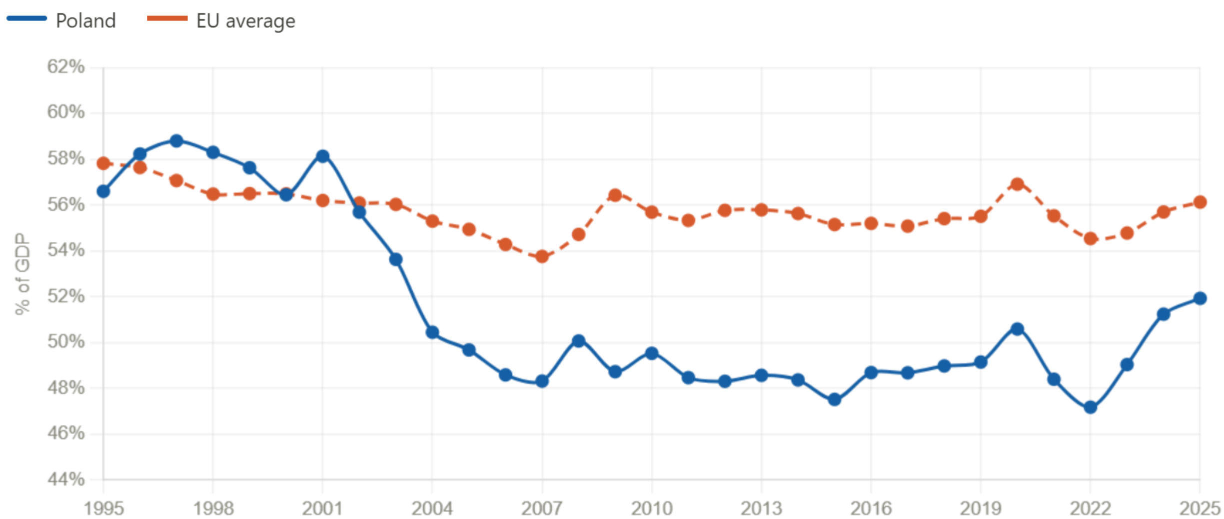
[267] Malaczewska, *Szara Strefa Gospodarki. Determinanty i Mechanizmy Kształtowania*, 47.
[268] Możdżeń, interview.

Figure 4. Comparative Wage Share Trends in Poland and the EU Average, 1995-2025 (% of GDP)



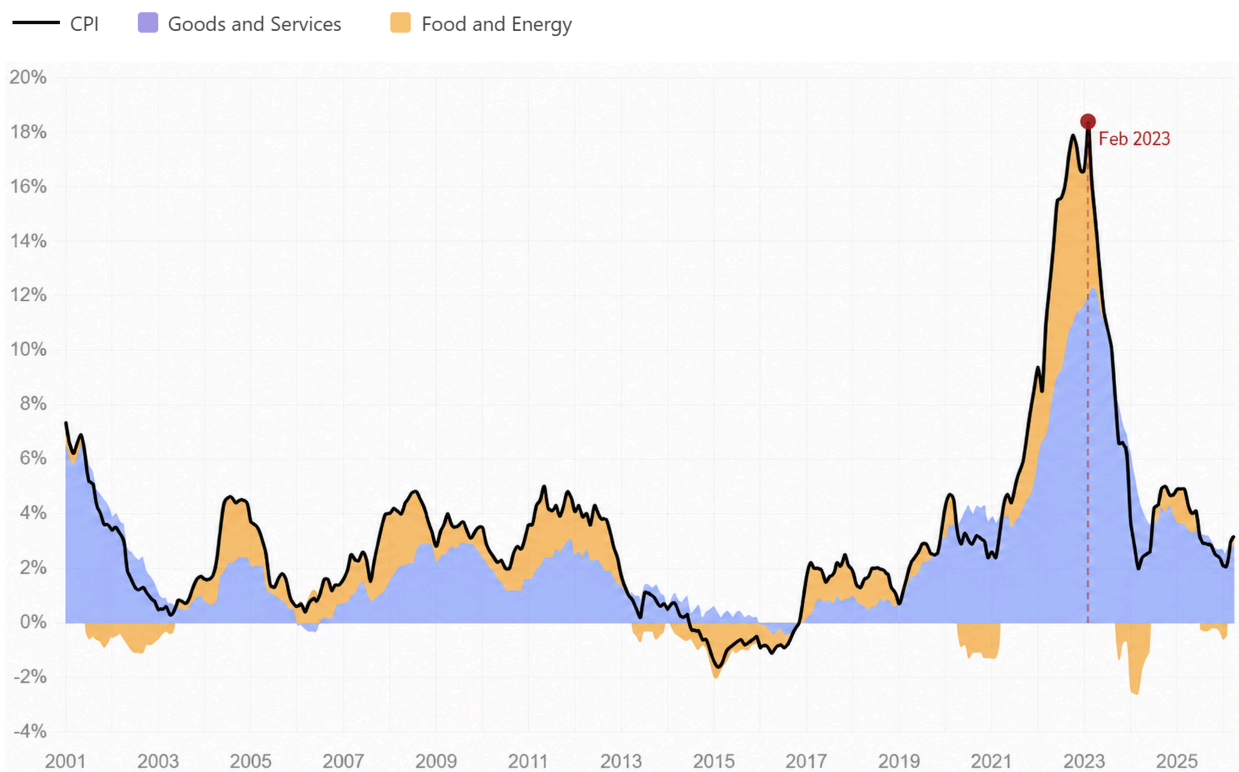
Source: Author's own compilation based on AMECO data

Interestingly, the inflation crisis inadvertently induced by the COVID-19 pandemic in 2020 and further exacerbated by the Russian full-scale invasion of Ukraine in 2022, produced an opposite effect. These external financial shocks affecting Europe and the global economy were particularly felt in Poland. In February 2023, the inflation index reached 18.4%, reflecting the change in the Consumer Price Index (CPI), or the average price of a basket of goods, compared to the corresponding period in 2022.[269] This price shock has led to an increase in wage pressure, and consequently, rising wage shares, indicating a shift from the historical uneven distribution of the gains from Poland's economic success, in favor of workers. (**Figures 4 and 5**). Despite this development, challenges persist, while global events such as trade wars are exerting a downward pressure on wages in the country, despite its continued strong economic growth.[270]

[269] Łukasz Stelmaszczyk, and Dariusz Brążkiewicz, "Employee Stress in Times of Crisis - Inflation, War and Pandemic as Causes of Stress," *Studia Społeczne* 2, no. 41 (2023): 175.

[270] Możdżeń, interview.

