

A Human Capital Theory of Structural Transformation

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Abstract

The paper presents a human capital based theory of the sectoral transformation along the balanced growth path equilibrium. Allowing a small upward trend in the productivity of the human capital sector, combined with differential human capital intensity and constant productivity across sectors, output gradually shifts over time from relatively less human capital intensive sectors towards more human capital intensive sectors. Sectors intensive in the factor that is becoming relatively more plentiful find their relative prices falling, their "effective productivities" rising at differential rates inversely to their relative price decline, and their relative outputs expanding. Adding more sectors of greater human capital intensity causes labor time to decrease across existing sectors, and by relatively more in the least human capital sectors.

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