Export Surplus & the Complementarities among Countries: A Note

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There is nothing to be gained by exports surplus, unless it is important for bringing forth finance-led new investment opportunities that embody better supply responses. The causation should be: export surplus actualizes initial better supply responses, which in turn creates the Youngian external economies i.e. the possibility of further investments that are more productive. Interestingly, then advanced growth processes, enabled by this causation, also provides (in a sequential manner) the opportunity for the late comers to catch up – permits them to gainfully participate in international trade, which amounts not to static gains, but to experiencing a symbiotic exports and output growth relationship with trade balance, which could be true of their major trading partners.

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Introduction

The Keynesian literature would accept that the historical long run productivity growth would be demand constrained, and depends on export growth, without indicating the need of exports surpluses per se (Patnaik, 1972). The long run relationship between exports and productivity growth however has to depend on foreign growth; if the relationship is consistent with trade balances, and is true of all major trading partners, there is support for each other's long run export-led growth processes. This could explain why the existing Keynesian literature zeros in on the balance of payments constrained growth (BPCG) model[1] - the dynamic version of the Harrod foreign trade multiplier (Thirlwall, 1979; 2011;

[1] The origin of the model is due to the fact that the export-led growth (in Kaldorian lines), supported by domestic Keynesian policies, can be constrained by higher imports induced by output growth or due to lack of (or shrinkage of) foreign market (Blecker, 2013 for the literature on the different modeling strategies). Here, the present paper endorses Blecker (2009; 2013) position that the BPCG models are oriented towards an explanation of long run data and these models should incorporate both the short and the medium run adjustments captured best by the export-led growth processes.

McCombie & Thirlwall, 2004; Blecker, 2013). It has strong empirical support (assuming away the role of foreign capital flows, for the sake of a simplified argument); output growth (and productivity growth) of each participating country equals the foreign growth multiplied by the ratio of exports to imports income elasticities of demand. Kaldor (1970; 1981) in fact argues that the model captures the essence of Keynesian dynamics dealing with cumulative causation processes that emphasize the demand side role of exports. This understanding then makes clear the willingness to participate in international trade is guided not by static gains, as would be suggested by the neo classical trade theories, but by the imperative to actualize better supply responses (i.e. management of productivity growth).

There is, however, the criticism by Palumbo (2009; 2015) that Kaldor should not have relied on the model if his intention (as his late writings suggest) is to draw attention to the fact that economic activities are demand-constrained. This criticism tries to show that the model undermines the otherwise more realistic Keynesian insights. It notes that the model, viewed as the 'dynamized' versions of the simplified short run Harrod foreign trade multiplier, does not assign a Keynesian demand side role of exports. This is when in every short run the required automatic short run trade balance in such models is specific to the strict equality between savings and investment; if so, the model assumes away any Keynesian short run over-savings situations, and the possible demand side role of exports to correct them. For example, it can be that the realization of full employment output requires imports and the need of exports (and trade balance) is to meet the foreign exchange requirement[2]. Second, this criticism (Palumbo, 2009: 356-60) also suggests that the dynamized version depends necessarily on the acceleration principle that translates into a residual demand hypothesis i.e. investment demand exceeds the increase in savings. This then takes the domestic demand growth – and the demand–led growth of productivity - for granted; if so, there is also no demand side role of exports in the long run, say to actualize productivity growth. The criticism goes on to suggest that the growth process underlying the BPCG model refers to a particular version of Kaldorian cumulative causation process in which the limits to growth come from supply constraints and the role of exports is to remove such constraints. (Palumbo also notes that in any case the growth possibility depends on a naïve acceleration principle, based on the simple multiplier-based output determination.)

[2] In fact, Thirlwall in his various writings (cited above) also agrees that as per the BPCG models, if exports are inadequate and the foreign exchange is available at unfavorable terms, the initial import surplus translates into domestic demand problems and in this sense there is the demand side role of exports. However, the model remains silent on domestic demand problems that might need the help of exports; even if a demand side to exports for the output determination is assigned, there is no discussion (in these studies) as to why it would induce the matching increase in imports (and automatic savings investment equality); the silent on such issues gives credence to the criticism by Palumbo.