Figure 5. Poland's Consumer Price Index (CPI) and its Components, 2001-2026

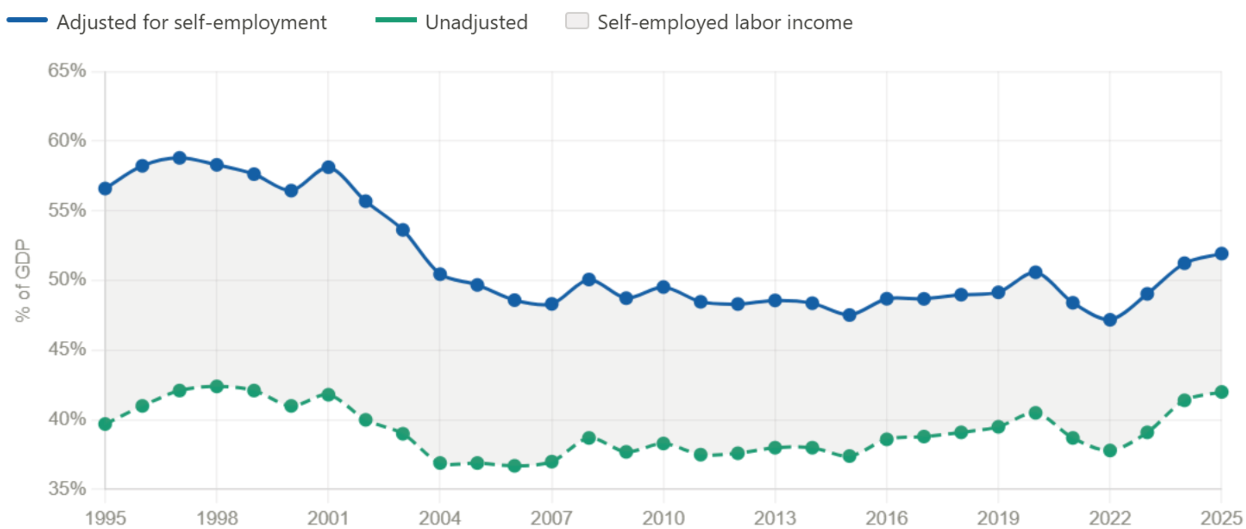


Source: Author's own compilation based on GUS data

At times, when the non-adjusted wage share levels are compared, Poland demonstrates an unbelievably low level of employee compensation compared to other EU countries. This is due to the fact that historically the country was characterized by many farmers working on their own property. While this is less common today, the tax system encourages self-employment, allowing individuals to legally optimize their tax liabilities. In the national accounts, the income of these individuals is not classified as earned income.[271] Therefore, the discrepancy between Poland's adjusted wage share and its non-adjusted levels demonstrates the high proportion of self-employment in Poland (**Figure 6**).

[271] Możdżeń, interview.

Figure 6. Labor Share of Income in Poland, 1995-2025 (% of GDP)



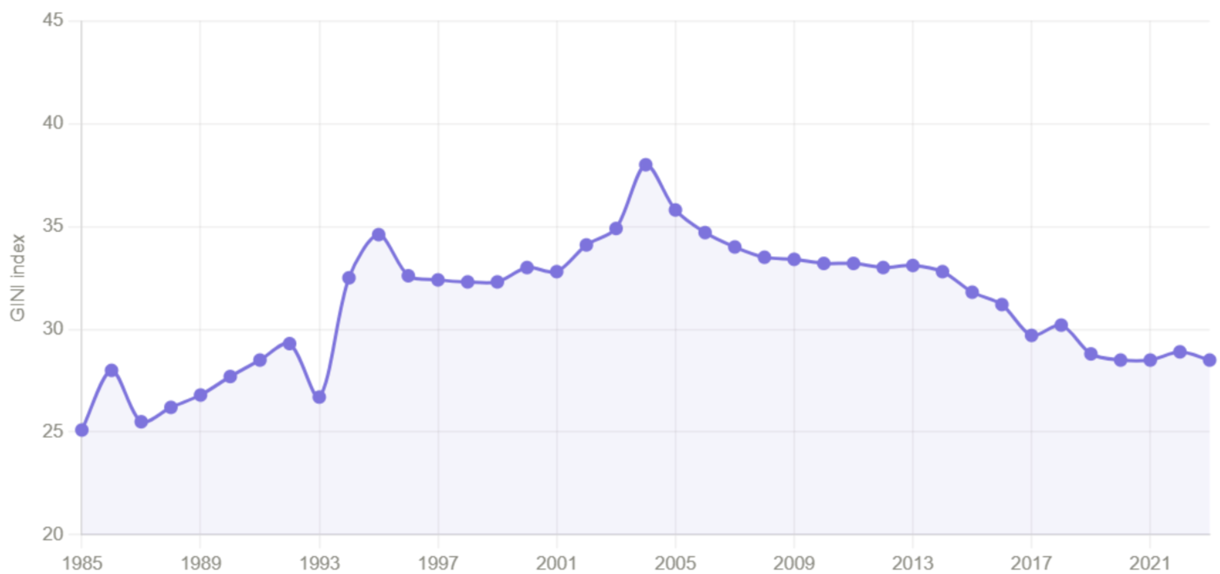
Source: Author's own compilation based on Eurostat and AMECO data

A more commonly used measure of income inequality in the GINI Index, which ranges from 0, representing perfect equality, to 100, representing perfect inequality, where all income is received by a single individual. When examining the historical figures for Poland, the index illustrates the changes across the analyzed three periods: relative equality during the late PRL period, rising inequality during the transition years, and a peak in 2004 upon accession to the EU, followed by a subsequent improvement over the past two decades (**Figure 7**). According to European official estimates, the GINI index in Poland fell to 24.9 in 2025, marking the lowest recorded figure since 1985, when comparable data is available.[272] However, this seemingly positive development overlooks certain factors that likely offset the decrease in income inequality in the country. Data from the Ministry of Finance shows that the share of the top 1% in income fell nominally between 2021 and 2022. This is due to the fact that the Polish Order encouraged many people to transition to a flat-rate tax on one's revenue, effectively hindering the accurate calculation of their income. As a result, they disappeared from the analyses, and while inequality has likely increased, administrative data points to a decline. Similarly, in 2023, the Polish government introduced the family foundation; an institution intended to support family-owned business succession and avoid fragmentation through inheritance. Yet, it has emerged as a strategy exploited by influencers and young

[272] Eurostat, *Gini Coefficient of Equivalised Disposable Income*."

entrepreneurs to optimize their tax liabilities. Therefore, the process of implementing policies designed to support the development of Polish capital has come at the expense of the average citizen, in addition to concealing the true level of income inequality in the country.[273]

