Development Economics

Slides 6

Debraj Ray, NYU

Structural Transformation

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- Unbalanced growth $\longrightarrow$ compensatory process

  disequalization-equalization cycle

- A focus on aggregate output downplays importance of such change.

Sources of Structural Transformation

I. Technology:

- In its broadest form, just meeting the same set of needs differently:
- communication, or information, or companionship, or exchange.
- E.g., travel: walking $\rightarrow$ bullock cart $\rightarrow$ bicycle $\rightarrow$ car.
- Technological revolutions:
- the steam engine, electricity, the telegraph, the computer, AI …

Sources of Structural Transformation

II. Shifting patterns of trade:

- Could be high-tech, intermediate, or an expansion of something traditional.

  garments, machine tools, software, chips

  even food

  service-based items (call centers, diagnostics, typesetting, financial products).

- E.g., liberalization:

  moves resources from traditional sector to an export-oriented sector.

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- Economic development: **sectoral changes that mirror these natural shifts**.

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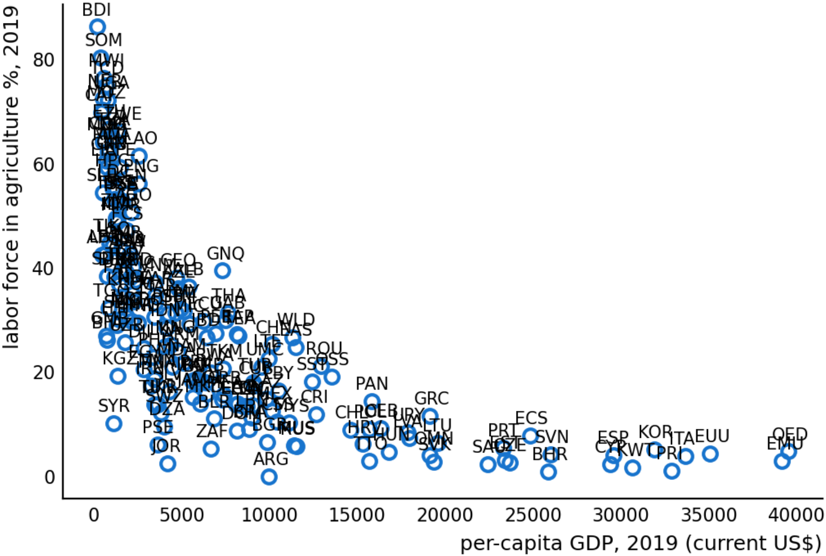
- With $\uparrow$ development and $\uparrow$ government capacity, **informal $\rightarrow$ formal transition**.

The Agriculture-Industry Transformation

- Labor share in agriculture:



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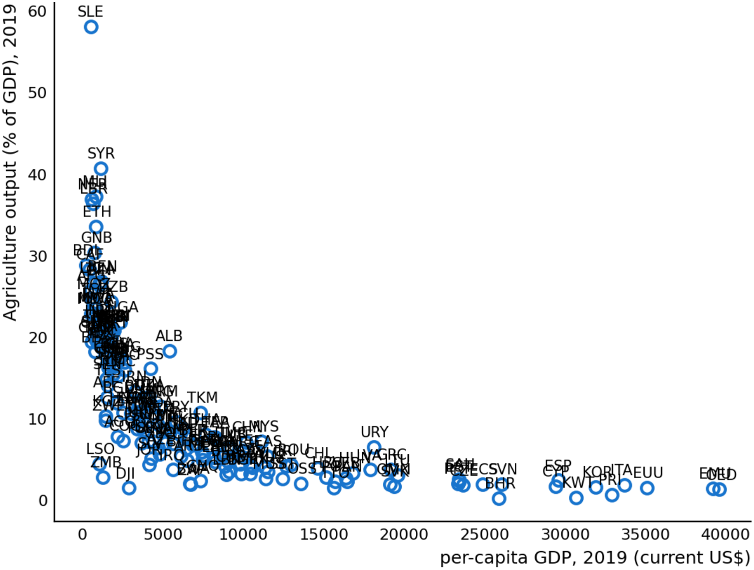
- Output share in agriculture:



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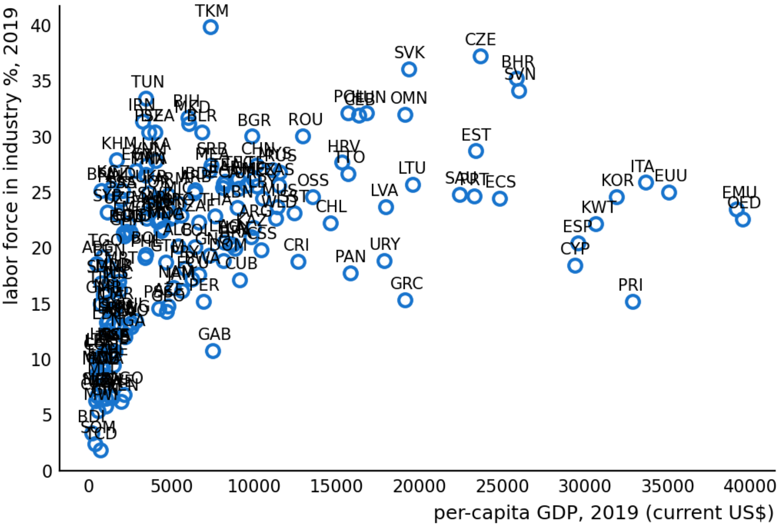
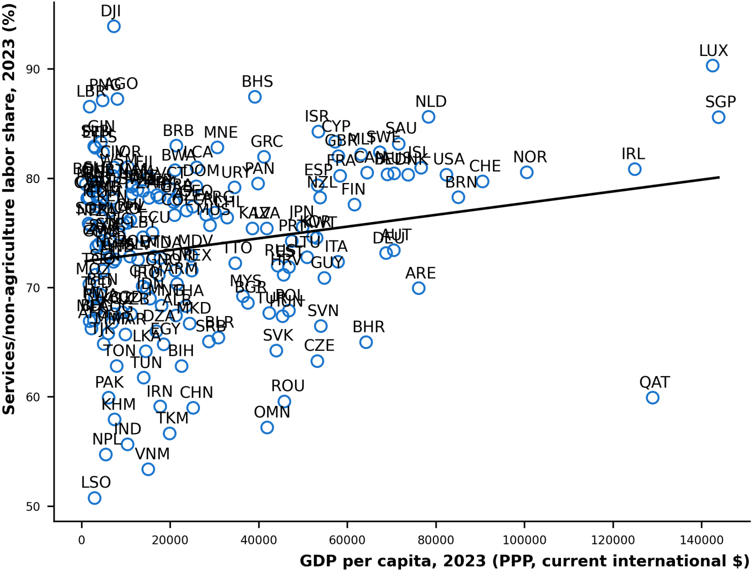


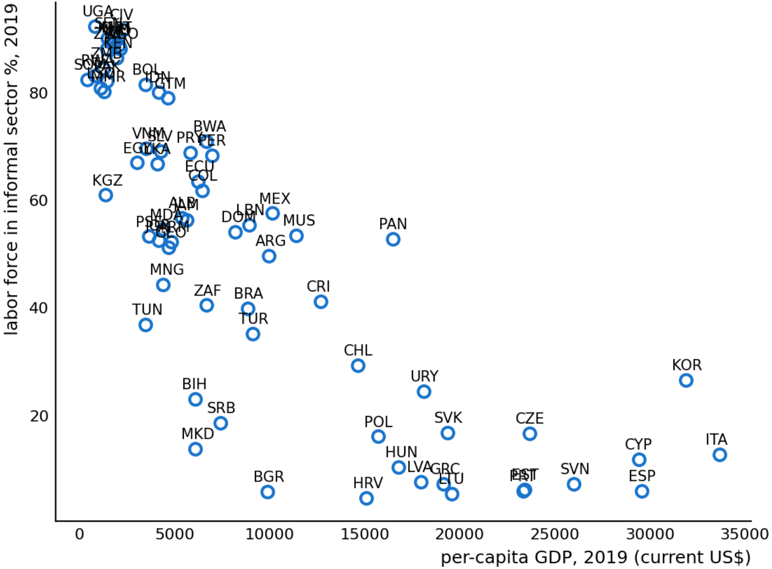
The Industry-Services Transformation

- Labor share in services as a fraction of *non-agricultural employment*:



The Informal-Formal Transformation

- Labor share in the informal sector:



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3. Services:

- The industry-services transformation is muddled by the parallel informal-formal transition.