The short run context and the dynamics that follow from it have to be given up. If one were to reject a simplified dynamic version of static Harrod foreign trade multiplier per se (i.e. the short run static one), is there an alternative explanation of the growth facts? Will it then underline Keynes' insights, though translated in a long term view? It should be noted, at the outset, if Keynes's basic insight pertains to the role of new investment opportunities in an income determination process, Kaldor's focus was more on what explains higher pace of investment as such, which should be forming the basis of his technological progress function (Kaldor, 1957). It is true, as noted by Palumbo, Kaldor in various writings gave various unsatisfactory formulations of the basic naïve acceleration principle; however, his elaboration of Young (1928) is different. According to Young, initiation of better supply response creates external economies, which indicates further generation of generalized (macro) supply responses that are more productive; here, Kaldor (1972), rightly pointed out that the supply responses, in each instance, has to be viewed as finance-led new investment opportunities, and if so, they would induce the growth of aggregate demand (in the Keynesian fashion), which is necessary to actualize the responses. At the same time, he neglected the issue of external economies that pace the growth of investment, and define the induced growth of demand. He somehow formulated a thesis in which the causation runs from growth of demand to better supply responses. In its naïve form, it is nothing but dynamizing Keynes' income determination scheme – the naïve acceleration principle that does not inform on what guides the pace of investment. The purpose of the present paper is to correct this interpretation of Young, and focus more on external economies that guide the pace and induce "potential" magnified increase in aggregate income (and productivity growth).

Initiation of better supply response creates external economies, which indicates further generation of generalized (macro) supply responses that are more productive.

There is no doubt that better supply responses, as a macro phenomenon, have to be actualized by the support of growth of demand. A better formulation could be: supply responses that are associated with such macro demand conditions matter. For instance, the pace of better macro supply responses, in a cumulative way, is such that each response targets larger markets (and such market-led profits), and could be dependent on exports. That is, if initiation of such productive supply response would target capturing of domestic market, the macro aspect of it would be demand constrained by the initial "low" size of domestic market, and exports market removes the constraint. Once exports permit the realization of better supply response, it can create the Youngian external economies and the scope of further better supply responses, to be actualized by further exports, and so on; there is this demand side role of exports (Padhi, 2015).

One basic criticism could be that this reinterpretation would give importance to short run exports surplus; and, (if so) it can be argued that the main obstacle for the intended Keynesian story is that such short run demand side role of export that takes into account short run trade imbalances may not be consistent with the long run empirical prediction of the BPCG model. For example, even if a broad Keynesian mode of thinking (Luxemburg, 1964; Kalecki, 1971) would readily consent to the demand side role of the initial export surpluses for the realization of higher profits (underlying better supply response), their role in conferring any long run advantages on any country would also be dismissed straight away. Such development of international trade implies putting one's trading partner (and one's long run exports prospects) in a disadvantageous position (Robinson, 1958; Bhaduri, 1986: chapter 5). In fact, if the initial exports (and export surpluses), as in the modified version of Young discussed below, arise from the country's superior position with respect to absolute cost advantages, they result in a feedback effect in terms of further costs (and trade advantages), and would be responsible for long run trade imbalances.[3]

Here, the present paper maintains that the above concern is much misplaced; the underlying tone is also static. The post Keynes perspective generally challenges the orthodox neo classical view that exports surplus-led increases in money translates into higher prices without any real impact. At the same time, the alternative macro real impact perspective should not be limited only to the demand side role of exports surplus in the income determination process. The static implications would take place, but the consequences should not be "dynamized". The role of export surpluses in generating Youngian increasing returns, and its implications should not be undermined.