Figure 7. Income Inequality in Poland: GINI Index, 1985-2023



Source: Author's own compilation based on World Bank data

7.4.3. Firm Fragmentation

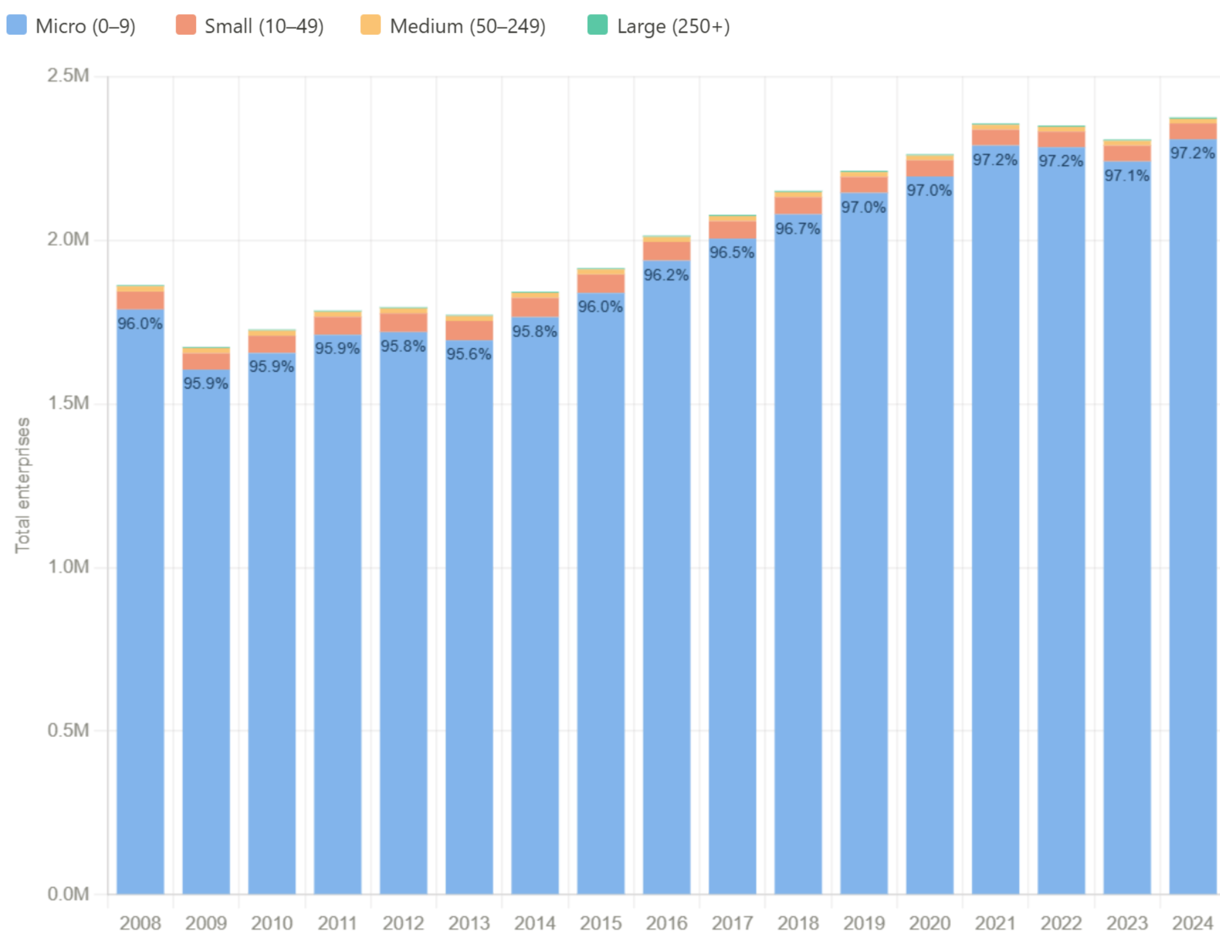
Alongside income inequality and a large share of the self-employed, the high fragmentation of national businesses may be conducive to the emergence of a grey zone in the labor market. If one were to identify the reason for a larger grey economy in Poland than elsewhere, it would be the predominance of small and extremely cost-sensitive businesses. Of the close to 2.5 million national businesses, over 97% are micro enterprises comprising up to 9 employees (**Figure 8**). This fragmentation is coupled with high business birth and death rates, pointing to a dynamic rotation of firms in the country's business demography.[274] These small enterprises, although really flexible, do not benefit from economies of scale, which renders them less efficient and generally less competitive than their larger counterparts. As a

[273] Możdżeń, interview.

[274] Organisation for Economic Co-operation and Development (OECD), *Strengthening FDI and SME Linkages in Poland* (Paris: OECD Publishing, 2025), 18, https://www.oecd.org/en/publications/strengthening-fdi-and-sme-linkages-in-poland_cb08eb93-en.html.

result, they seek out every legal and illegal means to avoid costs, with taxes representing a significant proportion of the financial burden. Many employers resort to offering short-term, unstable, and project-based contracts in place of long-term, insured ones.[275] More significantly, a "prisoner's dilemma" emerges, where it is in an individual firm's best interest to cheat, therefore, locally no one pays taxes or pays very low ones, which imposes costs on the rest. This is problematic, yet these processes keep local prices at a level affordable for the consumers, many of whom are not financially well-off.[276]

Figure 8. Business Demography in Poland, 2008-2024



Source: Author's own compilation based on GUS data

The survival of a number of employers arguably depends on their involvement in the informal economy. At times, in order to keep their businesses afloat, employers are forced to

[275] Stelmaszczyk and Brążkiewicz, "Employee Stress in Times of Crisis," 175-176.
[276] Możdżeń, interview.

engage in illegal activities. This may be due to circumstances such as outstanding payments for delivered goods or services, resulting in the firm's inability to make health and pension insurance contributions for employees and paying wages without income tax deduction, "under the table."[277] A potential remedy for many Polish SMEs, of which only a negligible percentage are medium-size enterprises, would be their integration into the global value chains through multinational enterprises. Foreign firms in Poland achieve productivity 43% larger than domestic ones, and frequently offer a superior level of innovation and higher wages.[278] Polish firms, however, despite their low technological advancement, barriers to scaling up, and greater exposure to economic uncertainty, demonstrate a strong preference of partnering up with other domestic firms, rather than foreign entities. This provides valuable insight in how success in a professional context is perceived in Poland. Despite several challenges, small entrepreneurs prefer to perform individual economic activity, sometimes even if it means engaging in practices bordering legality.

