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Economic Growth Cycles in the Centrally Planned Economies: A Hypothesis of the "Long Cycle"

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A Hypothesis of the "Long Cycle"

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Abstract

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The analysis of the long-term growth trend in the centrally planned economies allows us to ascertain the regular character of periodic changes in the rate of economic growth. The detailed examination of this phenomenon leads to the conclusion that the sociopolitical and economic mechanism of this process is of an endogenous character, i.e., the reproduction process under socialism is of a cyclical character.

The "long cycle" hypothesis has been put forward to define several recent years, particularly distinct in the Polish economy. It is modified as compared with earlier "traditional" cycles.

The cyclical nature of economic growth in socialism is very closely connected with its influence on the state's abilities to satisfy the needs of society. This influence has been estimated as negative on the basis of losses and profits balance. Hence some proposals have been put forward as to selection of means that could reduce the causes of the cyclical growth.
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1. Regularity in Economic Growth Fluctuations

When studying the formation of economic dynamics in Poland, we notice the fact that it is by no means of a uniform character. This is quite understandable when keeping in view the complex mechanism of economic growth and the way in which its factors are correlated. More detailed study of this phenomenon allows us to put forward a thesis that changes in economic dynamics are of a regular nature which leads to several years' periods of economic growth at either accelerating or decelerating rate alternating over time. It should be noted, however, that except for the specific case of Poland during the late seventies and eighties, those changes refer to relative oscillations and not to periodic absolute decrease in basic macroeconomic quantities, although it happened in some other countries as well.

Attempting to determine definite periods of economic growth in the centrally planned economies in terms of growth rate changes we can distinguish several time intervals featured by different economic dynamics (see Table 1 and Figure 1).

The phenomenon of economic dynamics oscillation as it was recognized in particular countries has made some authors put forward a thesis that changes take place within quite similar limits of time (Bauer 1978, Goldman 1965, and Kyn and Schrett 1979). However, this opinion is--or should we say was--right in part only.

Such a course of reproduction processes as it is in the European CMEA countries results from different economic positions they occupied
at the starting point to so-called socialist industrialization. The transformation into an industrialized country was necessary to develop fixed assets for production and, what is more important, to remove war devastations, these also varying enormously in particular countries. The conditions differed from one country to another as far as internal situations and accumulation abilities of a national economy are concerned.

In the early fifties most of them were intensively developing countries as a simple consequence of assumed economic development strategy aimed at accelerated growth and strenuous industrialization. Later, however, the period of accelerated development either continued or ceased to continue due to specific social, economic and political interrelationships within them. As a result, each country was entering a new phase of decelerating growth rate at its own time. The first was the Soviet Union—in 1952—and then entered Poland, Romania and Hungary—two years later. In turn, unequal successive phases observed in the early seventies have never occurred again. While four among the seven countries included in Table 1, i.e., Bulgaria, Poland, Romania and Hungary enjoyed considerable growth, the growth rates in Czechoslovakia, East Germany and the Soviet Union were somewhat declining.

1.1 Interrelations of the CMEA Countries

The question that arises at this point in connection with what has been discussed so far concerns the reason for the cycle phase time limits to coincide in respective countries under study. It should be stressed that mutual influences can only be valid if a respective national economy is actually part of an integrated system (Kolodko 1983).
The problem of hypothetical growth cycle synchronization in the socialist economy as viewed against the international background comes down to a crucial question as to whether the existing ties between subsystems—which economies of the CMEA countries really are—have been strong enough to shape periodic alterations in economic development dynamics.

The history of this economic organization, i.e., Council of Mutual Economic Assistance, involves several stages, each posing still new goals to reach. It seems unquestionable, however, that at least throughout the two initial decades of the CMEA, major attention was drawn to bilateral economic cooperation. A predominant form of this cooperation was goods exchange but joint ventures in the domain of investment, in the extracting industries as well as industrial cooperation, proved inferior. Therefore, the beginning of a real integration process dates back not earlier than the early seventies when the Complex Programme of Intensification of Mutual Co-operation as well as Development of Economic Integration of the CMEA Countries was declared and subsequently accepted during the 25th CMEA Conference in Bucharest in 1971.

But the integration is not strong enough to make it possible that one country could exert substantial influence upon economic processes including alterations in macroproportions and economic dynamics in other CMEA countries. No doubt the Soviet Union's economy has a considerable effect on the abilities of other socialist countries as they mostly depend on the Soviet supplies of raw materials; these, broadly speaking, are rather stable. On the other hand the recent economic
crisis in Poland, as deep as it has been (see Figure 8), has to be reflected in rates of economic growth in the CMEA group. They are Poland's chief trade partners and so are particularly afflicted with a considerable decrease in imports from Poland between 1980 and 1982.