To elaborate, in the context of the modified Youngian-Kaldorian perspective, the short run exports surpluses actualize new better supply response (with higher profits and savings), which supports Youngian external economies-led further supply responses that are more productive. If supply responses are seen as investment guided by prospective profits, there is a Youngian acceleration principle, as an alternative to the naïve acceleration principle. Then, the demand side role of exports surplus is its role in enabling the initiation of external economies-based productivity growth, which results in a magnified increase in overall growth. It embodies two important consequences. One, export surplus and profits permit the growth of finance, and finance-led investment, which can reduce the dependence on exports (per se). It is also quite possible (see below) that such overall growth can generate the need of,

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[3] For the existing literature in this tradition, see Blecker (2009)

or need to support of, imports, which, in turn, sustains it. For instance, the imports can remove the supply constraints to achieve the induced overall growth. This can, in principle, permit the innovating country's trading partners to avail the opportunity of participation in such export surplus-led growth processes. This possibility calls for an inquiry into the conditions under which all countries take advantage of such short run export surplus-led growth processes that in turn would highlight the possibility of increasing returns on the international stage i.e. exports led increasing returns-led cumulative growth processes in one economy is consistent with such possibilities in others. Allowing the fact that these adjustments cannot be made simultaneously, a particular focus can be on a sequential adjustment that in turn can allow all trading partners to realize increasing returns, which would support each other's export-led growth processes consistent with long run trade balances. The present discussion of the role of export surpluses therefore pertains to the realization of such complementarities that assure the crucial 'foreign growth' to each country. In this context, the present paper argues that short run role of exports surplus can be consistent with the long run BPCG model's data.

This discussion of the export-led growth processes, mediated through short run imbalances, but inducing possible long run trade balance with exports and output growth, is not much emphasized in the literature. However, this alternative adjustment would enrich Keynesian BPCG models; if the dynamized version of Harrod foreign trade multiplier highlights the "removing supply constraints" role of exports, the present interpretation underlines the important demand side role of exports, which induces the "removing supply constrains" role of imports.

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Modified Youngian Perspective

To start with, Kaldor (1981: 339-40), in trying to explain the strong empirical association between exports growth and productivity growth, observed, "Basically in a growing world economy the growth of exports is mainly to be explained by the income elasticity of foreign countries for a country's products; but it is a matter of the innovative ability and adaptive capacity of its manufacturers whether this income elasticity will tend to be relatively large or small." Accordingly, "the growth of a country's exports should itself be considered as the outcome of efforts of its producers to seek out potential markets and to adapt their production structure accordingly". In this explanation, the supply factors in terms of specific initiatives (innovative activities) are important, but Kaldor (1981) does not dwell much on: if exports performance underlines demand side support to the innovative activities, the conditions under which exports fa-

cilitate further growth of innovative activities in a cumulative manner.

For a particular elaboration of the initiations as such, one can go back to Young (1928). According to him, the innovative activities are mainly guided by the search for greater market by industrial planning. To quote, "It is dangerous to assign any single factor the leading role in that continuing economic revolution which has taken the modern world away from the world of a few hundred years ago. But is there any other factor which has a better claim to that role than the persistent search for markets? No other hypothesis so well unites economic history and economic theory."

Young's focus was on the initiation of division of labor that targets larger volume of production, which permits the introduction of intermediate processes when the production process is sub-divided into many parts. The cost reduction therefore arises from higher labor productivity achieved by such specializations in intermediate goods production, and refers to intermediate goods costs reduction. Though not discussed by him, if the price of the product remains the same (or decreases less than the cost reduction), there is the possibility of higher money value added per unit of output (Padhi, 2015a). This permits higher returns even when the firm (necessarily) undertakes higher specialized trading activities (transport, packaging, selling costs, etc) that involve higher wages. The important condition is that these expenses ensure higher market access, which in turn enables the division of labor related cost reduction (and higher returns to the firm).

The issue confronting Young (1928) is not only the possibility of higher returns to the firm. According to him, the initiation of division of labor, importantly, also, has the potential to create external economies so that there is the possibility of increasing returns to the whole economy i.e., division of labor (and higher production) in one line of production is associated with such supply responses elsewhere, and the changes propagates themselves in a cumulative manner (Young, 1928: 533). According to Young (1928), what facilitates this process is that the intermediate specialization is achieved by relying not on the Adam Smithian specialized machinery, but on simple and standardized intermediate processes that have generalized uses.