7.4.4. Size of the Grey Economy in Poland

In Poland, *szara strefa* encompasses two distinct components: the economic activities in compliance with legal regulations but concealed from public authorities and the production of prohibited goods and services or performance without a license required by law.[279] Those illegal practices, sometimes referred to by "black zone," are assessed to be at remarkably low levels, indicating that most of the hidden activity stems from either underreporting by registered firms and individuals or entirely unregistered economic activity, which both allow for evasion of taxes, VAT payments, and mandatory social security contributions. Among these, *działalność ukryta*, or the concealed practices of registered firms, prevail. The sectors most impacted include the automobile industry, accommodation and gastronomy, and construction.[280] In addition, quantitative frameworks determine retail sales, particularly at stalls and markets, next to food and beverage service activities, where informality plays the largest role.[281]

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[277] Anonymous expert, written communication, April 28, 2026.
[278] OECD, *Strengthening FDI and SME Linkages in Poland,* 13-14.
[279] Fundowicz, Łapiński, and Wyżnikiewicz, *Szara Strefa 2025*, 6.
[280] Ibid., 7.
[281] EY Economic Analysis Team, *Shadow Economy Exposed*, 52-53.

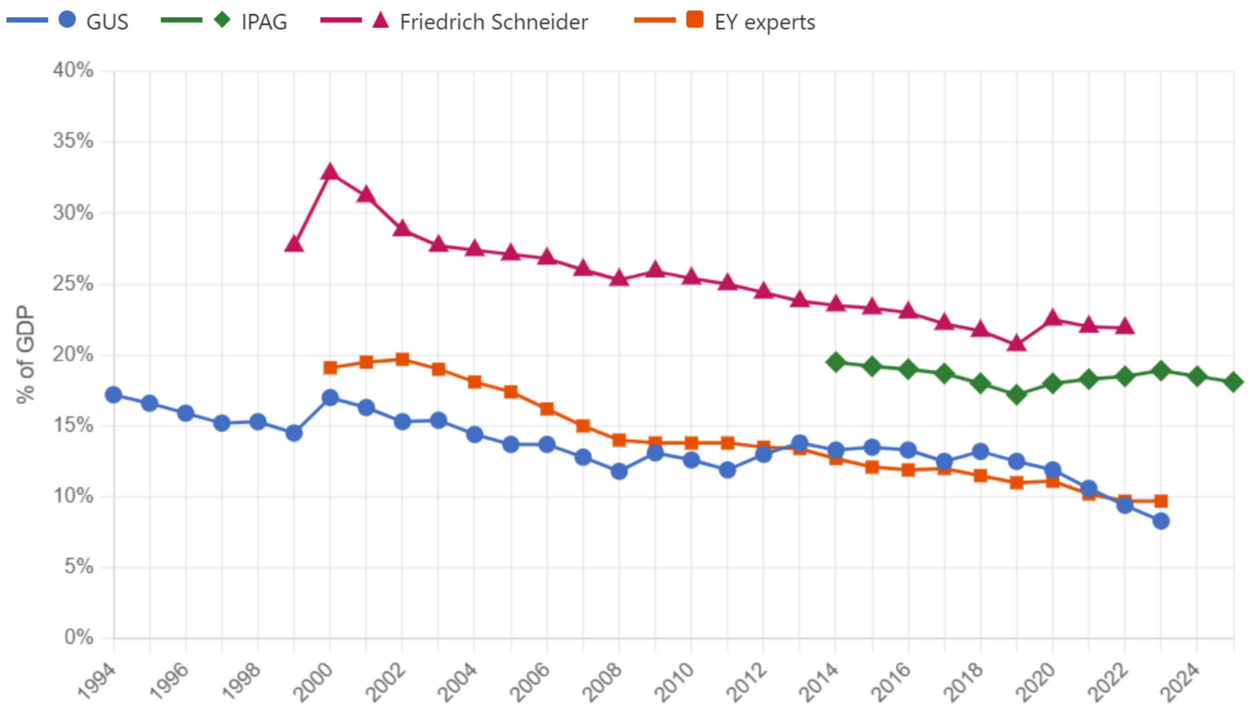
Główny Urząd Statystyczny (GUS), Poland's Central Statistical Office in place since 1918, has been historically responsible for data collection, analysis, and estimation of the grey economy in the country. In 2014, *Instytut Prognoz i Analiz Gospodarczych* (IPAG), the "Institute for Economic Prognosis and Analysis," assumed oversight of this function, augmenting GUS estimates with its own research and data. Its approach has yielded larger figures in terms of Poland's GDP, as compared to the central institution. Still, the prevailing year-by-year projections in academic journals, most notably those authored by Friedrich Schneider, exceed any of the national ones (**Figure 9**). This discrepancy between estimates, however, raises questions regarding the methodology of conducting calculations and institutional assumptions. High levels are suggestive of a significant role that informal work arrangements play in year-or-year GDP growth, or even that the size of the grey economy in nominal terms is on an increase. They also may communicate to the government the need for countermeasures, which would be ineffective or harm the formal economy. When the numbers remain seizable, they continue to influence the country's economic policy and national attitudes.[282]

The most recent approach by the EY experts offers a different perspective. By employing a scientific method primarily based on the demand for and the actual amount of currency in official circulation, they calculate the feasible historical levels of the grey economy in Poland. Their findings indicate that the levels are significantly lower than the previously estimated, infeasibly high numbers presented in academic literature, while mostly verifying the estimates calculated by GUS (**Figure 9**). The approach of the EY Economic Analysis Team is supported by several factors. In order for the grey economy to oscillate between 18-20% of GDP, its annual value would need to exceed the value of central government revenues in Poland. For this to be possible, one in every five *złoty* spent in the entire economy would have to be unregistered. Taking into account the public sector and projects financed by the EU that, by definition, must be registered, the share of unregistered transactions in sectors vulnerable to the shadow economy would have to reach one in two, which seems far-fetched according to the research and expert opinion.[283]

[282] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity'," 138–139.

[283] Dybka, interview.

Figure 9. Estimates of Poland's Grey Economy, 1994-2025 (% of GDP)



Source: Author's own compilation based on GUS data, IPAG (2025), Schneider and Asllani (2022), EY Economic Analysis Team (2025), interview with Dr. Dybka

The reasons behind such divergence between the offered estimates concern methodological problems in both IPAG's estimations and Professor Schneider's research. Although Schneider's approach similarly employs a macroeconomic model, it yields an index of standard deviations from the average value of the shadow economy, without certainty what the average value is. When converted into percentages of GDP, the fluctuations between years remain very small, drastically underestimating the decline of the grey economy in Poland, while in reality its level has fallen sharply. It is also important to note that the most recent studies are based on older estimates, which in turn are based on still earlier ones, creating a loop of references dating back to the 1990s and decreasing their reliability over time.[284] In the context of the present study, the lower estimates directly oppose the claim that the "Polish miracle" has been substantially driven by informality. In fact, they demonstrate that during the period of the country's most extensive economic growth, its grey economy decreased by half. Ultimately, proper estimates are imperative for the effective

[284] Dybka, interview.

implementation of policy, as low levels of informality significantly decrease the utility of introducing measures against it.

