

On The Leontief Non-Paradox

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Ever since it was discovered sixty years ago, the Leontief paradox has made repeated appearances in a large number of empirical studies of trade behaviour across diverse countries and time periods and continues to do so. Although the paradoxical trade pattern is observed less frequently than the Heckscher – Ohlin trade pattern, the regularity and persistence of its observation, in spite of several remarkable improvements and refinements in the methodology for testing trade theories, raise doubts about the generality of the Heckscher-Ohlin theory itself. A truly general trade theory must be able to make predictions of all the observed regularities in trade behaviour. This paper suggests a model of international trade that not only generates both types of predictions but goes further to provide solutions for trade situations in which the Heckscher-Ohlin theory simply fails to make any prediction. In so doing the paper advances a new model of international trade which is entirely based on input-output analysis.

I Introduction

Following Leontief's path-breaking investigation of the behaviour of US trade in 1954 a voluminous literature has grown on the subject that provides findings of the trade behaviour of several nations over several time periods. Although the results of these investigations have gone in both ways, sometimes in line with the Heckscher-Ohlin theorem and at other times in the opposite direction, there is now a general agreement that the Leontief paradox is a persistent phenomenon; it is definitely not attributable to the choice for study of a fortuitous country experiencing a fortuitous economic episode. What is more, the Leontief paradox has withstood all attempts to attribute it to the presence of extraneous circumstances, e.g., a third factor of production [Kenen (1965), Baldwin (1971)], to demand biases [Brown (1957), Houthakker (1957)], the presence of tariffs [Travis (1964), Baldwin (1971)], and the presence of trade surpluses and deficits [Leamer (1980), (1985), Dasgupta, Ghosh, Chakraborty (2011)]. In short, the presence of the Leontief paradox continues to pose a serious methodological challenge to the modern theory of trade. The remedy would be to either modify

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The authors would like to thank (Late) Debesh Chakraborty, Erik Dietzenbacher, Heinz Kurz, Y. Shiozawa and Takashi Yagi. The usual disclaimer applies.