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Accordingly, Young suggested a model of reciprocal demand in which if better supply response induces such responses elsewhere, there would be the larger market for each such initiative. This model then captures the increasing returns for the whole economy and this departure from the static full employment model's prediction can gather momentum in a cumulative manner. That is, a tendency towards the generalized adoption of division of labor would induce more

specialized firms in the production of intermediate goods, capital goods production, etc. that, in turn, support learning by doing, and can induce new tasks, new products, new industries, etc. The process supporting greater roundabout methods of production i.e., specialization between firms/industries that typifies advanced industrial differentiation, would continue in a cumulative manner.

Here, however, Kaldor noted that this reciprocal demand hypothesis, led by the external economies, faces a Keynesian domestic demand constraint. According to him, particular attention has to be given to how the higher returns to the initial division of labor are realized. As he noted, if this realization takes place through cost reductions in a product line facing (price) elastic demand, then, given the total money expenditure in the economy (say, assuming an initial full employment situation), they amount to expenditure diversion from others. This would reduce the market size for others, restricting, in turn, the scope of the generalized adoption of the division of labor. He came up with the solution in which the initial division of labor has to be viewed as a finance-led investment in the Keynesian sense that adds to aggregate 'effective demand. Such an increase in 'demand' can support the Youngian reciprocal demand-led cumulative causation process.

However, here, the present paper argues that the basic issue involved is that the initiation of division of labor supports a developed growth process; and, it is reasonable to assume that the development of banking/financial system follows the developed growth process. If so, the primacy is given to the initiation of division of labor without the prior existence of a financial/banking system. This may call for an open economy framework to bring in the important role of exports to explain both the source of initial finance and its subsequent growth.

In this sense, the paper tries to show that the open economy framework better captures the basic Kaldorian insights, underlining the key role of exports. (This also calls for a reinterpretation of Young: when he speaks of 'search for market', he could have been (implicitly) recognizing that the returns to initial division of labor would be constrained by the existing size of the domestic market and, if so, the Youngian focus (though not mentioned explicitly) could have been on the crucial role of the exports.

Therefore, in an important way, the domestic initiation presupposes long run monetary contracts and the required higher returns to the firm (and higher savings in the Keynesian sense) are realized through reaching out to exports market. Such initial exports (and export surpluses, if they define the initiation of international trade) not only permit the realization of full employment profits but also lead to an increase in aggregate size of the market in money terms. Therefore, the realization of profits by the initial innovative activity does not depend on expenditure diversion from other producers in the same economy. The increase in aggregate money expenditure can bring the Youngian external

economies to their fruition. That is, the realization of higher profits (and savings) per domestic investment, enabled by export surpluses, can support the finance-led generalized adoption of division of labor. In this way, the initial export surpluses have a magnified effect in terms of an increase in aggregate size of the market (i.e. increase in aggregate production).

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It is suggested, therefore, that the Youngian reciprocal demand hypothesis has to be modified by the additional hypothesis that the initiation of division of labor has to be attended by initial exports success that in turn supports the working out of the Youngian external economies. The thesis then provides the enabling conditions under which export surpluses generate further better supply responses in the economy. Here, the export surpluses that increase the total money expenditure are necessary for the actualization of the external economies, and leads to productivity growth. Therefore, supply conditions take care of demand as posited by the broad Youngian supply side explanations, but the emphasis is that greater supply, *under increasing returns conditions*, creates its own demand, which signifies the non-neutrality of money.

Moreover, division of labor also has the tendency to create the scope of further division of labor, i.e., coming up of firms specializing in specialized tasks/processes – leading possibly to new industries, facilitated by both learning by doing and dynamism of the domestic capital goods sector. However, if such further scope of division of labor, reflecting greater industrial differentiation, targets larger market, the Youngian cumulative causation process has to depend on further export success. The advanced growth process does not require growth of export surplus as such; if the initial export surplus supports the development of the financial institutions, what is required is the growth of exports that supports growth of profits (and savings). The growth of savings, reflecting full employment realization of higher profits in each period, can permit the growth of finance-led further investment opportunities. If these are accompanied by further exports growth, the process can grow in a cumulative manner.