It is worth noting that the share of the grey economy in GDP is not equivalent with the share of unregistered employment in the total employment. The former tends to be significantly lower than the latter, considering that unregistered work generates a relatively low nominal value of goods or services due to a number of factors. These include insufficient education and skills, limited access to capital, or ineffective organization of work and production processes.[285] In addition, a part of the value created in the shadows is recorded in the formal economy, when the goods or services produced are legally sold. Undeclared work may also involve fewer working hours, particularly among seasonal employees working in agriculture or construction. Labor force surveys have indicated that approximately 5-10% of workers in Poland are employed without formal registration. This figure, however, excludes those who have formal employment but perform an additional unregistered job on the side, such as private tutoring or babysitting. It similarly fails to include individuals who simply underreport the levels of their income, thus a majority of those engaged in the grey economy. According to an expert assessment provided by a senior tax administration official, 20-30% of the total labor force in Poland participate in some form in the country's grey economy.[286]

7.5. Tax Morale

Adequate regulation and effective law enforcement are necessary to address the grey economy; however, their success ultimately depends on the nation's compliance. Informal activity persists when society allows it.[287] Instead of condemning such behavior, people exchange experiences, helping each other become better in circumventing the tax system and regulations in place. Yet, when the law is perceived as just and proportionate, the effort and potential cost of violation are greater than abiding by it. This inner obligation to report one's economic activity, pay taxes, and make social contributions, captured by the concept of tax morale, is generally more evident in democratic and economically developed countries than in states lacking rule of law and marked by significantly slower economic growth. The

[285] EY Economic Analysis Team, *Shadow Economy Exposed*, 22.
[286] Anonymous expert, written communication.
[287] Kaže, Škapars, and Bolinskis, "Consumer Social Values Behind the Grey Economy," 423.

transition countries constitute yet a separate case. The scholarly literature points out that in the previous socialist republics and satellites, the sense of personal obligation to contribute to the public budget is low and apathy towards any informal practices is pervasive.[288] Poland is a particularly interesting case to study in this regard, as it has successively positioned itself as a strong opponent of Soviet socialism, widely regarded as the most successful transition country with strong performance in the global market. While participation in informal activity may be viewed by individuals as a necessity for economic survival, regardless of right or wrong judgements, social values at least to a certain extent determine market behavior and grey economy participation, rendering the respective linguistic and cultural studies relevant.[289, 290]

7.5.1. Evidence in Language

A strong indication of public acceptance of the activities in the shadows may be found in the Polish language, which has evolved over the past decades in parallel with the changing political environment, economic prospects, and social norms. Upon reviewing the available literature reporting on informal practices in the country, it becomes apparent how many words related to this phenomenon have a neutral, if not positive, resonance. This is due to use of a common linguistic tool, euphemization, defined as replacing sensitive, blunt expressions with more tactful or neutral ones. The time of the PRL was arguably the key moment for developing such a vocabulary. Among the earliest examples of this concept is the term *wynoszenie*, used to denote "carrying out." In the context of Soviet-controlled Poland, this term was used to describe a well-known practice, namely stealing products from state-owned factories, which would then become *fanty*, "loot," and by no means "stolen goods."[291] Another relevant term is *fucha*, which translates directly to "side job," allowing one to *dorobić sobie*, "earn extra cash." It refers to informal employment that Polish workers would engage in alongside their primary state occupation, without a top-down assignment, and generating some pocket money for purchase of goods exceeding the basic necessities needed to

[288] Malaczewska, *Szara Strefa Gospodarki. Determinanty i Mechanizmy Kształtowania*, 44.
[289] Ibid.
[290] Kaže, Škapars, Bolinskis, "Consumer Social Values Behind the Grey Economy," 425.
[291] Firlit and Chłopecki, "When Theft Is Not Theft," 98-99.

maintain the family.[292, 293] During the PRL it was common to *załatwić coś*, "arrange something," without a formal payment but through a friendly favor, acquaintance connection, or pure bribery of the officials.[294] Other terms such as *kombinowanie*, "scheming" or "being up to something," along with *na lewo* and *spod lady*, meaning "on the left" and "under the counter" respectively, have all been utilized as soft alternatives to call illegal means, removing completely the implication of the criminal behavior. There were also terms specific to certain social circles, such as *betlejemki*, word for word "little Bethlehem," constituting provisional dens serving homemade spirits, or *szewskie poniedziałki*, "shoemaker's Mondays," referring to those days when a large number of workers were absent from their professional duties due to drinking or poor work ethic.[295, 296]

These words, originating from a completely different era, not only remain in use today, but they refer now to daily practices. A "side job" can constitute any economic activity undertaken in addition to one's primary employment, even when fully regulated, with all required state contributions duly made. Polish society "arranges" virtually anything today, from basic errands and personal duties to phone calls and official documents. More strikingly, however, the euphemized Polish dictionary has been further enriched by several modern-day examples. For instance, tax evasion is referred to as *optymalizacja*, "optimization," while the failure to include VAT in costs is termed *bez faktury*, "without invoice."[297, 298] The grey economy in Poland, *szara strefa*, is for many synonymous with *zręczność podatkowa*, "tax dexterity", conveying a strongly positive connotation.[299] A number of possible interpretations of this practice can be drawn. One may understand the euphemization of the Polish language and its prevalence to this day as a continued manifestation of a general acceptance of informality and collective attempt to conceal it, even in the role of passive observers. It could similarly mean individuals' moral rejection of borderline illegal practices and an attempt to soften the

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[292] Pawlik, "Intimate Commerce," 81.

[293] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 112.

[294] Firlit and Chłopecki, "When Theft Is Not Theft," 102.

[295] Kosiński, "Obok PRL," 551.

[296] Kosiński, "Praca na niby," 516.

[297] Malaczewska, *Szara Strefa Gospodarki. Determinanty i Mechanizmy Kształtowania*, 75.

[298] Czernicki and Kutwa, *Szara strefa w Polsce,* 9.

[299] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 128-129.

language in order to reduce the feeling of shame or discomfort from participation in the grey economy. It may simply be that the use of this linguistic tool constitutes an old habit that continues to influence present-day society.[300] Consequently, examining the national sentiments towards informality alongside the language may facilitate a more nuanced understanding of tax morale in Poland.