1.2 Bilateral and Multilateral Relations

Hence the bilateral relationships remain a predominant form of economic cooperation there and no indications exist that this is going to change soon. Multilateral contacts have been but a complementary sector and this situation will apparently continue for a long time. There is not much sense in arguing that mutual interactions do not exist at all in the rates of growth of respective socialist economies. Yet they are surely of minor significance and seem proportionate to the share of mutual commodity turnover in national income of the countries under study. Needless to say, those interactions are not so large as they are in highly developed capitalist countries, especially those of the EEC group.

Since the late seventies all European socialist countries have faced a decrease in economic growth, at variable rates in respective cases, when compared with a preceding period. Subsequent increase rates vary as well. Broadly speaking, this is because of adverse external and internal conditions which have overlapped in all those countries since the mid-seventies. It would be a mistake to neglect the impact of external economic disturbances on the economic performance in centrally planned economies. On this subject see, for example, Brown and Tardos (1980), Fallenbuchl (1980), Neuberger, Portes and Tyson (1980), and Wolf (1976). However, the internal factors are of more significance here.
Internal factors primarily involve processes coming out of the mechanism of cyclical economic growth while external ones result from the generally unfavorable world market conditions and a complex political situation (see, for example, Becker 1984). It is only in this sense that one can say cyclical growth in the socialist economy is internationalized. In other words, the socialist economy is a part of the world economy and therefore it cannot avoid world-wide economic tendencies.

A thesis could be put forward at this point that simultaneous decreases in rates of economic growth in different socialist countries has nothing to do with the synchronization of growth cycles for all concerned economies. As we have seen earlier this synchronization is not likely to happen due to the low integration level. Instead the coincidence is being evoked by the world economic situation which has increasingly become present in socialist economies through their access to the international division of labor. To this must be added the coincidence of decelerating growth phases of the cycles autonomous in a respective country. This mechanism has also produced changes in economic macroproportions which we could observe over two recent decades. They are aimed—quite similarly as in Poland, though to a lesser extent—at the reduction of investment's share in national income in order to maintain the level of consumption obtained or, as is the case of Hungary, Romania and especially Poland, to minimize the rate of its drop so as to prevent the decrease in the absolute level of satisfaction of the society's needs. Another question which arises is: how does the mechanism of cyclical economic growth actually work and what is this mechanism's effect on social and economic goals accomplishment?
2. Mechanism of Cyclical Economic Growth

The only regularity of the fluctuations of the rate of economic growth is not a sufficient criterion to ascertain cyclical character of a phenomenon. The other, even more important, criterion is the endogenous mechanism of periodic oscillation, in this case dealing with periodic changes in rates of economic growth. To ascertain that a phenomenon is cyclical, it is always mandatory to look into its origin.

Periodic rate of growth alterations are caused by a complex system of social, economic and political interdependences of which perhaps the most important are short-term and long-term contradictions between consumption and investment, existence of an overall investment cycle with characteristic time-lag in its effects, and indivisibility of investment (Bauer 1981 and Kolodko 1986a). Nearly as important is how deeply the economy of a given country has been involved in the international division of labor, what overall planning and management system has been selected, and what growth program assumed.

One of the objectives of economic activity in socialism is to maximize satisfaction of the needs of the society under existing economic conditions. In practice it is often translated into the efforts to maximize national income so that the rate of investment could be elevated as much as possible. But at the same time considerable investment was directed to sector I of national economy, i.e., production of the means of production. This, in turn, laid foundation to a strong investment expansion (see Figures 2 and 3) leading to an overall investment cycle with characteristic time-lag in its effects. Investment expansion taking place so vigorously produced difficulties in balancing, in
material terms, of undertaken tasks. This was, among other things, the background for social and political tension reflecting gradual deceleration of consumption growth or even absolute decrease in its level, as happened in some cases. It was accompanied by serious troubles in market equilibrium and inflation (Kornai 1980, Kolodko 1986b and 1986c, and Kolodko and McMahon 1986).

Such a situation is usually cured by changing the proportions of the final distribution of national income for the benefit of the consumption sphere (Mieczkowski 1978 and Bunce 1980). It can be achieved either by reduction in the rate of accumulation or by decelerating its growth hitherto. Simultaneously, substantial changes have to be made in investment proportions in favor of those branches which produce consumer goods, agriculture and non-material services. These measures, supported by real production effects following a time-lag period, enhance the growth of national income and thus consumption level as well. Such tendencies may occasionally be combined with changes in the foreign trade structure which is advantageous from the point of view of the level of current consumption. Hence investment expansion subdues for a while and major efforts are now concentrated on the accomplishment of investments taken up in a preceding phase—"closing" of an overall investment cycle. At times, the decentralizing tendency which evolves is helpful in developing a greater degree of firms' self-dependence. As a result of this, as well as due to rising consumption, economic efficiency elevates to a higher level. At this point, it may be worth considering making use of reserves accumulated earlier, if
available under specific conditions. Meanwhile the process of accelerating growth goes on.