The present reinterpretation of Youngian-Kaldorian cumulative causation process underlines the role of the Kaldorian finance-led investment opportunities; its scope is defined by the initial export surplus and the possibility of the growth of exports provides the source of growth of finance as well as the rationale for further such finance-led investment opportunities. This defines the acceleration principle i.e., the residual demand hypothesis where exports realize higher savings, and induce higher investment (more than the increased savings) that targets further division of labor (and higher savings, and profits), which is fundamentally demand

constrained, requiring higher foreign growth.

Then the issue is whether there can still be the policy design that allows every country to take advantage of such growth process, allowing for the complementarities among countries that assures each country the advantage of foreign growth. This possibility is elaborated further in the following section.

Policy Concerns: Managing ((I-S) + (X-M) + (G- T))

The Youngian-Kaldorian cumulative causation process gives importance to the Kaldorian conception of the export-led cumulative causation process (Dixon & Thirlwall, 1975; also see, Blecker, 2013) but the modeling strategy now is different from that of its earlier specification. The priority is given to the hypothesis that better supply responses in a 'developed country' are enabled by initial export surpluses, and result in a further developed status with the ability to innovate further, that in turn could translate into higher propensity to export than import. However, now, the long run foreign growth becomes a serious concern. To elaborate, the cumulative causation process that requires the growth of exports may not continue if it relies on exports surpluses over a period. This is because, if the exports surplus of one country is matched by the import surpluses for other countries, it would signify a deceleration in the growth rate of output in the latter group of countries, which in turn would imply a decline in the exports market for the already developed country (with initial export surplus). That is, a 'developed' country's growth process requires an ever increasing growth of exports and the slow growth of 'underdeveloped' countries would make the process demand constrained.

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One possibility is that the developed country may be forced to curtail imports deliberately to create larger home market. However, such a policy creates further balance of payment constraint for the underdeveloped country; then, not only reliance on import substitution is of short run importance but also hampers its long run export-led growth prospects. The Kaldorian insight into such a situation adds that the import restrictions without higher export possibility decreases world income (Kaldor, 1981:333-44).

For policy purposes, Kaldor (1981: 341-44) notes the industrialization possibility in the erstwhile underdeveloped countries that brings in their exports success. This has led to an increase in the world income (and trade) and has provided larger market for the already developed country. In other words, the increasing returns possibility in one country has to be associated with such possibilities elsewhere and this would drive successful exports led growth of each country.

The specific mechanism for this possibility however was not elaborated by him (or in subsequent literature). The present paper is an elaboration of it, noting that Kaldor should have given importance to both domestic and international external economies, and the economies-led increasing returns (magnified increases in aggregate income) that enjoins both demand and supply side supports.

In a two country context, the already 'developed country' experiences a situation in which higher realized profits can potentially translate into higher future investment opportunities, but that they signify the scope for further division of labor and aim higher market access. Therefore, if there is the lack of exports market (and if such market is shrinking), they have to depend on higher domestic market. There are two interrelated possibilities. The initial exports surpluses, and higher profits (savings), can facilitate the development of financial/banking system that can support finance-led higher investment opportunities, or increased finance can come forth if there are better supply responses that aim at higher profits. If so, the finance-led increases in market size (in the Keynesian fashion) can sustain the Youngian acceleration principle (and investment outpacing realized savings) without relying on export market per se.