7.5.2. National Sentiments

Historically, the social perception of informality in Poland broadly differed from today. In an imposed Soviet political discourse and dysfunctional economy of the PRL, the activity in the shadows was understood as far from criminal activity and a rather loose infringement of the rules in place or of the poor organization of professional and social life.[301] Public ownership and the central party did not represent the prevailing ideology; it was a status quo in place that few could challenge. In the common view, the property belonging to everyone was synonymous with belonging to no one, while activities hidden from the official sight were formally deniable. In contrast, action against an individual would be immoral, while acquiring a privatized property would be an outright theft.[302]

The literature indicates that national sentiments towards the grey economy in Poland today are somewhat aligned with those of the past.[303] Accordingly, there is still little social pressure to register employment, while in certain environments informal work may even be encouraged.[304] While some may view such behavior as short-sighted, given its focus on immediate benefits such as stable employment or higher wages and a disregard of long-term consequences, it is rationalized by many individuals who consider the often inadequate public services, particularly in healthcare and the pension system. According to the 2025 Economic Survey of Poland, the public healthcare in place is still inefficient, marked by long waiting times and reduced access to a number of services. The hospital sector is large but

[300] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 405.
[301] Firlit and Chłopecki, "When Theft Is Not Theft," 97.
[302] Ibid., 98-99.
[303] Pine, "Living in the Grey Zones," 36.
[304] Baczko-Dombi and Giza, "The Road to the Shadow Economy, 109-110.

poorly coordinated and often indebted.[305] Those who can afford it, choose private services due to their immediate availability and higher quality. Similarly, the country's pension system's adequacy is declining, while private contributions to pension saving are insufficient to alleviate the increasing pressure of the aging society. The old-age dependency ratio is one of the fastest-growing in the EU and is projected to reach more than 50% in the next two decades, which will only increase fiscal pressure.[306] When accounting for these factors, it is understandable that many citizens disregard the long-term considerations when moving their activity into the informalized economy, particularly if they do not have confidence in the reliability of future pensions or the quality of public services.

Another potential factor contributing to comparatively low tax morale in Poland may be attributed to the inadequacy of its labor market. Surveys indicate a widespread belief, especially among younger people, that securing a formal and fulfilling position increasingly depends on one's social connections. Many perceive well-paying, stable jobs that match one's qualifications as scarce within the official labor market.[307] This challenge is particularly acute in peripheral areas and small towns, where former industries have been dismantled, small businesses have been driven out of the market, and young generations have departed in search for better opportunities elsewhere.[308] Those whose employment has been displaced by competition from overseas manufacturing, particularly in East Asia, or by the growing implementation of artificial intelligence, express particular pessimism about their prospects. It is noteworthy that even among tax administration officials, there is a recognition that the stagnation of living conditions among certain groups in Poland, partly due to significant profits being exported abroad, forces some citizens to shift their economic activity into the informal sector as a means of avoiding market reallocation or business closure.[309]

Some studies, however, based on polling data, reveal that Polish society largely perceives the grey economy in a negative light, particularly regarding its impact on the national economy and society. Most respondents consider informality, and especially tax

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[305] Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: Poland 2025* (Paris: OECD Publishing, 2025), 13, 16.

[306] Ibid., 38.

[307] Baczko-Dombi and Giza, "The Road to the Shadow Economy," 130-131.

[308] White, "Informal Practices, Unemployment, and Migration in Small-Town Poland," 412-413.

[309] Anonymous expert, written communication.

evasion, as detrimental to government revenue and resulting in undue burden on law-abiding citizens. Significantly fewer people recognize that, despite identified drawbacks, the grey economy creates new jobs or contributes to increased household earnings and business profits.[310] Notably, these attitudes may vary depending on whether individuals attempt to morally justify the grey economy in a broader context or in relation to their own personal circumstances.[311]

8. FINDINGS

The present case study on the evolution and socio-economic implications of the grey economy in Poland has provided a comprehensive overview of the phenomenon, addressing its contributing factors, ways of manifestation, alongside its shifts and adaptations to key economic and political events. The review of national perceptions, rooted in language and documented in available data, has offered valuable insights into local sentiments and tax morale of the society. The employment of macroeconomic indicators and estimates of the size of the activity in the shadows has facilitated the assessment of the impact of informality on Poland's economic growth and labor market, while also identifying emerging challenges. Ultimately, this research has sparked a discussion about the potential need for reframing the grey economy and situating it within the context of broader economic pathologies. The respective findings are presented below.

[1] Historical analysis demonstrates that informal practices in Poland have evolved alongside its stages of market transformation. This evolution highlights the underlying connection between the economic structures and systemic inefficiencies in place, and society's participation in the grey economy. During the PRL period, the vast majority of people relied on informality and bending the rules to get by. Central authorities controlled virtually all means of production, confining the economy within Polish borders and directing the distribution of goods and services. In this environment, people survived by leveraging their social networks, exploiting public resources, and participating in trade on the parallel black

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[310] Pasternak-Malicka, "Positive and Negative Consequences of the Gray Economy 'Tax Dexterity' of Business Entities and Households," 135-136.

[311] Kaže, Škapars, Bolinskis, "Consumer Social Values Behind the Grey Economy," 427.

market. When the state sector was eventually dismantled in 1989, marking the birth of the Third Polish Republic, the implementation of the "Shock Therapy" abruptly removed artificial subsidies and full employment, opened borders to international trade, and began privatization of one industry after another. Its detrimental effects to the society, including high unemployment, surging inflation, and growing financial inequality, allowed new informal practices to emerge to fill the void. These manifested primarily in the growth of clandestine enterprises that hired unemployed workers off the books, the exploitation of disparities in international prices, and increased cross-border trade along Poland's eastern frontiers. Following the long-awaited accession to the EU in 2004, Poland was set on a path of unrivaled economic growth, one of the few weathering the global downturn in 2008-2009, and within two decades, it became the 20th largest economy in the world. Yet, the economic motivation behind the grey economy participation remained in place, despite the "Polish miracle." The successful transformation to a liberal democracy and a free market economy produced varied outcomes for the society. While cities benefitted from innovation, transformed infrastructure, and concentration of human capital, peripheral areas were left to slowly follow suit in the pursuit of productivity growth, competition, and skills reallocation. Notwithstanding challenges, the spirit of entrepreneurship has remained strong in Poland, fueling the rapid growth of small and especially micro enterprises. The drive to "work for oneself" has become a defining national trait, promoting hard-work and long labor hours. To compete with major business centers and mitigate regional disparities, many individuals returned to informal practices, mirroring trends seen in other developed countries. Tax evasion, the circumvention of social contributions, labor migration, "tank tourism," and "grassroots activities" emerged as key strategies for achieving economic autonomy. The increased fiscal scrutiny, innovative regulations, and increased digitalization of payments have gradually decreased the share of the grey economy in Poland production and consumption. However, it cannot be ruled out that a considerable share of the population continues its activity, at least partially, in the shadows, echoing the resourcefulness for economic survival of the past.

