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9 Structural Transformation of the Indian Economy and its Agriculture*

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9.1 Agriculture and the Economic Structural Transformation Process

Studies of the patterns of economic growth and transformation, carried out by Simon Kuznetz, Debra Chetty and most recently by Peter Timmer (2005), have shown important regularities in the structural composition of economic activity. Prior to economic transformation, agriculture generally accounts for the bulk of the economic output and the labor force. However, productivity in the agricultural sector is higher than in the non-agricultural sector, the share of agriculture in total GDP falls as a share of the share in the labor force. As industrial growth takes off, industry becomes even more productive and the productivity differential with agriculture narrows, while the share of agriculture in GDP starts to fall even more rapidly.

Thus, the structural gap widens during periods of rapid growth as long as the share of agriculture in GDP falls much faster than the share of agricultural labor. Farm incomes widely fall behind income earned in the rest of the economy. This lag in real earnings

from agriculture is the fundamental cause of the deep political tensions generated by the structural transformation (Timmer, 2009, p. 6). This tension is often aggravated because productivity gains in agriculture are quickly lost to farmers via declining prices, income convergence between the agricultural and non-agricultural sectors is therefore primarily driven by labor reallocation.

During structural transformation, the speed with which labor is pulled out of agriculture depends on the labor intensity of industry. With a lag, workers also start to increase their share in value added and in the labor force. Structural change is moving workers from lower to higher productivity activities and economic growth. Productivity in agriculture will start increasing as technical change spreads to the agricultural sector and as labor leaves the sector and agricultural investment increases. In advanced countries, at the end point of this process, the share of agriculture in output and employment will approximate each other, as will income across the sectors. Agriculture will become just like any other

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