

PART II: STRUCTURAL CHANGE AND DEVELOPMENT POLICY

The economic growth of nations has been associated with far-reaching changes in their social and economic structure. Modern economic development comprises a set of interrelated processes that transform essentially rural, agricultural societies into more urban, industrialized nations. Of particular significance are the processes of industrialization, urbanization and the sectoral redeployment of labor. The pace and character of structural change vary greatly across countries according to their size, resource endowments, demographic trends, sociopolitical histories and, perhaps most important of all, the development policies they pursue. But when their past experience is viewed as a whole, some broad patterns emerge.

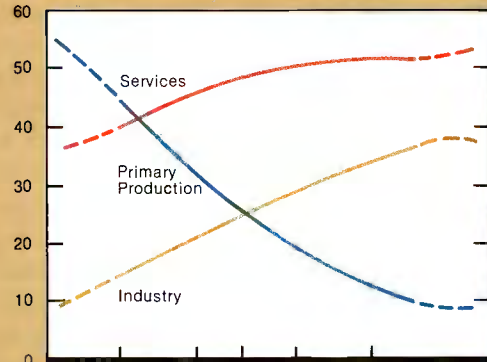
Figure 6 illustrates average patterns of change in the composition of production as per capita income increases. The central feature is the increase in the share of industry in total output and the decline in the share of primary production (agriculture and mining) as countries develop. The poor countries of Asia and Africa are at present in the early part of the transformation, followed by the Middle Income nations of Latin America, East Asia and the Mediterranean region, while in the industrialized countries, where income per capita is highest, the rising share of services in the economy is accommodated by stabilization and eventual decline in the share of industry. This pattern of industrialization is the product of mutually interacting changes in supply and demand that accompany economic development. On the supply side, the accumulation of capital and skills augments the productive capabilities of an economy. The resulting increases in per capita income bring about important shifts in the composition of aggregate demand which, in turn, guide the sectoral composition of incremental output. Food consumption, for example, which accounts for two-fifths of aggregate demand in an economy at US\$150 per capita, accounts for less than a fifth of demand in an economy at US\$3,000 per capita—a decline that explains much of the re-

Figure 6

Aspects of Structural Transformation

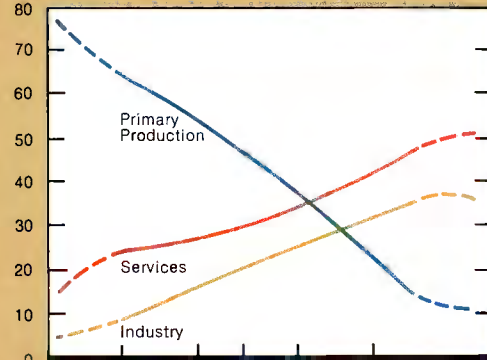
Transformation of Production

(Percentage shares of GDP, at 1977 prices)



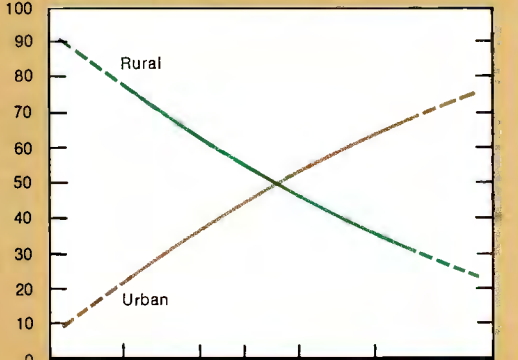
Transformation of Labor

(Percentage shares of labor force)



Urbanization

(Percentage shares of population)



Gross National Product Per Capita, in 1977 US Dollars
(Semi-log scale)

Source: Based on Hollis Chenery and Moises Syrquin, *Patterns of Development, 1950-1970* (Oxford: Oxford University Press for the World Bank, 1975). The curves shown apply to countries of medium size population.

duction in the share of primary production as the economy grows.

The evolving composition of production is reflected in similar changes in the deployment of productive factors, notably labor. As development proceeds, the work force moves from agricultural to non-agricultural occupations, while within each sector productivity is increased by new technologies, greater division of labor, and the accumulation of capital and skills. Though the underlying patterns are similar, the sectoral transformation of the labor force has historically lagged behind the transformation of production, partly because in most countries industrial development has been relatively capital intensive, so that labor productivity is higher in industry than in agriculture, but also because of the unprecedented growth of the labor force in recent decades, which has far exceeded industry's capacity to absorb labor. As a result, while industry and primary production account for equal shares of total output when the economy reaches an income level of just under US\$700 per capita, parity in labor force shares is not achieved until average income is more than twice that level.

These changes in the sectoral composition of output and the labor force are closely related to shifts in economic activities from rural to urban locales. Modern industrial and service

activities benefit greatly from the economies of agglomeration, and as these activities increase their shares in production and the labor force, they spur the growth of urban centers.

The broad trends outlined above also reflect other socioeconomic changes that are part of the development process, including demographic changes, shifts in foreign trade patterns, technological development, increasing specialization among economic activities, and the dramatic growth of institutions. Furthermore, the future pace and pattern of structural change may differ substantially from that observed in the past because of the powerful influence of population growth and changes in the age structure of the population. Though the rate of growth of world population is believed to have peaked in the early 1970s, the consequences of earlier growth will include an unprecedented expansion in the labor force of developing countries in the next two decades, with pervasive implications for the future character of structural change.

It must also be emphasized that the development patterns sketched above are illustrative averages, not predetermined paths of development for individual countries. In any country, the trajectory of development and structural change depends to a large extent on the choice of development policies. These policies are the principal subject of the chapters that follow.