As time passes, retardations in some branches—especially those in raw materials and power supplies as well as in infrastructure—start to impose themselves increasingly which throws the whole economy off its equilibrium. Again some modification of the economic growth program is a must. The nature of such a modification decides how strong and distinct the forthcoming phases will be. The more radical the changes that take place, the more visible are the features symptomatic of a period which is about to come. As a result, the rate of growth in output of the means of production increases. This signals the beginning for a new overall investment cycle as soon as national income becomes overwhelmed with investments (Soos 1975-76). Increasing the share of consumption in distributed national income proves a simple consequence of investment expansion. A substantial drop in consumption dynamics or sometimes in its absolute level (see Figures 4 and 5) evokes frictions of a social and political nature. The national economy re-enters a period with the development dynamics slowing down although it may vary enormously in details when compared with phases of decelerating growth rates in the past (see Figures 6 and 7). Nevertheless, the essence of this phenomenon always remains nearly the same.

No doubt, the history of the socialist economy is extremely short in comparison with that of the capitalist economy. It proves long enough, however, to ascertain the cyclical character of its reproduction process. A model of the socialist economy as described above has not widely been accepted because, it is claimed, it is incomplete. The
main problem is the role played by objective and subjective factors in the formation of the growth process. In each economy—this especially applies to the socialist one—these factors tend to overlap. At the same time the role of subjective factors has been predominant in centrally planned economies. In the model under discussion, transition from the first phase into the second one is primarily determined by objective factors, at least from a definite point, even though the growing oscillation has its subjective reasons as well. The process then is inevitable. On the other hand, subjective factors are of utmost significance while shifting from the second phase of a preceding cycle into the first phase of the cycle which follows. This transition is inevitable, too, but its range and depth can be centrally controlled. These are the subjective factors which usually make transition too deep, thus setting in motion the whole mechanism anew.

It is clear that investment or, to be more specific, pressure towards its continual growth plays a vital part in the described cyclical mechanism. Reviewing various approaches to the reasons for excessive investment pressure, we have to stress that it results neither from centralization nor decentralization of the management system. Neither does it seem sufficient to explain it merely in terms of the divergence between the government's preferences and social expectations. Then where is the real source of such a phenomenon and what is its relevance to the endogenous mechanism of growth rate oscillation?

2.1 "Expansion drive"

Janos Kornai (1982, p. 53) claims that the demand for investment is almost insatiable in the socialist economy. In the capitalist economy
the rate of investment expansion depends on estimates as to the future profitability. Thus it is largely, though still insufficiently, constrained by risk considerations. While in the socialist economy:

"The volume of investment does not depend on the financial state of the firms' sector, its present and future profits accumulated or additional savings, the condition of the state budget, or any expected constraints on sales. It would be a mistake to omit these factors from a growth model of a capitalist economy—just as it would be a mistake to include them in the present model (of centrally planned economy)."

This refers to Kornai's model of growth in the socialist economy which strongly insists on shortage and its predominant role in the reproduction process. Based upon what has been discussed up to now, the reasons for the so-called expansion drive can easily be mentioned. They seem to fall into four groups. These are:

first: pressure of unsatisfied needs;
second: interests of various social and occupational strata;
third: the so-called state's developmental mission expressed in the desire to obtain as fast a growth as possible so as to withstand the standards of contemporary world economy, especially those of the most developed countries;
fourth: natural tendency of firms' managers to increase production volume for the reasons of prestige. These efforts do not involve risk connected with responsibility for investment.

All these reasons recur though with a variable force over time. The point is that in the socialist economy, while a proper system
of investment demand control is lacking, investment sooner or later produces signals of growing disproportions. They could easily be divided into three groups:

1. consumption share in national income drops below a level considered as "normal";
2. investment commitment grows associated with growing expenditure freeze which produces difficulties in plan implementation;
3. shortages become increasingly nagging to provoke social tension.

Such signals make the government correct economic macroproportions. As a result, the national economy returns to a more stabilized growth path or at least approaches it. But the factors encouraging investment expansion do not cease. The three groups of signals reappear to inform the government of a possibility— not necessity this time— to accelerate investment. What happens this time is:

1. consumption share in national income grows above a level considered as "normal";
2. investment commitment and frozen resources tend to decrease;
3. shortages become reduced to mitigate social tension.

