

In either defend the  
paradox or discover  
its



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In Leontief's own words, " America's participation in division of labour in international trade is based on its specialisation in labour-intensive rather than capital-intensive lines of production. In other words, the country resorts to foreign trade in order to economise its capital and dispose of its surplus labour, rather than vice versa". Resolving the Paradox: The Leontief Paradox evoked a widespread response from academicians. Several attempts were made by them to either defend the paradox or discover its logical flaws and prove it wrong.

Labour Productivity: Leontief himself made an attempt to resolve this paradox by claiming that US labour was far more productive than that of the countries from which US got its imports. As such, if input of US labour was adjusted (that is, multiplied) by a factor of three, US would be ranked as a labour-abundant country. However, this claim of Leontief was not widely accepted. His critics maintained that the paradox could not be resolved in this manner. This is because in 1947, US labour and capital were both more productive than was the case in other countries and, therefore, US was still to be rated as a highly capital-abundant country. The debate among economists on the Leontief Paradox led to the view that there was a need to further explore the concept of ' human capital" (in addition to physical capital of machinery and equipment, etc.

) for assessing the capital intensity of a product." Accordingly, in later studies it was pointed out that " human capital" was an important ingredient of " capital" input of a product, and that it could manifest itself in several ways. Human capital was not just education and training, but also covered such things as " knowledge" of the workers. We may add here that even the

concept of “ knowledge” should not be interpreted in a narrow sense of the term. It should also include: (a) The level of general awareness of the workers attained by them on account of technological methods prevalent in the country; (b) The attitude of workers towards work; (c) The “ intensity” with which they work; and (d) The institutional and legal framework to the extent to which it affects efficiency of labour. Comparing the Non-Comparable: Leontief was comparing factor-intensity of US exports with import substitutes of US and not with its actual imports.

It was possible (in fact, highly likely) that the US imports were labour-intensive in the countries of their origin. It should be noted that Leontief did not have the relevant data for testing the factor-intensity of US imports in the countries of their origin. However, he argued that using factor-intensity of import- substitutes instead of actual imports did not alter his finding. He admitted that, capital being abundant and cheap in US, its import substitutes was expected to be more capital-intensive than its actual imports.

But still, if H-O theory was correct, its import-substitutes should be less capital-intensive than its exports. Natural Resources: It is possible that a capital-abundant country may have a shortage of some minerals and other important natural resources. The technologies involved in producing several mineral products like oil and natural gas are highly capital-intensive. And if they are being exported by an otherwise labour-abundant country, factor-intensity tests shall reveal a Leontief Paradox. Continuing with the last argument, we can also bring in the fact that US agriculture is a highly land- and capital-intensive activity.

US have very big farms which are manned by extremely limited number of workers but huge volumes of machinery. In addition, US have been heavily subsidising its agriculture and exporting and dominating world markets in agricultural products. Such situations make it difficult to assess the validity or otherwise of H-O theorem. Trade and Tariff Policies: US was known for imposing unduly heavy customs duties on its imports from labour-abundant developing countries (such as fabrics, handicrafts, carpets, etc.,) while producers of their import- substitutes within US use capital-intensive technology. In recent years, US has adopted the stance of discouraging the import of certain goods produced with “sweat labour” (that is, labour earning “low” wages) and from countries which have “poor labour standards”.

In contrast, imports from capital-abundant countries are subjected to much lower rates of tariff. Obviously, such a policy favours capital-intensive imports, discourages labour-intensive imports, and creates an artificial Leontief Paradox. Product Differentiation: In recent years, trade between capital-abundant developed countries has expanded rapidly; they are exporting to each other “differentiated” products of the same broader industrial groups (like automobiles). By concentrating on certain specifications of these products, the producers in these countries have been able to take advantage of economies of scale and expand two-way trade.

Tastes and Preferences. It may be claimed that differences in tastes of consumers in trading countries leads to differences in their demand schedules and provide a basis for international trade. However, some economists like H. S. Houthakker do not accept this argument.

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They say that income elasticity's of demand for housing, food, clothing, and other main categories of goods are very similar in most countries. However, this view of Houthakker and others can be rejected on several grounds. Thus, for example, we find that, with the passage of time, preferences of consumers with higher incomes are shifting in favour of “ processed” foods which are relatively capital-intensive. On the other hand, spread of “ consumerism” has strengthened the demand for several labour-intensive items like hand-woven carpets. Analytical Deficiency: The reasoning used by Leontief has an analytical flaw in the sense that it is an application of a two-factor model to a multi-factor situation. It also ignores the fact that some trade-items are intensive in natural resources.

Non-satisfaction of Assumptions: H-O theorem is based upon some highly simplified assumptions like perfect competition, and same technology, etc. Factually, these assumptions do not hold good. Accordingly, it can be said that the Leontief Paradox is only pointing out the non-validity of-H-O— assumptions rather than the results which logically follow from that theorem. Empirical Investigations: Re-estimation of factor-intensity of-US exports and imports by incorporating one or more of the additional factors has been found to yield varying results, from supporting Leontief Paradox to contradicting it or weakening it. Conclusion: Thus, we find that it is not possible to conclude whether Leontief Paradox is applicable or not.