Foreign Trade in the Kaleckian Perspective Plan

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Abstract
In Kalecki's outline for a perspective plan a distinction is drawn between demand-determined and supply-constrained industries. Foreign trade operates on a 'vent-for-surplus' principle whereby supply industries are run at full capacity and excess supplies (demands) are exported (imported). This policy is assessed using a simple two-sector model and is given only qualified support. Modifications to his plan procedure are accordingly suggested.

1. Introduction
Kalecki's (1963) outline for a long-run or 'perspective' plan was based on Polish experience in the 1950s but modified in ways that he considered desirable. One interesting feature of his procedure is the treatment of foreign trade. Kalecki does not advocate autarky but neither does he propose attempting to structure the plan so as to maximize potential gains from trade by exploiting comparative advantage.

Much of Kalecki's other, more detailed writing on socialism — see, for example, Kalecki (1972) — is concerned to draw the planners' (or, more likely, the politicians') attention to the dangers of too rapid a growth path. A key tool in this analysis, the 'government decision curve' represents an explicit trade-off between short-run consumption and growth in which the constraint of current social discontent is taken into account. In fixing the optimum rate of growth Kalecki also regards foreign trade as a constraint. His reasoning is based on a variety of 'elasticity pessimism' that has afflicted many underdeveloped countries and induced in them policies of import substitution in preference to export promotion. His argument runs roughly as follows: a higher growth rate will generate more imports which, because the terms of trade decline with the volume of trade, will necessitate an even more rapid growth of exports and this can only come about at the expense of current consumption. Current consumption and the need to maintain balance in international payments are, therefore, seen as joint constraints on the ultimately desired objective of economic growth.

Given that Kalecki formulates all his planning models in terms of growth maximising procedures, the neglect of comparative advantage might be criticized on the grounds that, if orthodox gains-from-trade results have any validity, a 'correct' specialization would enlarge the opportunity set rather than constrain it. Most liberal economists would surely anticipate that greater openness would enable planners to relax the consumption-growth trade-off. Orthodox arguments are, however, arguments about a first-best world. Any useful discussion about plan improvement must take the basic philosophy of planning for granted and look for ways in which the planning process can be improved without sacrificing the entire planning system.

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The purpose of this paper is to examine how foreign trade fits into the Kaleckian perspective plan; to see what implications differing degrees of openness have on the plan outcome; and thus to consider the merits or otherwise of Kalecki's recommended practice. It may be noted that Kalecki applied much of his work on planning to labour-surplus economies (the case considered below) and much of what he says is relevant to underdeveloped countries as well as more advanced Eastern bloc countries which still have some labour reserves.

2. Plan Steps in Broad Outline

Kalecki's own summary of the perspective plan procedure is presented in a very general and descriptive manner. A more formal approach is taken by Nuti (1986). For present purposes, however, a broad outline is sufficient since we do not intend a detailed critique of the procedure but only to consider one issue (which is neglected by Nuti), the role of foreign trade. It is a basic assumption of the procedure that trade deficits will not be covered by foreign credits (unless these are fixed beforehand): '... the assumption that any gap in foreign trade, however large, will always be covered by credits ... would eliminate altogether the problem of balancing foreign trade which ... emerges as an essential factor in our approach to perspective planning.' (Kalecki, 1963).

The plan procedure is broken down into a number of distinct steps, as follows:

(i) It begins with the choice of an overall rate of growth of national income. At this stage the plan is deliberately taut and may have to be relaxed at a subsequent stage.

(ii) Estimates are then made of the incremental capital:output ratio and depreciation needs based on past experience. With built-in balance of trade, this allows a crude estimate of investment and consumption at successive dates. (Kalecki talks of 'beginning, middle and end', though Nuti characterizes the plan as a succession of sliding five-year plans with an initial 20-year horizon.) The estimates of consumption at each future date are then compared with projections of consumer wants based on population growth and whatever concessions to demands for improved living standards the planners feel obliged to make. If consumption is too low in any period it will be necessary to start again unless there is reason to believe that the more detailed subsequent stages will lead to a downward revision of the incremental capital:output ratio.

The purpose of these first two steps, undertaken at a very crude level, is simply to narrow down the range of possibilities by eliminating hopelessly unrealistic alternatives. Subsequent steps increase the degree of plan detail for the purpose of improving the estimates of capital needs involved in step (ii). To do this, it is now necessary to get a more complete picture of the industrial structure, using either input:output or materials balances techniques:

(iii) The estimated technical matrix must take account of projected technical progress over the plan period. It must also take account of absolute constraints on the output of particular sectors, such as food and raw materials which are limited by natural factors, or certain goods for which the availability of skilled labour or appropriate technology is limited. Industries which are subject to such constraints during the plan period, given the range of likely growth rates suggested by steps (i) and (ii), are referred to as 'supply constrained'. Industries which are capable of expansion in line with possible overall growth are called 'demand constrained'. The distinction between these two types of industries is crucial for determining the foreign trade regime to accompany the plan.

The capacity ceilings on the supply-constrained industries may exceed or fall short of projected domestic needs. Nevertheless, Kalecki emphatically advocates full capacity utilization of these industries, using foreign trade for what may be thought of as a 'vent for surplus'1 for any excess production or as a means for supplementing domestic shortages (that is, a negative vent for surplus). As Kalecki puts it, 'if the branch in question is a supply industry, it can be ascertained how much of its produce is left for

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1The phrase 'vent for surplus' is from Adam Smith; see Myint (1958) for a discussion in the context of underdeveloped countries.