Since the mechanism of goal selection is not very efficient— for it is always easier to add new goals than to eliminate those set up before— the government succumbs to investment pressure. The national economy enters the first phase of another growth cycle. And this is why periodic oscillations in growth rates are of an endogenous nature, and— hence— of a cyclical nature as well.
2.2 Phases of the Cycle

Let us tackle this problem from another point of view. The cycle implies a sequence of properly ordered conditions or processes leading to the point at which it started or at which the sequence repeats again. There are numerous cyclical economic phenomena. The capitalist economic cycle and investment cycle are just a few to be mentioned. Relatively regular, they are of an endogenous character in the sense that a phase of accelerating growth incorporates premises for the growth rate deceleration in the next phase and vice versa. In order to give a comprehensive answer to the question of whether or not the oscillations under discussion are of such a character, it is worth making a brief account of distinctive features for each respective phase. We wish, at the same time, to point out those elements which make them different and causal connections between growth processes within two phases.

Phase I

1. Lower rate of growth of national income.
2. Relatively higher rate of growth in investment outlays than in national income; considerable growth of the rate of investment.
3. Decelerating rate of growth in consumption sphere.

Phase II

1. Higher rate of growth of national income.
2. Narrowing a gap between rates of growth of investment outlays and that of national income (or national income growing fast); slower growth (or drop) of rate of investment.
3. Accelerating rate of growth in consumption sphere.
4. High rate of investment in the means of production sector.

5. Low rate of investment growth in consumer goods and agriculture sectors.

6. High rate of growth and high absolute level of investment outlays for construction and assembly work.

7. Low share of expenditure for replacement and modernization.

8. Decreasing expenditure in the sphere of unproductive investment.


4. Low rate of investment growth in the means of production sector.

5. Accelerating rate of investment growth in consumer goods and agriculture sectors—proximity to expenditure dynamics in the means of production sector.

6. High rate of growth and high absolute level of investment outlays for machines and equipment.

7. High share of expenditure for replacement and modernization of fixed assets.

8. Increasing expenditure for unproductive investment.

9. Decrease in frozen investment outlays.

10. Changes in foreign trade structure in favor of current consumption.
11. Realization of growth program established in first years of economic cycle.

The reasons for and the course of alterations in economic dynamics, as well as characteristics of particular growth phases as provided above, reveal that relatively regular growth rate oscillations in the socialist economy are of an endogenous nature. As a cyclical phenomenon, they are caused by improper economic macroproportions.

It is not difficult to point at the whole set of interdependencies between categories and social and economic processes presented here. They are partly causal relations but mostly they are feedbacks. The rule is that a tendency appearing in the first phase would provoke an opposite tendency in the second one and vice versa. It is particularly clear in the case of tendencies 2, 4, 7 and 10 of the first phase and the resultant tendency 1 of the second phase of the same cycle. Let us now reverse the train of thought. The consequence of tendencies 2, 4, 7, 8, 9 and 10 in the second phase is the formation of tendency 1 in the first phase of the following cycle.

All those interdependencies can easily be derived taking any of the characteristic elements of both cycle phases as a starting point. This is a definite proof of the endogenous character of alternating phases in reproduction process. Of course, there have been numerous exogenous factors involved. These are mostly of no regular influence on the economic growth rate in the socialist economy, except perhaps the relatively synchronized economic cycle in the capitalist world.
3. **Hypothesis of the "Long Cycle"**

The model of cyclical changes disregards the fact that in reality not all symptoms typical of respective phases are revealed in all socialist countries. Many differences between the real course of growth cycles and its model have persisted since the early seventies. This could be explained in terms of variable, both internal and external, development conditions throughout that period. In particular—this, in a sense, explains an overall deceleration of the economic growth rate in the socialist countries since the late seventies (see, for instance, Adirim 1983, Nove 1981, and Wiles 1982). This is due to a considerable level of indebtedness of those countries, except the Soviet Union. In recent years, however, the possibilities of deriving funds from external sources to support development became rather limited. Still more important was the fact that the extensive factors of economic growth were found to be exhausted.

The foreign credits taken by the socialist country so readily in the seventies proved an efficient means to reduce contradictions resulting from the final distribution of national income into investment and consumption. In this way, however, the contradictions were merely transferred to the future which caused decrease in the rate of accumulation and general slowing down of economic dynamics at the turn of the seventies and eighties. It may be anticipated that acceleration will be restored following several years of a slow-down in economic quantities. It will probably last another several years, being a transitory phase as it was in the past. The growth stabilization on a relatively high level could be ensured on the condition, however, that the intensive growth factors were fully explained. This in turn depends on
necessary changes being carried out in economic and financial mechanisms so as to eliminate the methods which, in the past, created circumstances for periodic growth deceleration.