However, finance-led investments are individual initiatives, and each would come forth in the expectations of other such responses elsewhere; budget deficits can provide the domestic demand side stimuli, and if in such a growing market size, the better supply responses are expected to capture larger market (and profits), the generalized finance-led investments would follow. There are other reasons for this interrelationship. The main aspect of increasing returns growth process is the possibility of greater roundabout methods of production, reflecting the increased incidence of industrial differentiation typified by the coming up of new products, new processes, new tasks, etc. If so, one, such sophisticated division of labor and the specialization between firms call for complex inter-linkages among firms and industries, requiring long run monetary contracts. Second, in addition, even if new products, new processes and new tasks are appearing, there is also the probability of the appearances of still better investment opportunities. If such evolution takes place under conditions of fundamental uncertainty then in any period, it may lead businesspersons to adopt a 'wait and watch' policy before committing to the long run contracts (Padhi, 2015). If so, even if better investment opportunities exist and are supported by the past realization of higher profits (and savings), the investment decisions may have autonomous character, leading to liquidity preference by businesspersons. Such lack of immediate commitment in a period may however lead to the realization of lower exports (and realized profits) in the period and a lower finance led money supply. The situation therefore manifests itself in a preference for assets (money) which is not growing, leading to classical Keynesian problems (Davidson, 1985). However, it is also true that the oligopolistic competition based on first mover advantage is such that there is an incentive to commit immediately if market is growing and permits higher short

run profits. Moreover, if the market size is large enough, there is the demand for both traditional products and new products and the firms can commit (with less risk) in any current period even if new products may appear in the long run. In this instance, higher budgetary deficit can support higher investment.

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The support for the domestic increasing returns-led growth processes, however, should not be limited to demand side factors. The policy stance has to recognize that there is no such thing as a generalized existence of potential better supply opportunities. At best, the opportunities for sophisticated industrial differentiation in some fields can co-exist with traditional opportunities in others characterized by expansion possibilities under decreasing returns; even the dynamic evolution of industrial differentiation would be characterized by uneven progress in different specializations, though, then the pace of progress has to take into account the rigid inter-linkages between different specializations. The pace of such growth process also have to take into account the constraints with respect to availability of raw materials, labor force redeployment with higher wages, etc. because division of labor targets larger volume of output and requires new specialized employment.

In addition, the generalized demand stimuli accompanying the budget deficit can create problems, especially when increasing returns proceeds in an uneven manner. Division of labor involves higher wages (for specialized employment); however, budget deficits-led general demand stimuli can support general recovery that can come with higher demand for a generalized increase in wages (say, through trade unions), even other sectors are not witnessing the incidence of division of labor-related productivity growth. This can result in higher inflation. More importantly, the division of labor-led progress i.e., industrial differentiation that permits coming up of new tasks, new products, etc., has its own pace, and the general demand stimuli, and the resultant higher investment opportunities, may outpace such progress. This may translate into higher prices of certain inputs/ tasks emanating from the 'slow growing' sectors, and can constrain the increasing returns-led growth processes based on rigid interdependencies among tasks.

In these circumstances, the economy can be better off by relying on imports, to control inflation, to remove certain supply constraints.[4] The basic idea is: Youngian increasing returns also faces supply constraints, and imports can re-

[4] In this sense, the need for imports arises from possible supply constraints facing the advanced growth process (and no doubt, Kaldor was also concerned with these issues, and Palumbo (2009) could be right that they can be a source of limits to growth). However, this need is an offshoot of an exports-led growth process, and as noted below, can bring about the balance of trade that would reflect higher growth prospects of the advanced country with higher growth prospect of the world.

move them. That is, even if it is reasonable to assume that increases in incomes (and exposure to international trade) would translate into imports[5], the present focus is on the need for imports to outsource certain specialized tasks for the purpose of maintaining better overall supply responses. These, in turn, call for a proper combination of budget deficits and imports-led imbalances for the proper management of the growth process that should maintain higher pace of domestic investment. The need for imports however is tied up with the demand for some sophisticated intermediate inputs that should replace the 'products' of (some) slow growing sectors of the initially developed country. In addition, the imports-led containment of domestic inflation puts less pressure on rate of interest (and supports the aim of the budgetary deficits).

The underdeveloped country has to initiate a division of labor-based growth process that caters to specific imports need.

Therefore, the short run domestic demand management to reinforce the increasing returns-led growth process in the 'developed country' can provide the export outlet for the 'underdeveloped country', and in the context of the latter's reduced capacity to import, it can form the basis of its export surplus-led participation in a particular international division of labor. That is, the underdeveloped country has to initiate a division of labor-based growth process that caters to specific imports need.

