The Natural Rate of Structural Change

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Abstract

Can the changes in the structure of consumption and production be described by a stable and parsimoneous model? Are there important deviations from these benchmark trends for subsets of countries and periods? We develop a generalized model of structural change that jointly considers the demand and production sides to answer these questions. Production is generalized to allow for time-varying factor shares and rich productivity dynamics. Demand is generalized to allow for persistent non-homotheticities and independent price elasticities. We estimate the model using data on sectoral value-added, capital and labor allocations, price indexes, and income per capita in a large panel of 39 countries.

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