[2] The study of Polish vocabulary related to the grey economy reveals a strong tendency toward euphemization; a linguistic strategy that replaces the negative connotations of informality with more neutral, if not positive, terms. Notably, many of these expressions

have persisted into contemporary times, appearing in everyday language. More strikingly, however, they have been extended with new euphemisms describing contemporary activities bordering legality. This linguistic phenomenon reflects, at least in part, the relatively low tax morale observed within Polish society. National sentiment studies confirm an ambiguous attitude toward the grey economy. On the one hand, most people condemn informality as a general, even philosophical concept, recognizing its negative effect on economic growth and the functioning of the market. On the other hand, when considered in an individual context, there is a broader understanding and often acceptance of participation in informal arrangements, when driven by a lack of alternatives and disadvantaged socio-economic circumstances. For many, the grey economy emerges as a way to support national business and care for "one's own;" compatriots and local communities.

[3] Contrary to the exceptionally optimistic international perception of the "Polish miracle," Poland continues to face challenges in its business demography and macroeconomic fundamentals that contribute to the persistence of the grey economy. Economic data reveal that a significant portion of profits generated by increased productivity have consistently flowed abroad, enriching foreign entrepreneurs while improvements in the living conditions of Polish citizens have lagged behind. Wage shares, average salaries, and GDP per capita have remained below the EU average, despite the sustained economic growth. Although national statistics indicate a reduction in income inequality, regional disparities have widened, while the most affluent were excluded from national accounts following economic reorientation and the "Polish Order." These same fiscal policies have increased the profitability of self-employment, which, next to firm fragmentation, constitute a particular risk factor for tax morale. The tax system encourages individuals to become sole proprietorships, establishing the "B2B employment," as it allows them to pay contributions only on a defined base, rather than on their total income. Such business entities can also claim various expenses, overstating the tax deductible amounts. In contrast to full-time employees whose PIT obligations are fulfilled through easily verifiable employer filing, individual registered economic activity allows for a grey zone to emerge.[312] A potential growth of the grey economy could be attributed to the increasing demand for funding. Defense spending is rising across

[312] Dybka, interview.

Europe, forcing governments to raise taxes or cut public spending, which in turn may lead to a decline in government efficiency over time. Another factor is demographics, particularly the aging of the population and a potential increase in the influx of immigrants into sectors with lower productivity, which are characterized by a larger grey economy. However, the associated increase in informality would likely amount to around 0.5–1% of GDP, not a sharp surge.[313]

[4] There is no strong evidence that the grey economy has positively contributed to Poland's unprecedented growth in recent decades. This may appear to be a logical conclusion when assuming that year-on-year levels of informality have undergone only minor fluctuations remaining within the range 18-25% of the country's total production. However, when the scientific methods of estimation are considered, Poland appears to have made remarkable progress in the 21st century, reducing its grey economy by half, which reshapes the expected implications. It seems more plausible that limiting informality could be a factor contributing to stronger GDP growth. The main reason for such is the fact that most of the economic activity in the shadows is characterized by low-productivity and hence, it prevails in sectors with limited technological advancement. Eliminating this activity would likely encourage many to transition to more productive occupations, especially in favorable labor market conditions, resulting in a positive impact on economic growth.[314] On an individual level, however, efforts to reduce the grey economy may prove detrimental if they stamp out the entrepreneurial activity often associated with it. For many, "working for oneself" represents personal success and serves as a marker of personal wealth. The loss of one's own enterprise can therefore foster a sense of socio-economic injustice and deepen distrust in public institutions.

[5] The majority of the economic activity in the shadows is performed by unemployed and lower-income households, concentrated outside major urban centers. Most of their earnings are immediately put into spending, which indicates that informality does not provide for one's exponential wealth accumulation but a basic financial support. As a result the debate about the grey economy in Poland becomes inherently class-based. Among lower

[313] Dybka, interview.
[314] Ibid.

social classes, but also employees with declining skill relevance and micro entrepreneurs motivated to pursue their business activity independently, the system provides no legal path to supplement inadequate income. As a result, they resort to practices bordering legality to alleviate the inequality, while avoiding labor market reallocation to larger cities, more productive sectors, or more competitive firms. This in turn creates a compliance gap, where the supposed tax and social contribution obligations to the state are not fulfilled. However, there are many more negative consequences of various state regulatory measures that allow people to optimize their tax situation. The wealthy are presented with legal ways of avoiding or significantly reducing taxation, such as the lump-sum tax, the Intellectual Property Box, or the family foundation. This policy gap similarly reduces the state revenues and more importantly, creates opportunities for affluent individuals to exploit it. Yet, by law and definition, it is not included in the grey economy.[315]

[6] The key question that remains is the future trajectory of the grey economy in Poland. Based on current trends and estimates, it is reasonable to anticipate a continued decline in the informal sector's share of the country's GDP. This prediction is largely substantiated by the strong decline in the reliance on cash payments, actively promoted by the authorities in recent years, and the broader trend of digitalization. that more easily provides for stricter enforcement of tax regulations in place, next to a broader law compliance. Technological advancements improve transparency and legal compliance, particularly in the context of informal transfer of funds, as it renders tax and social contribution evasion more difficult and costly. It is plausible that, as the use of physical currency diminishes, informality will gradually wither away. It is important to note, however, that although not particularly popular in Poland, unregistered transactions may also be conducted involving cryptocurrencies. The near-future development of financial technology may result in the emergence of a larger grey zone in the realm of digital currencies.

[315] Możdżeń, interview.

9. CONCLUSION AND RESEARCH IMPLICATIONS

The present study investigated the informalization of labor and social relationships in Poland, a country distinguished by its unique historical background, shaped by wars, occupation, and external influence, yet marked by decades of unprecedented and sustained economic growth. Of particular interest to the analysis was Poland's experience of three entirely different political and economic regimes over a span of a mere 45 years, a characteristic shared only with the former Eastern Bloc countries. This unusual sequence demanded continuous adaptation of the society, resulting in a distinct character development, with expected implications on the emergence of informal practices. The objective of the research was to answer, "How does the development of Poland's grey economy reflect the socio-economic outcomes of its post-1989 market transformation?" The answer proved to be complex and multifaceted, with numerous factors at play. While the shift of a part of productive activities into the shadows mirrors a global trend, Poland's experience is shaped by its specific historical context, geography, and international policy decisions.

The first well-documented emergence of the grey zone during the years of the Polish People's Republic can be seen as a reflection of social injustice and the lack of economic autonomy experienced by ordinary citizens. This parallel demiworld supporting the majority of the society during the real socialism, transformed with the introduction of democracy and Poland's entry into the global liberal market. The process of dismantling the old system and rapidly introducing new capitalist structures required significant economic sacrifices, which took time for society to absorb. During this transition, informality filled the gap created by the shortage in the midst of plenty, supporting economically individuals and communities grappling with economic hardship and increasing local disparities, who observed those able to seize new economic opportunities, driven by innovation and private entrepreneurship. Following EU accession and the adoption of its regulatory frameworks, the contemporary grey economy in Poland emerged as a backlash to increased international competition and the rapid pace of globalization. It developed as a response to perceived barriers to economic advancement and social mobility, offering individuals a way to cope with rising costs, mounting competitive pressures, and the inconsistent improvement in living standards, both within Poland and compared to other EU members. Informality thus arose from a sense of comparison and perceived injustice, as many question, "why my hard work does not translate into the same level of prosperity enjoyed by others," next to restoring one's economic and “legal” autonomy, reflected in the sentiment, “if the state were functioning properly, informal arrangements would not be necessary.” To a certain extent, today’s grey economy in Poland is a continuation of historical habits, embedded in national language and attitudes, where the prevailing notion is that “everyone is scheming or finding ways around the system when no other alternative is available.”

