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Abstract

This paper quantifies the relative importance of sectoral productivity and labor market distortions for structural change in the U.S., India, Mexico and Brazil between 1960 and 2005. I use micro census data to compute human capital by sector and infer labor market distortions as sectoral gaps in wage per unit of human capital. I incorporate these distortions into a a model of structural change, and calibrate the model to reproduce the time paths of sectoral shares of labor and value added for each country. Counterfactuals reveal that (1) TFP growth in agriculture drives most of the decline in its share of labor; (2) the role of labor market distortions is limited.

JEL codes: O11; O41; J31

Keywords: Structural Change; Productivity; Distortions