The situation facing the initial underdeveloped country would be difficult. It is experiencing initial import surpluses, and the currency depreciation is not enough to ensure its exports success to correct its trade imbalance. This is because, by definition, its existing traditional products face income inelastic demand in the markets of the more 'developed' country that is experiencing a change in composition of demand, accompanying increases in income. Moreover, the situation that the underdeveloped country faces is that its investment (and increases in income) is translating into demand for imports (for conspicuous consumption led by international demonstration effect) without the capacity to import – a situation of low savings (Furtado, 1954: 335-6; Nurkse, 1952: 263-7) that leads to higher inflation, which in turn reduces the international demand for its product, sustaining the appreciation of the foreign currency. In the present case, therefore, the lack of automatic adjustment, reflecting absolute costs differences, and the continuing imports surpluses in the face of appreciated foreign currency can exaggerate its demand constraints. To counter the initial demand related disadvantages, it can depend on budget deficits. However, such generalized demand stimuli, by itself, may not induce better supply responses that translate into higher capacity to import; if so, it can translate into still higher inflationary pressure.

[5] However, since the increase in income is due to better domestic supply responses with new products, industries, etc., and the trading partner is an underdeveloped country, the propensity to import would be of negligible importance.

In this context, the initial budgetary deficit has to be accompanied by a set of industrial policies to direct investment to initiate better supply responses i.e., the initiation of division of labor to experience higher exports (and savings). The scope exists if the underdeveloped country seizes the opportunities emanating from the import needs of the developed country, to initiate its own increasing returns-led growth process. It should be argued that the need to improve is to be seen as a response; facing decrease in macro demand conditions and increased competition, the firms in the underdeveloped countries have to adapt, to improve, to survive. This can also be seen as an international aspect of Youngian external economies; if countries have traditional trading history, and geographically closer (or, greater mobility of population), improvement in one country is learned by others. The budget deficit then lessens the macro constraints, and provides the demand-led incentive, for the external economies to work out.

The basic problem would be how to manage initial budget deficits, reconciling them with financial growth to support better supply responses. At best, if supply responses acquire Youngian cumulative propensities, and finance, in anticipation of profits, comes forth, it would rely less on budget deficits.

Meanwhile, it may permit imports-led imbalances to continue, to remove the supply constraints that its increasing returns prospects face, but it has also to attend to the protection of the emerging sectors that define its actualization of its increasing returns. The long run aim of policy management is to achieve growth of exports that catches up with imports, and rely on the growth of exports-led savings (with budget balance) to sustain the growth of investment.

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The initiation of increasing returns (industrialization) in the underdeveloped countries promotes demand-led increasing returns on the international stage through the complementarities in both the demand and the supply sides.[6] There is then the support for Kaldor's observation: "world industrial production continually accelerates so that the emergence of each new centre of industry is a net addition to the existing rates of growth of the other industrial countries" (Kaldor, 1981: 345-6).

This perspective, therefore, provides an alternative understanding of the working of the Harrod foreign trade multiplier. It allows for short run trade imbalances

[6] This should not be confused with 'an advanced' mercantilist policy of imports favored by Thomas Mun (Eltis, 1987) where exports surpluses are used up for imports (possibly with a 'low domestic inflation, low rate of interest, low exchange rate' environment) that are diverted for further exports. Mun's argument is to ensure future profitable exports surpluses for a specific country in a cumulative manner.

(and without any strict equality between savings and investment). These short run Keynesian adjustments permit the increasing returns-based developed status to participating countries, which in turn induces the long run trade balance; it indicates long run complementarities among countries i.e., the increasing returns at the international stage, which in turn is consistent with the long run adjustments underlying the Harrod foreign trade multiplier[7] and the effectiveness of the traditional working of the flexible exchange rate[8]. The focal point of the export surplus-led cumulative causation, then, warrants that the domestic supports for it have to be an adjunct to the policies that guarantee 'foreign growth'. In other words, the present discussion does not suggest a theoretical automatic adjustment towards long run trade balances but that adjustment towards such a balance can support a more sustainable long run demand driven growth prospects. It should be stressed that increasing returns typify the constant coming up of new tasks, new processes, new products, etc; there would be such incidences not only in manufacturing, but also in advanced agriculture and services sectors. Participating countries can specialize differently, while experiencing increasing returns-based growth.