It can be further assumed that in the eighties changes in economic dynamics of the socialist countries will nearly coincide in time. This assumption is based on several premises. First—perhaps the most important one—is the action of the cyclical economic growth mechanism. It will additionally be reinforced by external factors including the effect of the world market on growth rates in the socialist countries. The role of this factor is increasingly important. As important will be specific tendencies revealed in the development process of respective socialist countries as well as within the whole economic system aiming toward tight integration.

3.1 Modification of the "Traditional" Cycle

The discrepancy between the present model and the real growth cycles in the socialist countries tends to increase as we are getting closer to the present. Here we deal with an extended reproduction process which means that national economy, except specific cases of recession, has advanced to a higher level of productive forces and production relations. It may happen that some causes of a specific course of economic growth and the phenomena usually accompanying them do not occur very clearly or they fail to occur at all. But at the same time there appear new factors and interrelations of socioeconomic development never faced before or considered inferior.

From this point of view, the history of the socialist countries might be divided into two basic periods. The first period, embracing the fifties and sixties, incorporated traditional cycles, in general terms conforming
to those presented in this model approach. The second period, which started in the seventies, though not exactly at the same time in all countries, involved clear modifications of a traditional cycle. The modifications, among other things, consist of prolonged duration, increased number of cycle phases and more variable character thereof. The most important feature here is that, unlike in a traditional cycle, changes in growth rates of all basic macroeconomic quantities, i.e., national income, accumulation, investment and consumption, have exactly the same direction. The more intensive the use of foreign credits as an additional source to promote development, the more far-reaching are the changes. This is why these changes have most vividly appeared in Poland where the transformation of economic macroproportions reached the greatest scale.

From this point of view we can discuss four growth cycles which have taken place since 1950 in Poland—the case which is the most spectacular as far as economic growth cycles in the centrally planned economies is concerned (see Figure 1). They embrace 1950-57, 1958-68, 1969-70 periods. The last one, which is hard to define as a cycle, was initiated only to be stopped in the middle of its first phase as a consequence of radical changes in the growth program after the crisis of December 1970. In a sense then, logical continuity of the development process was thus interrupted with all its consequences for modification scale of the fourth cycle which started in 1971.

This is the "long cycle" composed of four phases. The first one falling from 1971-75 might be considered as an accelerating growth phase; the second one between 1976 and 1978 meant a transition into decelerating
rate of growth; the third one (1979-82) brought economic break-down/economic recession or crisis phase (see Figure 8); the fourth one initiated in 1983 shows the efforts to regain equilibrium in the national economy.

3.2 Specific Causes of the "Long Cycle"

The "long cycle" proves to be completely different from the preceding cycles. The primary difference is that, unlike a traditional cycle, the first phase of the modified cycle brought a simultaneous acceleration in the rates of growth of national income, investments and consumption (see Tables 2 and 3). In turn the second phase of traditional cycles involved adaptation processes to make it possible that the pattern of processes sequence was almost exactly the same as in a former cycle. Qualitative changes which took place in the first phase of the modified cycle, in particular the range and intensity of these changes, made the cycle markedly lengthen so as to develop new phases. In the second phase of the "long cycle," adaptation processes appeared insufficient to push national economy into the required development path.

Let us revert for a while to the signals warning that economic proportions are increasingly getting out of balance. The disproportions were slightly reduced due to foreign credits used to finance both investment and consumption spheres. It is thanks to those credits that shortage not only did not increase but was reduced at an early phase of the "long cycle" despite a considerable drop in the rate of consumption by as much as 10 percentage points to reach a level which could hardly be considered "normal." For the same reason, there were no problems at first to put into effect the investment program. Foreign debt growing fast,
which alone should have been a warning signal for the government, merely helped the government play down threats to the reproduction process and to the abilities to satisfy social needs in the future, produced by the wrong economic macroproportions.  

The intensity of these signals increased as time passed on. So the decision was made to change the growth program at the beginning of the second phase of the cycle in 1976 which officially was then called an economic maneuver. But it was not intensive enough, a bit belated and, in practice, carried out inconsistently. Moreover, foreign credits available at any time made it possible to continue the policy exercised in the early seventies. Under such circumstances, warning signals had to fail to reach the addressee. As a result, in the late seventies it was too late to succeed in attempts to turn national economy back onto a path of "normal" growth or at least to get close to it. What happened then was a crisis phase offering warning signals now received by everybody. Their intensity was multiplied many times—a simple consequence of their negligence during previous phases.

Many years are necessary to overcome recession and this is why the growth cycle has markedly extended. In order to eliminate recession phenomena, it is indispensable not only to rearrange the structure of social goals and to reduce their range for some time but also to modify economic macroproportions under new circumstances (Tyson 1981). Such a necessity—transition into an intensive development phase on the one hand and a strain on national economy due to foreign indebtedment on the other—may cause a significant and prolonged drop in the rate of economic growth below the level typical of a long period.
4. Effects of Cyclical Growth and the Ways of Counteracting It

The very fact of the growth rates oscillations around a constant positive trend does not forejudge an unfavorable character of such a reproduction process. Both advantages and disadvantages should be carefully considered.

