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## **REFeree PAPER FOR**

“ ONE SIZE FITS ALL? HECKSHER OHLIN SPECIALIZATION IN GLOBAL PRODUCTION” BY PETER K. SCHOTT

Following the American Psychological Association’s Guidelines

### **SUMMARY**

The paper analyzes one of the most famous issue in the science of economics: Why do the countries trade with each other? The Heckscher Ohlin model, a classical approach in this issue, provides an explanation by using specializations stemming from the endowments of a country. This model has two main stream: Single-cone and multiple-cone versions. Single-cone version assumes that all the countries have the same production technologies or in another word a product is produced same way in every country and every country produces similar products. Multiple-cone version assumes that there is difference between countries in terms of endowments, some countries are labor intensive while some others are capital intensive countries. Thus some countries will be producing more capital intensive goods and some others will be producing labor intensive goods. However, testing whether single-cone or multiple-cone version is true is a difficult task or so far no study could explain it. This paper makes an important contribution to test this hypothesis by using a different setting in creating a data set differentiated from the previous studies. The author has realized that there is a heterogeneity inside the industries. He has tested whether there is a homogeneity intra-industry and his test results have rejected this hypothesis thus there is an heterogeneity inside the industries between the similar goods or between the goods produced in similar ways. Thus using

indexes taking the total industry production into consideration is basically causing a mistake. To understand if a country is labor or capital intensive, we should be able to separate the labor and capital intensive goods and instead of using the total production of an industry, the separated data is to be used.

## **CONTRIBUTION OF THE STUDY TO THE LITERATURE**

This study tests the single- and multiple-cone version of the Heckscher Ohlin model and finds that single-cone model is rejected. Thus he finds that each country does not produce very similar products.

Another important finding for this paper is that there is a heterogeneity between the goods in the same industry. Normally, many economist assumes that the goods in an industry are similar and they are all capital intensive or labor intensive products. However, this paper generates a new index by using the 4 digit ISIC production index and falsifies that the homogeneity in an industry. When a study uses the 3 digit ISIC production index, we cannot analyze the products inside an industry. Generating a new index for the products allows us to see better results in making decision on the countries status of being capital or labor intensive.

## **CRITIQUE OF PAPER: METHODOLOGIC**

This paper uses capita per labor and production per labor to analyze the subject and the model used to does not include the productivity of labor in the different countries. The model used in the paper is based on a simple production model consisting of capital and labor with equal power in the production. Thus the paper assumes that every labor in any country has the same skills, has the same opportunities to develop himself, therefore each

labor has the same productivity. In another word, moving a labor from one country to another country will not make any difference in terms of productivity (Thomas and Oloufa, 1995).

Instead of using a simple production function, the paper could use a well developed production function with the assumption of that the labor is an endogenous factor in the production. The comparative statistics show that the less developed countries are the ones with less developed human capitals. Actually, the paper does not give any information on the difference in the quality of labor forces among the different countries. Only accepting that when more capital is given to a worker, this worker might be more productive, however, if this worker does not have the skills to be more productive with the higher amount of capital, then increasing the capital per labor will not help the economy. Thus the paper's assumption that every labor has the same productivity level does not hold and it might cause improper results for the paper (King and Rebelo, 1993).

## **CRITIQUE OF PAPER: CONTENT**

The paper takes the amount of available lands in a country into consideration and it tries to create a connection between the economic performance of a country with the amount of lands in the same country. In another word, the author assumes that there is a positive correlation between the productivity and the amount of land. This assumption is given theoretically but no economic background explanation is given in the paper. The author have given some statistics and the graphs show that there is not difference between small and large countries (Altobello, 1989). As also we know that there are many European countries with small amount of land,

however, they are much more productive than many large landed countries in Africa.

For example, the Netherlands is a small country, however, the total income this country receives from the agricultural production is much more than many other large landed countries such as the South Africa, Turkey and many other countries. Also we know that the agricultural production in the Netherlands uses high capital and if one calculates, he can easily see that the capital per labor in the agricultural sector in the Netherlands is very high. Even we can claim that the Netherlands' agricultural production is capital intensive.

Consequently, taking the amount of lands into consideration is unnecessary for this study. Instead the study should have taken the human capital dimension in the production function into consideration. Using an endogenous growth model for this paper might give much better results. The author can create a human capital index exhibiting how the labor can use the technology more efficiently for the countries will explain more (Stokey, 1991).

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