[7] The support for BPCG models is found mainly in very long run data and the support for the exports led cumulative causation is found for short and medium term adjustments underlying this model that also should incorporate the adjustments in response to the changes in exchange rate (Blecker, 2013).

[8] For discussion of the contexts, see Blecker, 2009;2013;Carlos, Rivas & Garcimatinez, 2010

Concluding Note

The present paper provides a different understanding of the trade versus protection debate. The initial hypothesis is that every traditional country has a propensity to participate in international trade. It should do so; the trade can indicate prospective larger market (and profits) that can guide entrepreneurship. The induced better supply responses imply that the country actively manages the trade, to generate better domestic growth prospects [say, the Kravis (1970) thesis of trade as a handmaiden for growth]. If better supply responses create international Youngian external economies, its trading partners also actively participate in international trade that spurs their growth. Each country then can experience exports and output growth association without any BOP constraints (i.e. exports market constraints). Some elements of protection come in, if international external economies are absent and a country faces a dominant trading partner (i.e. with absolute costs advantages-led further advantages), with trade imbalances that adversely affects its growth, in a cumulative manner. However, protection is a policy device to generate the domestic better supply responses, to actively participate in international trade. If so, there should be an international consensus on it.

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Accordingly, the present paper tries to show that Kaldor (1972)'s Keynesian support for the Youngian increasing returns-led cumulative causation process needs further modification, with the rider that Kaldor should have given explicit importance to the Youngian external economies. That is, then, he would have agreed the point of views: (i) how initial exports surplus (say, without a proper banking/financial system) actualizes initial investment that embodies better supply responses, (ii) how, then, it creates further such responses (or better responses) that have to be actualized, and (iii) how the induced overall growth has to enhance imports (with possible imports surpluses in the short run) to actualize the prospects. He then would also have allowed for international aspects of the external economies as a building block for the BPCG models that permits short run imbalances.

The basic purpose is to show that the above understanding of the Kaldorian-Youngian thesis enriches the otherwise policy neutral BPCG model. It brings in a dramatic change in the causality chain: if the existing interpretation of the BPCG models holds that the imports require the support of exports, the present paper holds that the exports and induced better supply responses underline the need for imports, for more efficient outsourcing to remove supply constraints that the exports-led better supply responses face.

In addition, if for Kaldor, the demand led growth process should be conceptualized in terms of BPCG models (Kaldor, 1981), and if the growth process reflects increasing returns-led cumulative causation process that has to be enabled by initial export surplus (the present interpretation of Kaldor, 1972), the present paper holds that short run export surplus can play a role. However, this role demands that the initial export surplus is attended by further better supply responses. The causality however does not run from export surplus to better supply responses; the surplus is generated by better supply responses, which via external economies, have cumulative propensities and the export surplus plays a historical supportive role, as a handmaiden for growth. The actual processes that ensured the participation of increasing number of countries in the BPCG thesis could have been more complex, but the present perspective would suggest that the theoretical relevance of Keynesian insights should not be undermined.

As Blecker (2013) noted, there is the possibility of the reconciliation of policy induced export-led growth with the policy neutral balance of payments constrained growth paths. Then, the main message is: industrialization of underdeveloped regions matters a lot when these new additions depend on export-led increasing returns. The world income then increases in a magnified way, which in turn reinforces the growth momentum of the already developed countries. However, in a dynamic evolution of increasing returns, different countries can take the lead in advantages relating to absolute costs advantages, and if so, a realistic growth process can allow for periodical imbalances; here, this paper adds that

much depends on a transition that removes the absolute costs differences between countries.

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