Numerous unquestionably negative consequences evolve from the analysis of the periodic oscillations mechanism. It is clear at first glance if we look at general characteristics of cycle phases. The growth rate decrease in the consumption sphere (see Table 3) or, at times, its absolute drop—the first phase of the traditional cycle and the second and third phases of the modified cycle—cause obvious socioeconomic losses apart from critical phenomena of a political nature. These consequences prove key factors producing inability to satisfy the social needs to an expected degree. To this must be added that an aggregate consumption growth at decelerating rate, in particular when associated with inflation, often brings an absolute decrease in the consumption level for some population groups as it is tightly connected with the real income formation. Their increase is slowest in the periods starting growth cycles, the rule being observed in all traditional cycles so far. In the case of the modified cycle these problems tend to shift into the latter phases.

In discussing the issue of satisfaction of social needs, special attention should be drawn to the insufficient investment outlays in the non-productive sector. It is exceptionally visible during initial cycle phases to contribute to worsening, either relative or absolute, of services rendered by this sector in terms both of their quantity and quality.
4.1 Negative Consequences of Cyclical Growth

Numerous losses of an economic nature are reflected in the following way:
- bottlenecks occur blocking the national economy from utilizing all its potentials and from obtaining production volume attainable;
- technological progress is not steady, there are obstacles to introducing innovations;
- permanent inability is manifestly visible to maintain necessary reserves at required level;
- structural disproportions appear hard to reduce in a short time—chiefly in raw materials and power supplies;
- problems become increasingly severe to coordinate economic growth, to ensure qualified personnel and thus to balance the labor market;
- costs of reconversions of production grow involving changes in growth programs established before;
- modernization investment sphere becomes neglected and decapitalization of fixed assets increases;
- balance of payments is hard to obtain;
- investment are either constrained or delayed which produces time-lags and involves additional costs.

The last factor may additionally lead to partial outflow of social production from reproduction process. This results from an increasing number of unfinished investments (frozen outlays), a rise in reserves and a relative increase in the use of materials which is far ahead of growth rates in the aggregate product.
The above mentioned cyclical growth consequences do not exhaust the issue. We have only mentioned those which prove substantial. They have a vital bearing on social and political spheres. They manifest themselves in a lessening of social activity and initiative as well as on the discipline of labor. People feel discouraged about taking up more ambitious tasks to improve their firms' effectiveness and to take care of public property. Unless the government skillfully counteracts these phenomena, occurring with a growing intensity, they usually lead to severe social and political conflicts. Polish experiences are of the utmost significance here.

Socioeconomic consequences of a cyclical character of the reproduction process should be viewed with a peculiar profit and loss balance taken into account. The endogenous nature of the tendencies and relations under discussion makes us think that negative tendencies appearing in one cycle phase must inevitably evoke positive ones in the following phase and, unfortunately, vice versa. At the same time, the situation is more complex in the case of the modified cycle for it involves a multi-phase development. This is how negative consequences of some tendencies were "compensated" by positive effects when opposite tendencies approached. The problem then might be defined by means of the following questions:

What is the span between a period of relative--or absolute--losses and a period of future profits?

To what extent do the anticipated profits surpass suffered losses/ additional costs?
It is much easier to answer the former question—the span results directly from decelerating growth phases within successive cycles. With reference to the formation of some quantities, the consequences under discussion might be considered as justifiable. At times there were objective limitations of a purely technical and, more often, an economic nature dealing with a relatively low level of development of productive forces as, for instance, time-lag at the moment of taking up the investment expansion for the first time.

It should be emphasized that the cyclical character of economic growth in the socialist economy produces severe losses in economic, political and social planes alike. It should be stressed at the same time that some of them prove extremely difficult to make up no matter how much time we have.

In turn, the anticipated profits usually fail to meet expectations and thus they do not fully compensate costs and losses suffered before. Moreover, the "compensation periods" tend to shorten. They were never longer than periods of losses and the compensation not always embraced all social strata. There is one who suffers losses and somebody else who profits by them later on. In this way a kind of an inter-generation redistribution of wealth and national income was taking place.

4.2 Ways of Counteracting the Cycles

From this point of view cyclical growth in socialism must be judged as an unfavorable phenomenon. Therefore, we should attempt to point out ways and means to reduce such a character of reproduction process.
To materialize this, it is crucial to select in advance a proper development policy so that the primary source of the cyclical nature of growth can be neutralized. On the other hand, efficient means are required to minimize cyclical growth consequences having been an accomplished fact.

