

economic, political, and social rigidities and restore economic viability.

This may be a correct appraisal of the Latin American problem and the most promising way of accelerating growth in the region. It seems unlikely, however, that this approach will significantly alleviate the need for a rapid increase in exports to other areas, particularly in view of the extended period—1970–85—over which the common market is to be achieved. In the worst case, regional integration could hinder such an increase in exports if it were to mean the spread of cost-raising import substitution to countries in the region which, otherwise, would set their policies toward becoming more competitive in world markets.

To recapitulate, this study accepts as its point of departure that if the less developed countries are to earn foreign exchange in amounts commensurate with their needs, they will have to achieve a rapid increase in their exports of manufactures to the developed countries. This is where the world's buying power is concentrated, as long as levels of economic development remain so far apart, and it is also where the less developed countries will have to obtain most of the capital equipment and much of the materials and even some of the food needed by their growing economies and population.

FACTOR INTENSITIES IN THE UNITED STATES AND ABROAD

The next question is to try to identify the kinds of manufactures in which the less developed countries are most likely to hold or to be able to achieve a comparative advantage in international trade. The "factor-proportions" theorem identified with Heckscher and Ohlin provides a persuasive, but much disputed, answer to this question. According to that theorem, countries may be expected to have a comparative advantage in goods requiring relatively large inputs of the particular factors of production—whether labor, capital, or natural resources—with which they are most liberally endowed and, correspondingly, a comparative disadvantage in the production of goods embodying their scarce factors. A given country would therefore export goods of the first type and import goods of the second type—on the assumption that there are no hindrances to the flow of trade. In the context of the present study this would mean that, apart from industries based on such natural resources as they might have, the less developed countries would tend to specialize in labor-intensive goods and to import capital-intensive goods. More developed countries with greater capital resources and a highly skilled labor force would show the opposite pattern, at least in their trade with less developed countries.

The criterion used here for measuring, or at least approximating, inputs of both human capital and physical capital on a common basis will be value added by manufacture per employee. Put very loosely, "value added by manufacture" is what remains after subtracting the value of materials consumed from the gross value of output in any given industry or industry group. Differences from industry to industry in value added per employee are assumed to measure differences in the aggregate flows of services from the factors of production employed in the manufacturing process (and exclude therefore indirect factor inputs such as materials used). It is further assumed that these services may be ascribed either to human capital or to physical capital, and that, in interindustry comparisons, the wage and salary