Contrary to the initial hypothesis, the grey economy cannot be credited with driving economic growth. In fact, it ultimately hinders progress, whether by impeding the efficient allocation of resources, limiting productivity gains and innovation within capitalist systems, or disrupting central planning and distribution of goods and services in socialist economies. Reducing informality has contributed positively to Poland’s pioneering GDP growth over the past decades and is likely to continue doing so in the future. However, it is important not to overlook the grey economy’s role in fostering greater equity in peripheral regions and among less competitive segments of the workforce. For lower socio-economic classes, informal practices often serve as the only alternative to the legal tax optimization and profit-retention strategies available to more affluent groups. Reframing the grey economy as a structural issue, rather than a moral choice, highlights the need for closer examination of state policies with direct and indirect effects on income inequality in the country. Efforts to combat informality in Poland and elsewhere also raise the question of a potential “illusory effect,” whereby stricter fiscal enforcement may not always result in increased public revenues or ideal conditions for business competition and investment. Instead, it carries the risk of stifling local entrepreneurship, leading to a slow and economically painful process of labor market reallocation.

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Appendices

A. Chronology: Events of Economic Relevance in Poland

1981	Establishment of judicial oversight of tax administration in Poland
5 April 1989	Signing of the Round Table Agreement
31 December 1989	Adoption of the 10-point Balcerowicz Plan, "Shock Therapy"
1990	Record annual inflation in Poland at approximately 450%
1993	Completion of post-Soviet tax reform; Finalization of the privatization
1995	Polish currency denomination reform
1995	Poland's acceptance into the WTO
1999	Poland's NATO accession
2004	Poland's EU accession
2007	Poland's joining of the Schengen Area
2009	Global recession following the Great Financial Crisis
2015	Economic reorientation in Poland
March 2020	Onset of the global pandemic
January 2022	Polish Order 1.0
14 February 2022	Russia's invasion of Ukraine
June 2022	Polish Order 2.0
2022-2023	Inflation crisis in Poland
2025	Poland's economy surpasses $1 trillion, becoming the 20th largest economy in the world

B. Dramatis Personae

Solidarność	Social movement against communism in Poland and formally registered labor union in 1980. Its establishment followed a wave of national protests against the communist government in the country, led by Lech Wałęsa and other workers at the Lenin Shipyards in Gdańsk. Its popularity received international attention, forcing the government to negotiate with pro-democracy and political freedom activists. The movement survived the imposed martial law during 1981-1983, forming an underground community. It played a major role in weakening of and the final collapse of Soviet control in Poland in 1989.
Leszek Balcerowicz	Polish economist, statesman, and professor; the architect of Poland's economic reforms after the fall of the Soviet control in the country in 1989; the author of the "Shock Therapy," referred to as "Balcerowicz Plan;" Deputy Prime Minister and Minister of Finance in Poland's first non-communist government after World War II, President of the Polish National Bank and the Monetary Policy Council in years 2001–2007.
Prawo i Sprawiedliwość (PiS)	"Law and Justice," political party in Poland, oscillating between conservative social policy and relatively strong social welfare policy, "populist", serving as the majority leader in the Polish government and concurrently holding presidential office from 2015 to 2023.
Zakład Ubezpieczeń Społecznych (ZUS)	Poland's Social Insurance Institution responsible for administering mandatory social security contributions. ZUS collects approximately 22% of an employee's monthly gross salary to finance healthcare, pensions, disability benefits, and sick leave coverage. Employers are additionally required to contribute 19-22% of each employee's gross salary. ZUS coverage is mandatory for all legally employed individuals in Poland, with an exception for students under the age of 26 years old, who are exempted from the 2.45% sickness insurance contribution.

Główny Urząd Statystyczny (GUS)	Poland's central government administration office responsible for the collection and dissemination of statistical data spanning most areas of public affairs and some areas of private life. It was founded in 1918, upon Poland gaining independence, and except for the suspension of its activities between 1939 and 1945 by Germany, it has been operating uninterrupted to this date. In 2014, the collection and estimation of data pertaining to the grey economy in Poland was outsourced to the Intytut Prognoz i Analiz Gospodarczych (IPAG), which prepares annual reports in addition to relevant research completed by GUS.

C. Glossary

szara strefa	grey economy in Poland
działalność ukryta	unreported economic activity by registered firms or self-employed individuals; decreases the official revenue value and thus due taxes and social security contributions
wynoszenie	"carrying out;" Polish euphemism for workplace resource theft, typical for the PRL period
fanty	"loot;" Polish euphemism for stolen goods
fucha	"a side job;" Polish euphemism for a contractual arrangement between two private individuals, the income from which is not reported to the authorities
komibinowanie	"scheming," "being up to something"
betlejemki	"little Bethlehem," referring to provisional dens serving homemade spirits during the Soviet era in Poland

szewski poniedziałek	"shoemaker's Monday," referring to days of common absence from professional duties during the PRL
optymalizacja	"optimization;" Polish euphemism for tax evasion
bez faktury	"without invoice," Polish euphemism for sales of goods or services without issuing a receipt, hence evading VAT tax
zręczność podatkowa	"tax dexterity;" Polish euphemism and term used in economic literature to denote informal activity

D. **Charts and Figures**

1. Estimation Methods of Unreported Economic Activity, in Bejaković, "How to Measure the Unmeasurable," 24.

Direct methods	Indirect methods	Causal methods	Eurostat approach
Questionnaires by post, mail or Web	A macro approach - Difference between revenues and expenditures.	Determinants and indicators-DYMIMIC	Exhaustiveness of national accounts
Face to face and telephone interviews	A micro discrepancy approach - Difference between receipts and expenditures	Demand for cash	
Focus group discussions	Labour market approach by comparing the activity rates		
Detail control of tax returns and use of tax statistics	Cash in circulation		
Experts' estimation on the situation in a particular economic sector	Transaction method		
The share of very small enterprises	Use of physical inputs method, like electricity		

Source: Easton, 2001, Schneider, Enste, 2000, Galić Nagyszombaty, 2012, OECD, 2002, Schneider, 2005, 2012, Smith, Wied-Nebbeling, 1986.

2. *The Economist* Cover Dedicated to Poland in May 2025