The latter approach has as yet been prevailing. This, broadly speaking, resulted from negligence of the fact that socioeconomic mechanism of cyclical growth continued to function. This is why immediate interventions merely influenced the consequences and not the causes of this process thus being unable to produce required long-term effects. The present economic situation and observable future tendencies make it clear that both methods should be employed simultaneously, though the former one, i.e., proper development policy exercised in advance, offers some promise for much better results.

As was made clear earlier, an overall investment cycle, apart from wrong economic macroproportions, proves the basic reason for the growth cyclical character. Here, again, we should try to seek means to reduce cyclical process. This incorporates actions aimed at time-lag shortening, decreasing investment indivisibility and preventing excessive investment expansion in the short run. It is quite obvious that full reduction of the time-lag is not feasible for the reason of technical limitations as, for instance, investment indivisibility. However, there are prospects to decrease the scale of this phenomenon. To accomplish this, it is necessary to establish "investment portions" for respective periods and to shorten realization cycles assumed for material tasks. The lower limit of the "investment portion" is indicated by the degree
of indivisibility of a given investment. But certain opportunities for decreasing frozen outlays are offered if investment enterprises are in parts being successively engaged in production where it is technically available. The postulate of shortening investment cycles, although pertinent, requires some reservation. The problem centers not only on obtaining as high efficiency of production and services as possible but also being aware of how to avoid excessive investment in the short run. Simultaneous shortening of real cycles within a wide range of investments might as well produce excessive task cumulation. In that case it would not last long but instead would repeat more often. Therefore, overall investment cycles would continue to occur with an increased frequency.

More effective, then, is to avoid excessive investment which prevents forced growth in rates of accumulation and investment. Investment must be so spread in time that at a given volume and steady growth rate its effects could appear at a steady rate as well. It is feasible on the condition that efficient methods of investment planning are developed. The mathematical and econometric optimization methods are of vital importance here. Considerable advantages in the area should be taken under the present economic recession while investment growth has been radically inhibited. On the other hand, we are extremely menaced with another investment expansion concentrated in the short run in the forthcoming years. There will be a strong tendency to expand investment to satisfy unquestioned needs in this area.

Certain opportunity to decrease the scale of cyclical growth is offered by proper use of credits in foreign trade. These must always be
limited, however, if misused they may prove harmful. Here, again, Polish experiences are perhaps of utmost significance.

Periodic increase in the demand of investment goods in a national economy cannot always be satisfied promptly by means of the domestic resources. It is mandatory to use the external sources of accumulation (foreign debt) unless there are obstacles resulting from the current world economic conditions. But it is possible to proceed the other way around: obtaining consumption credits may be associated with a change in the final structure of the domestic product so as to increase the share of capital goods. In either case similar immediate effects may be anticipated in the consumption sphere and in the proportions of the final distribution of national income into consumption and investment. It is much more profitable to select the former way because—if it is used rationally and with moderation well-founded from economic point of view—it usually provides access to the newest technology, thus broadly contributing to the future production volume and quality. It should be borne in mind, however, that some objective difficulties may arise since the domestic industry is not flexible enough to be changed into a new production departing from its usual product both in the sector of the means of production and in the consumption goods sector.

Yet, in order to eliminate the causes of the cyclical character of economic growth, or at least to diminish its influence, it is always essential to establish proper economic macroproportions. The socio-economic mechanism of cyclical growth as described above implies it very clearly. The contradictions between consumption and investment
have to be skillfully overcome and the long-term planning methods as well as the management system in the national economy must be improved.

5. Conclusions

The analysis of the long-term growth trend in socialist countries allows us to ascertain the regular character of periodic changes in economic dynamics. It manifests itself in the form of alternating periods of higher and lower dynamics in the basic macroeconomic quantities, the most intensive oscillations occurring in the investment sector.

Having observed this, we are eager to ask questions about the causes and the mechanisms of this process. The detailed analysis leads us to the conclusion that these mechanisms are of an endogenous nature which implies an accelerating growth phase incorporating objective premises of growth deceleration in the following phase and vice versa. This is why reproduction process is of a cyclical nature.

The hypothesis of relative synchronization of growth cycles within the international socialist system has been strongly criticized. Such a synchronization was partly observed between 1950 and 1970. Ever since then the cycle phases have not coincided. This results from a different formation of autonomous cycles from one country to another on the one hand and a low integration level between socialist economies on the other.

On the turn of the seventies and eighties the whole CMEA system as well as its respective members were facing growth deceleration as a response to exhaustion of the extensive factors of growth and increasing difficulty in maintaining the external equilibrium.
The "long cycle" hypothesis has been put forward to define several recent years, particularly distinct in the Polish economy. It is modified as compared with earlier "traditional" cycles. Its modified character originates from an extended share of the foreign credits used to finance development in the first phase of the cycle. As a result, the cycle prolongs and new phases are developed with more complex characteristics than before.

The cyclical nature of economic growth in socialism is very closely connected with the issue of its influence on the state's abilities to satisfy needs of the society. This influence has been estimated as negative on the basis of losses and profits balance. This is why some theses have been put forward as to the selection of means that could reduce the causes of the cyclical character of growth and mitigate its negative consequences.
G. Statistical Appendix*

A. Tables

1. Economic Growth Cycles in Socialist Countries 30
2. Economic Growth in Poland (1950=100) 31
3. Economic Growth in Poland (1950-85), Annual Rates 32

B. Figures

1. Economic Growth Cycles in Poland (Annual Rates 1950-85) 33
2. Growth of Investment in Poland (Annual Rates 1950-85) 34
3. Growth of Investment in Poland (1950=100) 35
5. Growth of Consumption in Poland (1950=100) 37
7. Growth of National Income in Poland (1950=100) 39
8. Economic Crisis in Poland (N.N. Income, Investment & Consumption), 1978=100 40

*Source for all data included in Figures 1-8: Rocznik Statystyczny (Statistical Yearbook), GUS, Warszawa, various issues.
Table 1: Economic Growth Cycles in Socialist Countries  
(Average Annual Rates of Growth of National Income)

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Source: Rocznik Statystyczny (Statistical Yearbook), GUS, Warszawa, various issues.

- data not available
- acceleration
- slowdown
Table 2: Economic Growth in Poland (1950-1985)

(1950=100)

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### Table 3: Economic Growth in Poland (1950-1985)

**Annual Rates (in %)**

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Source: Rocznik Statystyczny (Statistical Yearbook), GUS, Warszawa, various issues, and author's own calculations.
GROWTH OF INVESTMENT IN POLAND

Annual Rates 1950 - 1985

(\(\times \) uni)
Growth of Investment in Poland
(1950 - 1985)
Growth of Consumption in Poland
(1950 - 1985)
Growth of National Income in Poland

Annual Rates 1950 - 1985

(%)
Growth of National Income in Poland
(1950 - 1985)
Figure 8

Economic Crisis in Poland

N.N. Income, Investment & Consumption

(1978 = 100)


□ National Income + Investment ◇ Consumption
Footnotes

1 We disregard here the analysis of growth processes in the late 1940s due to remarkably distinct character of that period.

2 From methodological point of view this approach involves, apart from statistical examination, also econometric analysis. Here the so-called "crawling trend" method has been used. For further data see Gruszczynski and Kolodko (1975). Similar periodization has been developed by many authors using different methods. A systematic list of results jointly with criteria assumed in analyses are mentioned in the above article.

3 It could be observed in other socialist countries including Yugoslavia and China. See Minc 1979.

4 In the case of economic growth cycle under discussion an initial status is achieved but in qualitative not in quantitative terms as well as general sequence of the process occurs repeatedly.

5 It is worth mentioning here that the business cycles in capitalism prove decreasingly regular throughout many years. This particularly applies to recent years' business cycles.

6 Such signals are often essential to correct economic macroproportions at a proper time. This policy has been exercised in Hungary, Czechoslovakia and East Germany.

7 This is worth saying how great the Polish crisis of the early 1980s has been:

If Poland were a capitalistic country in a similar crisis, painful but fairly automatic processes and policy response would be set in motion. There would be hyperinflation, currency devaluation, drastic public expenditure cuts and deflationary taxation measures, tight money, high interest rates, disinvestment, bankruptcies and plant closures, and a couple of million unemployed. Some external creditors would get very little, or nothing at all, following the financial collapse of their debtors; some of the remaining debt would be offset by the sale to foreigners of financial assets (shares, bonds), land, building and plant. Fresh external finance would be available to the more credible borrowers. Unemployment would keep the unions in check, restraining real wages and ensuring labor discipline. The drop in real wage trends and industrial streamlining would eventually promote exports and encourage new investment, attracting foreign capital; in ten years or so the economy would be getting out of the crisis (Nuti 1982, p. 47).
References


D/385
Contents

Abstract

1. Regularity in Economic Growth Fluctuations
   1.1 Interrelations of the CMEA Countries
   1.2 Bilateral and Multilateral Relations

2. Mechanism of Cyclical Economic Growth
   2.1 "Expansion Drive"
   2.2 Phases of the Cycle

3. Hypothesis of the "Long Cycle"
   3.1 Modification of the "Traditional" Cycle
   3.2 Specific Causes of the "Long Cycle"

4. Effects of Cyclical Growth and the Ways of Counteracting It
   4.1 Negative Consequences of the Cyclical Growth
   4.2 Ways of Counteracting the Cycles

5. Conclusions

6. Statistical Appendix

Footnotes

References